UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

BANGLADESH

Report No. 1429
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Report on the audit of UNDP Bangladesh
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bangladesh (the Office) from 2 to 16 February 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January to 31 December 2014. The Office recorded programme and management expenditures totalling $81 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory***,* which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to inadequate controls over project cash advances and recovery of Implementation Support Services costs.

Good practice

The Office established an online tracking system that facilitated the Office's monitoring of the progress of its procurement of goods and services, as well as recruitment of personnel.

Key recommendations: Total = **10**, high priority = **1**

The 10 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 1 and 4); (b) reliability and integrity of financial and operational information (Recommendation 8); (c) effectiveness and efficiency of operations (Recommendations 5, 6, 7, and 9); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 3 and 10).

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Inadequate controls over project cash advances and recovery	There were 115 personnel who received cash advances in 2014, but they were not officially designated by the Office as project cash advance custodians. Further, 31 of 40 (78 percent) cash advances reviewed were not liquidated

of Implementation of Support Services costs (Issue 11)	within 7 days following the conclusion of the project activities as required. The Office also did not fully recover the costs incurred relating to the Implementation Support Services provided to the projects. The total amount of Implementation Support Services costs still to be recovered could not be determined due to the absence of adequate documentation. Recommendation: Enhance controls over project cash advances and recovery of Implementation Support Services costs by: (a) appointing project cash custodians in writing and ensuring that they are aware of their roles and responsibilities, including liquidating the advances within seven days after the completion of the project activities; and (b) strengthening procedures to fully recover costs of providing Implementation Support Services.

Implementation status of previous OAI audit recommendations: Report No. 826, 23 March 2012).

Total recommendations: 12

Implementation status: 100%

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Dhaka, Bangladesh (the Country) was comprised of 87 staff and 683 service contract personnel with total expenditures of $81 million incurred in 2014. The Country Programme Document (2012-2016) focused on three major themes, namely: democratic governance and human rights; pro-poor economic growth with equity; and climate change, environment, disaster risk reduction and response. The Country Programme Document was aligned with the United Nations Development Assistance Framework Action Plan (UNDAF-AP) for 2012-2016. During the audit fieldwork, the Office was undergoing a change management process and subsequently sought the assistance of the Management Change Team from UNDP headquarters in restructuring the Office. The Management Change Team visited the Office in mid-March 2015.

II. Good practice

OAI identified a good practice, as follows:

Operations/human resources and procurement

The Office established a tracking system in SharePoint to monitor the status of the procurement of goods and services and the recruitment of personnel. The system provided information such as the personnel assigned to perform tasks and progress made in completing them, including the reasons for any delays.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Asset management. Based on the review of asset records and the physical verification conducted, controls were functioning effectively.

(b) Safety and security. The Office provided records of Security Management Team meetings and the risk assessment conducted in 2014. Security controls were found to be adequate.

OAI made one recommendation ranked high (critical) and nine recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendation:
(a) Enhance controls over project cash advances and recovery of Implementation Support Services costs (Recommendation 8).

Medium priority recommendations, arranged according to significance:
(a) Improve the management of programme funds (Recommendation 1).
(b) Strengthen project monitoring and risk management (Recommendation 5).
(c) Establish adequate controls in project budget planning (Recommendation 6).
(d) Strengthen human resources management (Recommendation 7).
(e) Implement the planned mid-term review of the United Nations Development Assistance Framework Action Plan (Recommendation 4).
(f) Implement the Harmonized Approach to Cash Transfers (Recommendation 2).
(g) Determine the desirable composition of the Operations Management Team (Recommendation 3).
(h) Improve the management of individual contracts (Recommendation 9).
(i) Enhance controls in maintaining records of data back-up (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Organization and strategic management

1. Organizational structure and delegation of authority

Issue 1 Inadequate justification for loans and recovery of funds from projects

The 'UNDP Programme and Operations Policies and Procedures' require projects to prepare Annual Work Plans with detailed activities on what will be accomplished during the year, including the timeframe, responsible party, source of funds and the budget.

The Office had used UNDP's core programme funds, 'target for resource assignments from the core' (TRAC resources), to cover the costs of some project activities. The funds were later recovered from the respective donor funds. Specifically, the Office used TRAC resources totalling $2.6 million in 2013 for Projects Nos. 41978, 41188, 11503, 11492, and 80824, and recovered them in 2014.

Additionally, the Office's January 2015 management monitoring report included an Excel sheet which appeared to be the latest list of projects with loaned TRAC resources as shown in Table 1 below. Specifically, the total loaned TRAC resources was $6.4 million; of which, $5.2 million was granted to Project No. 11503 in 2013 while $0.6 million was granted to Project Nos. 41978 and 11492.

Table 1: TRAC resources loaned to projects as of January 2015

Project Number	Loaned Amount ($ million)	Office's Remarks
Project 11503	0.6	Granted in 2013; will be returned in mid-June 2015.
	1.7	Granted in 2014; $0.7 million will be returned in mid-June 2015.
	2.9	$2.9 million transferred from Project 58919 on 16 October 2014.
Project 41978	0.6	Will be returned in 2016.
Project 11492	0.6	Over programme approved allocation of $4 million.
Total:	**6.4**	

Source: UNDP Bangladesh, February 2015

In response to the draft audit report, the Office explained that these amounts were allocated to the strategic projects in consultation with the Regional Bureau for Asia and Pacific (the Bureau). The TRAC resources were used as seed funds to implement project activities or were used when donor funds were delayed. The Office added that this process was effective in receiving additional donor resources and accelerating delivery. Nonetheless, it was not clear why the Office recorded these transactions in Atlas (enterprise resource planning system of UNDP) as loans and why they needed to be recovered. Further, the Office indicated that the use of TRAC resources was included in the donor financial reports; however, the reports were not shared with OAI.

Inaccurately documenting TRAC resources may lead to confusion and may impact donor reporting.

Priority	Medium (Important)
Recommendation 1: Improve the management of programme funds by accurately recording and documenting the use of UNDP's TRAC resources.	
Management action plan: The Office informed the donors about the use of TRAC resources and established proper mechanisms to manage and document the use of these funds. The mechanisms will be reviewed and further strengthened. **Estimated completion date:** August 2015	
OAI response: OAI acknowledges the action taken by management, which will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 2 Need to enhance cost effective operations

UNDP's 'Financial Regulations and Rules' require that the head of office be responsible and accountable for the effective and efficient use of UNDP resources in programme implementation.

At the time of the audit fieldwork, the Office had initiated a change management process. The Office had obtained the agreement of the Bureau to initiate this process to enhance effectiveness and efficiency in delivering high quality programme activities and was "fit for purpose" in terms of capacity. Senior management also explained that this process was necessary to align the Office's programme and operations with the new UNDP Strategic Plan, and to address the financial challenges and declining programme delivery. Furthermore, the Office had been discussing structural changes and developing a resource mobilization strategy with the unit heads to ensure the Office's sustainability. Lastly, senior management shared the several options being considered for streamlining operations and programme implementation that would result in the better use of resources.

During the audit fieldwork, the following opportunities were identified to further enhance efficiency of the Office's operations:

(a) Overlapping functions in programme and operations – Review of the programme staff's Terms of Reference disclosed the unclear delineation of roles and responsibilities between the Results and Resources Management Cluster and Programme Cluster in providing project monitoring, which to some extent, resulted in duplication of work. For example, the Results and Resources Management Cluster should conduct higher-level quality assurance only after the respective Programme Cluster staff conduct reviews of project activities. However, the review of records revealed that the Results and Resources Management Cluster was performing both the programme/project reviews and quality assurance. Furthermore, the Office had separate clusters for the governance and local governance portfolio, although they covered the same thematic area.

Regarding overlapping functions in operations management, the Office maintained operations units in four large projects (Project Nos. 11492, 11503, 58288, and 58919) and each unit was headed by an international Operations Manager (P3 and P4 levels) – except for Project No. 58919. There was also an operations unit at the Office level, which was also headed by an international Operations

Manager (P4 level). Given the decline in programme delivery, there was no clear justification for maintaining separate operations units in the projects.

(b) Processing large numbers of small-value payment vouchers – The review of 13,417 payment vouchers processed in 2014 noted that 332 had amounts of less than $50. These vouchers pertained to reimbursements of official telephone charges incurred by Office personnel and payments of travel Daily Subsistence Allowance (DSA).

The Office processed reimbursements of official telephone call charges on an individual basis, and in small amounts, rather than processing them in batches. Further, the Office's internal travel policy required partial payment of DSA (80 percent of the total) for international travel. The 20 percent balance of DSA was paid after the travellers submitted travel claims. However, the 'Programme and Operations Policies and Procedures' allowed payment of the full DSA amount to staff members and service contract holders to increase efficiency and reduce transactional costs. The Office indicated that full DSA payment would not ensure the timely submission of required travel claims, including the back-to-office reports. The Office also stated that it was processing a number of payment adjustments; therefore, making full DSA payments was not a solution to reducing the number of travel vouchers being processed.

However, this control was not necessarily cost effective. According to the Universal Price List,[1] the estimated cost of processing each voucher is $31.44. Therefore, the total cost of processing 332 vouchers ($10,400) was more than the total amount of the payment vouchers ($5,800). In OAI's view, the Office should reassess the cost effectiveness of processing small-value payment vouchers.

(c) Processing purchase orders for cash advances – The Office processed 58 purchase orders valued at $4.4 million as cash advances to government institutions under signed Letters of Agreement, where UNDP was directly implementing the projects. UNDP's 'Programme and Operations Policies and Procedures' do not indicate which account code to use to record these cash advances. Therefore, the Bureau advised the Office to charge the advances to account 16065 (prepayment account). However, UNDP policies require the processing of purchase orders for transactions charged against this account. The processing of purchase orders was also time-consuming because the project activity budgets were being itemized in the purchase orders.

OAI communicated with the Bureau to gain a better understanding of the advice given to the Office regarding charging cash advances to account 16065. Based on the response received, OAI assessed that the Bureau was not aware that the recipients of the cash advances were actually government institutions. Therefore, the advances could have been recorded against account 16005 (advance account), which would not have required the processing of purchase orders. While the discussion was ongoing in headquarters regarding which account code to use for recording cash advances under direct implementation modality, UNDP's Office of Financial Resources Management allowed Country Offices to temporarily use account code 16005 to record cash advances given to government institutions.

OAI comments:

The Office indicated that the issue of overlapping functions was being covered by the ongoing change management exercise. It also agreed to review the processing of small-value payment vouchers, and to seek approval from the Bureau to record the cash advances to account 16005. Therefore, OAI is not issuing recommendations concerning these matters.

[1] The Universal Price List consists of a set of standard services and reasonable cost estimates that can be provided and charged by UNDP Country Offices to projects or other United Nations agencies.

Issue 3 Office's financial sustainability at risk

The 'Programme and Operations Policies and Procedures' require Country Offices to maintain an extrabudgetary reserve of 12 months to ensure financial sustainability, facilitate operations, and implement planned development activities. The Office's extrabudgetary reserves declined from 21 months in 2011 to 13 months in 2014. Although the Office projected extrabudgetary reserves of 13 and 12 months in 2015 and 2016, respectively, several factors could have negatively affected this projection, as described below:

- The four large projects, which contributed to 39 percent of the Office's total delivery in 2014, would be closed in 2015. The decline in delivery would affect the amount to be recovered from General Management Support.
- The Office was facing challenges in mobilizing resources due to a shift in donor interest or strategy in funding projects and changes in the Country's political context (refer to Issue 9).
- There were high operational costs due to separate operations units in the projects, which at times duplicated the efforts of the Office's Operations Unit (refer to Issue 2).
- There was resistance from the government counterparts and donors regarding 'Direct Project Costing' for the Office's support services. If costs were not recovered, the projected extrabudgetary reserve for 2016 could have dropped from 12 to 9 months.

If the extrabudgetary reserve is not maintained at a minimum level of 12 months, the Office faces the risk of not being able to sustain its operations or achieve its development results.

Subsequent to the audit fieldwork, the Office advised that the Management Change Team had arrived in Dhaka for a two-week mission starting on 9 March 2015 to assist in Office's restructuring, which was expected to result in reduced staff costs and enhanced sustainability.

OAI comments:

OAI acknowledges the Office's efforts in reducing costs and mobilizing resources and implementing 'Direct Project Costing' by reaching out to the donors and government counterparts However, to the extent possible, OAI will monitor if the efforts will secure the necessary extrabudgetary reserves for the Office.

B. United Nations system coordination

1. Resident Coordinator Office

Issue 4 Harmonized Approach to Cash Transfers not fully implemented

The 'Harmonized Approach to Cash Transfers' (HACT) aims to reduce transaction costs and increase overall effectiveness by simplifying and harmonizing rules and procedures, strengthening the capacity of implementing partners to effectively manage resources, and helping manage risks related to the management of funds. A country is considered as being HACT-compliant after the following four steps have been completed: (a) a macro-assessment of the public financial system has been undertaken; (b) micro-assessments of implementing partners have been completed; (c) an agreement has been reached with the Government on HACT implementation; and (d) an assurance and audit plan concerning implementing partners has been developed and implemented. A task force to manage HACT should be established and should meet regularly.

At the time of the audit, the macro-assessment had been completed and an agreement had been reached with the Government on HACT implementation. However, the micro-assessments of 100 out of 120 implementing partners had not been completed, and the joint assurance plans for 2014 and 2015 had not been prepared. The micro-assessments and joint assurance plans were not completed due to competing tasks and insufficient planning.

In response to the draft report, the Office indicated that UNDP had taken the lead and completed the micro-assessments of its 20 implementing partners in order to be compliant with HACT. The findings of the macro-assessments were shared and discussed within the United Nations system.

The objectives of harmonizing practices among United Nations agencies and lessening the burden of using multiple procedures may not be achieved unless the HACT requirements are completed.

Priority	Medium (Important)
Recommendation 2: Implement the Harmonized Approach to Cash Transfers in 2015, and complete the micro-assessments of all implementing partners and joint assurance plan.	
Management action plan: Both macro- and micro-assessments for all of UNDP's implementing partners have been completed. An inter-agency HACT Task Force is operational and there is a regular exchange of information on micro-assessments and assurance plans of United Nations agencies. As part of its work plan for 2015, the Task Force will be conducting HACT training for its staff members and will be developing common HACT training materials as well as undertaking micro-assessments. Further, it will put together a joint assurance plan with the other United Nations agencies to achieve full HACT implementation. **Estimated completion date:** December 2015	
OAI response: OAI acknowledges the actions taken and planned by the Office; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 5 Limited progress in developing a common set of procedures for United Nations agencies

The Resident Coordinator Office established the Operations Management Team to develop a common set of procedures and processes for United Nations agencies in the areas of procurement, human resources management, information and communication technology, and common premises. The goal was to increase operational efficiency and reduce transaction costs for the agencies and their partners and to improve overall cost-effectiveness.

The Operations Management Team had developed the 2014 Annual Work Plan covering the areas of procurement, human resources, information and communication technology, and security. Although the Team had developed a common set of procedures for security, there was limited progress for procurement, human resources, and information and communication technology. For instance, there was a delay in establishing the sub-group for procurement and creating the common vendor database. Similarly, the objectives of harmonizing service contract holder fees for United Nations agencies and the establishment of a common roster of candidates was not completed. Finally, the sub-group for information and communication technology could not be formed, which resulted in delays in establishing common inter-agency information and communication technology initiatives. The Operations Management Team lacked the required skills in developing a common set of procedures and processes for United Nations agencies, as outlined in the Annual Work Plan. Further, the Resident Coordinator Office did not monitor the progress of implementing the Plan.

The objectives of increasing operational efficiency and reducing transaction costs for United Nations agencies and their partners may not be achieved unless common procedures and processes are established.

Priority	Medium (Important)
Recommendation 3: Determine the desirable composition of the Operations Management Team in developing common set of procedures and processes for United Nations agencies and closely monitor the progress of implementing the Annual Work Plan.	
Management action plan: Two sub-groups on procurement and human resources were formed in March 2015 to take common and harmonized approaches. The Operations Management Team also agreed on a mechanism for monitoring work plan progress and a mid-term review is planned for July 2015. **Estimated completion date:** August 2015	
OAI response: OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

C. Programme activities

1. Programme management

Issue 6 <u>Gaps in required resources for Country Programme Document</u>

The 'Programme and Operations Policies and Procedures' stipulate that the UNDAF-AP should remain a relevant, living document. It can be revised at any time as long as such changes remain within the framework of the Country Programme Document, as approved by the Executive Board, and are formally agreed to with the Government's coordinating agency. The revisions to the UNDAF-AP should be made in a timely manner to ensure alignment with realistic resource projections, and to identify risks that may significantly impact the achievement of the UNDAF-AP objectives.

By the end of 2014, the Office had mobilized resources totalling $134 million, with a shortfall of $171 million, which needed to be mobilized in 2015-2016. Although the Office indicated that it expected to mobilize $30 million in 2015, the remaining $141 million was unlikely to be mobilized in 2016, considering the trend in resource mobilization since 2012.

The Office informed OAI of its plan to conduct a mid-term review of the UNDAF-AP in the 1st quarter of 2015, and to revise the UNDAF results framework considering the gaps in the resources mobilized as well as the resource mobilization challenges. The mid-term review had not yet been initiated as of the end of audit fieldwork.

If planned outcomes are not based on the resources mobilized or realistic projections, the Office may not achieve targets and may fail to meet expectations from donors and government counterparts, which may have a negative impact on the reputation of UNDP.

Priority	Medium (Important)
Recommendation 4: Implement the planned mid-term review of the United Nations Development Assistance Framework Action Plan in order to align available resources and projections with target outputs or outcomes within a fixed timeframe.	
Management action plan: The Office will arrange a mid-term outcome evaluation in 2015 to identify: (a) challenges and lessons learned; and (b) possible changes to the United Nations Development Assistance Framework/Country Programme Document, after which a new United Nations Development Assistance Framework/Country Programme Document will be launched. **Estimated completion date:** 1st action (August 2015); 2nd action (December 2015)	

2. Project management

Issue 7 Inadequate project assurance

The 'Programme and Operations Policies and Procedures' stipulate that project level monitoring should include monitoring outputs, related indicators of progress, and baselines and targets that should be included in the Monitoring and Evaluation Plans. Further, key monitoring activities, such as field visits, spot checks and progress reviews, should be integrated into the Plans. Responsibilities for monitoring activities, frequency, methods of data collection and verification should be assigned to staff.

Four projects were selected for detailed review, with combined expenditures of $45 million out of a total delivery of $74 million in 2014. The following weaknesses in project assurance activities were noted:

(a) Weak project monitoring plans

The two spot checks conducted of Project Nos. 58288 and 11492 by the Office were focused on operational reviews; however, the programmatic aspects of the reviews were missing. Further, the review of four projects disclosed that the Programme Cluster staff conducted only one project assurance monitoring visit for Project No. 58919 during the audit period. Although the Office immediately reported allegations of fraud to OAI and donors for this project, conducting regular spot checks could have served as a preventive control for any potential risks.

The project level Monitoring and Evaluation Plans were not clearly articulated. Specifically, baselines, indicators, targets, project outputs and outcomes were not specific for the four projects reviewed. It was therefore difficult to link the planned monitoring activities to the project outputs, indicators and baselines.

Furthermore, project monitoring was undertaken in an *ad-hoc* manner, as some of the monitoring visits conducted were not included in the project Monitoring and Evaluation Plans.

The Office stated that the Country's political context had affected its ability to conduct monitoring visits. Nonetheless, weak project Monitoring and Evaluation Plans and limited project site visits may not ensure accurate reporting of project progress results.

(b) Risk logs not updated regularly

Of the four projects reviewed, two (58919 and 11492) did not have the Atlas risk logs updated for over a year. Atlas risk logs should be updated on a quarterly basis. Further, there were discussions within the Office about risks affecting project implementation during the annual reviews. However, there was no documentation indicating that risks were being monitored during the course of the year, or followed up on during the subsequent year.

In response to the draft audit report, the Office provided several risk management documents relating to Project Nos. 58919 and 11492, including risk assessment/impact tables and a business continuity plan for Project No. 58919. However, these documents were not previously provided.

Inadequate project monitoring may prevent the Office from identifying risks and from taking corrective measures in a timely manner.

Priority	Medium (Important)
Recommendation 5: Strengthen project monitoring and risk management by: (a) conducting regular project assurance visits, including spot checks; (b) developing a project monitoring and evaluation plan that includes project monitoring activities to be conducted, baselines, indicators to be measured, and targets to be achieved as outlined in the Annual Work Plan; and (c) updating the risk logs at least on a quarterly basis.	
Management action plan: The Management and Evaluation Plan is fully aligned with corporate and partner requirements. The Office will: (a) develop an annual consolidated field mission quality assurance plan and include it in the management report and calendar; (b) revise the 'back-to-office' report template and ensure that it is consolidated and monitored at all levels; and (c) use community models for better programme assurance activities, to detect and respond to risks proactively. Further, the Office will continue to update risk logs and has already adopted a dedicated strategy to address the risks and risk methodologies (including a risk dashboard). **Estimated completion date:** December 2015	

Issue 8 Unnecessary budget revisions

The 'Programme and Operations Policies and Procedures' stipulate that Country Offices should review and revise, as necessary, the Annual Work Plan to provide a realistic plan for the provision of inputs and the achievement of results for a given year. In Atlas, resources budgeted for, but not spent in prior years, should be reallocated to current or future years.

The Office undertook several budget revisions during 2014. The last revision was undertaken in December 2014 for three of the four projects reviewed, as shown in Table 2. In OAI's view, the revisions made in December 2014 were unnecessary and the reasons provided were not fully substantiated. These reasons included "to adjust gains and losses" and/or "to align the budgets with actual expenditures." Furthermore, the government counterparts indicated that budget revisions at the end of the year added no value, as the unused funds could have been re-programmed for the following year. Additionally, the revisions resulted in additional workload for government staff, who were already overburdened with internal year-end deadlines.

Table 2: Details of project budgets, expenditures, and delivery rates in 2014

Project	Last Annual Work Plan revision	Expenditure at the end of 2014 (in millions)	Budget before revision in December 2014 (in millions)	Budget after revision in December 2014 (in millions)	Delivery rate before budget revision	Delivery rate after budget revision
Project 58919	23 December 2014	12.8	28.9	13.3	44%	96%
Project 11503	24 December 2014	11.3	14.4	11.3	78%	100%
Project 11492	24 December 2014	2.5	2.8	2.5	89%	100%

Source: UNDP Bangladesh, February 2015

In response to the draft report, the Office stated that budget revisions were completed following extensive reviews of each project in June, July and November 2014. The multi-year budgets were revised following the end of year (November) reviews. OAI acknowledged the need to undertake budget revisions as part of its Annual Work Plan review process. However, the budget revision for Project No. 58919 was made on 23 December 2014, while the revisions for Project Nos. 11492 and 11503 were made on 24 December 2014, well after the November review process.

Nonetheless, making revisions during the last week of the year was not justified.

Making unnecessary or unjustified budget revisions for the purposes of ensuring actual expenditures are as close to the revised budgets as possible may provide false assurance that the Office is meeting its delivery targets.

Priority Medium (Important)

Recommendation 6:

Establish adequate controls in project budget planning by preparing achievable project budgets and making budget revisions only when necessary.

Management action plan:

The Office will implement the recommendation.

Estimated completion date: July 2015

3. Partnerships and resource mobilization

Issue 9 Resource mobilization challenges

The 'Programme and Operations Policies and Procedures' require the Office to develop a resource mobilization strategy to ensure that it positions itself as a trusted partner and is successful in securing and fully utilizing resources required for delivering results as planned.

As discussed in Issue 6, the Office had a resource gap of $171 million out of a planned total of $555 million as at the end of 2014. However, the Office continued to face resource mobilization challenges, as described below:

- The political situation in the Country remained unstable. The donors had also taken a "wait and see" approach with regard to funding current and new project initiatives.

- One of the two major donors had adopted new strategies in funding development projects in the Country. Specifically, the funding allocations would be based on invitations to submit a 'business case' rather than funding based on a selection of concepts. This new approach added to the Office's challenges in mobilizing resources from this donor. Additionally, the donor was reassessing its support for the justice sector given the inherent risks identified in supporting some of those initiatives that may be subject to misuse. The donor's support represented about 40 percent of the Office's total non-core funding.

- Out of 19 projects, 4 (58919, 58288, 11492 and 11503) ending in 2015 represented the Office's largest project portfolio. Management stated that there were numerous challenges affecting the development of new initiatives, including prolonged negotiations with donors (Project No. 11492), challenges with implementing partners (Project No. 58919) and the political environment (Project No. 11503), which had impacted the ability to ensure a seamless transition to new projects/phases.

The Office may not be able to achieve development results if the resource mobilization challenges are not addressed.

OAI comments:

The issue of resource mobilization/office sustainability is key for the current management, and is part of the rationale for the change management strategy that the Office is currently implementing. The challenges related to resource mobilization have a direct bearing on the Office's sustainability, which has been discussed under the organization and strategic management section of this report. Therefore, OAI is not making a separate recommendation.

D. Operations

1. Human resources

Issue 10 Weaknesses in human resources management

The 'UNDP Recruitment and Selection Framework' emphasizes the importance of good human resources planning to meet the business unit's goals, objectives and work plan. Additionally, it requires that the selection of candidates follows a transparent, fair, and competitive process. The long-listing and short-listing procedures must be followed and documented for every recruitment case.

As of December 2014, the Office's Human Resource Management Unit consisted of 6 personnel (1 international staff [Head of unit], 3 national staff on fixed-term appointments, and 2 service contract holders). The Office had a large workforce in 2013 (979 personnel and 229 consultants) and 2014 (1,162 personnel and 241 consultants). During 2014, the Office recruited 161 personnel (6 national and 8 international on fixed-term appointments and 147 service contract holders). The recruitment cases of 5 fixed-term appointments and 23 personnel under service contracts were reviewed. The review included staff termination, leave management, status of staff performance assessments, and status of completion of UNDP mandatory courses.

Several issues were identified, as indicated below:

- Incomplete Human Resources Plan – There were gaps in the Human Resources Plan because it did not: (a) include the recruitments planned for the Office during 2014; (b) prioritize and schedule the positions to be filled; or (c) provide information on the posts to be abolished or contracts to be terminated. This was due to a lack of coordination between the Office's Human Resource Management Unit and the projects.

- Weaknesses in long-listing of candidates – While the Office generally complied with the corporate requirements for recruitment processes, there were weaknesses in the long-listing of candidates. Specifically, the long-listing in all cases reviewed was completed by the Human Resources Associate (General Service staff) or Human Resources Assistant (service contract holder), including long-listing of senior positions (at P4 and P3 levels). The Human Resources head did not provide oversight on the long-listing of candidates to ensure the responsible personnel followed a transparent and fair manner.

Additionally, the supporting documents for the recruitment of two international posts and one national officer post were reviewed to determine the effectiveness of the long-listing process. Of the 52 applications for the 3 posts reviewed, 24 applicants met the minimum criteria required in terms of qualifications and experience, but were not long-listed. There was no documented justification for not long-listing these 24 applicants. The supervisory review of the long-listing process completed by the Human Resources Associate and service contract holder was also missing.

Without an adequate recruitment plan, the Human Resources Management Unit may not achieve its objectives in an efficient and timely manner. Further, due to the inadequate supervision and documentation of the long-listing process, there was no assurance that the candidates best suited for the posts are selected.

Priority	Medium (Important)

Recommendation 7:

Strengthen human resources management by:

(a) developing a comprehensive Human Resources Plan for the Office that provides information on the number and status of the posts (i.e., vacant or filled), positions to be filled on priority basis; and
(b) providing supervision by the head of the Human Resources Unit over the long-listing process and adequately documenting reasons for candidates failing not being long-listed.

Management action plan:

The Office reactivated the recruitment dashboard to monitor the status of all recruitment cases. The recruitment plan will include all the missing information. Further, the Resident Representative will issue an inter-office memorandum requiring adequate supervision over the long-listing process.

Estimated completion date: June 2015

OAI response:

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

2. Financial management

The Office processed 15,224 vouchers totalling $61 million during the audit period. OAI reviewed 109 payment vouchers, including 26 vouchers related to project cash advances, with a cumulative value of $2.5 million (or 4 percent). Further, the audit reviewed the disbursement process, bank reconciliations for the months of May and from September to December 2014, the status of open items as of the end of 2014, and recovery of Implementation Support Services costs. The Finance Unit was comprised of one national officer, three General Service staff and two Service Contract holders, under the overall supervision of the Office's Operations Manager.

The Office adequately managed its bank reconciliations and advances to UNDP personnel, including cash advances for one-time project activities. The Finance Unit also maintained an organized filing system; therefore, the requested finance records were immediately available. Further, the Office had been on the Comptroller's list because it maintained a 'green' status (or satisfactory performance) in UNDP's financial dashboard. Internal control weaknesses were noted relating to controls over project cash advances and recovery of Implementation Support Services costs.

Issue 11 Inadequate controls over project cash advances and recovery of Implementation Support Services costs

The 'Programme and Operations Policies and Procedures' provide that project cash advances must be closed and fully accounted for within seven days following the conclusion of the one-time project activity. Also, the Office should appoint, in writing, the project cash advance custodian who signs and accepts the appointment letter, and should recover fees for Implementation Support Services provided to projects.

(a) Inadequate control over project cash advances – As per the Atlas report, all project cash advances issued were liquidated by the end of 2014. However, the review of 26 vouchers valued at $128,000 disclosed that the Office did not fully adhere with the corporate requirements, as explained below:

- 115 personnel received project cash advances, but none of them had been officially appointed as project cash advance custodians.

- 31 of 40 (78 percent) cash advances reviewed valued at $60,000 were not liquidated within seven days following the conclusion of the project activity, as required. Furthermore, 10 of 31 advances took more than 30 days to liquidate, of which the longest was 82 days.

The number of personnel assigned as cash custodians was excessive considering the high inherent risk of cash transactions and the efforts required to monitor the advances. Further, the Office did not establish additional controls to ensure prompt recovery of outstanding advances, such as deducting them from staff salaries or entitlements. The Finance Unit stated that the appointment of custodians was not mandatory. The delays in liquidating the cash advances were due to various reasons, including inadequate follow-up by the Finance Unit.

Inadequate controls in managing project cash advances may result in financial losses to UNDP. Further, the project cash custodians might not be aware of their roles and responsibilities, which are normally outlined in the formal designation letters.

(b) Inadequate control over recovery of Implementation Support Services costs – As of 31 December 2014, the Office recovered a total of $400,000 from projects pertaining to Implementation Support Services costs, and these were processed through general level journal entries. However, none of the general level journal entry transactions were supported by documentation showing that the project managers, as the budget owners, agreed to the charges made against their respective budgets. The Finance Unit only requested the Chart of Accounts, but did not inform project budget owners about the Implementation Support Services costs to be recovered from the project budgets.

Furthermore, the Office had not fully recovered the Implementation Support Services costs incurred in 2014 for the following services:

- The costs of support services provided during the 3rd and 4th quarters of 2014 by the Office's Finance, Information and Communication Technology, Travel and Procurement Units had not been recovered from the projects. Furthermore, the Implementation Support Services provided by the Human Resources Unit during the 4th quarter of 2014 were also not recovered.

- The Office did not recover the Implementation Support Services costs for the services provided to Project No. 11492 during 2014 and it did not provide any clarification for the non-recovery.

- The programme staff processed 1,062 vouchers relating to the issuance and liquidation of cash advances to nationally implemented projects; however, the associated costs incurred had not been recovered since the Office presumed that programme staff support was not subject to Implementation Support Services.

OAI was unable to determine the total amount of Implementation Support Services costs still to be recovered due to the absence of adequate documentation. The Office explained that it only started recovering the costs from the projects in 2014; therefore, it was still in the learning stage.

By not fully recovering Implementation Support Services costs, the Office may not be able to fully support the implementation of project activities.

Priority High (Critical)
Recommendation 8: Enhance controls over project cash advances and recovery of Implementation Support Services costs by: (a) appointing project cash advance custodians in writing so that they are aware of their roles and responsibilities, including liquidating the advances within seven days after the completion of the project activities; and (b) strengthening procedures to fully recover costs of providing Implementation Support Services to the projects.
Management action plan: (a) The Office will start issuing designation letters to project cash advance custodians. (b) The Office started using a system for billing purposes and cost recovery. **Estimated completion date:** August 2015

OAI response:

OAI acknowledges the actions taken by management. This will be reviewed at a later stage as part of OAI's standard desk follow-up process.

3. Procurement

Issue 12 Weaknesses in management of Individual Contracts

The 'Programme and Operations Policies and Procedures' provide that the individual contract modality is specifically designed for the engagement of individuals who are paid based on the outputs they produce and deliver. When exceptional circumstances require a monthly payment, documented justification must be approved by the head of the business unit. Furthermore, the Office is required to: (a) establish a clear and precise description of the selection criteria the individual contractor must meet; and (b) institute segregation of duties to ensure a fair, open, and competitive process in hiring of consultants. Also, it is still considered a best practice to request financial proposals at the time of submission of the curriculum vitae when the offeror is still competing with a much wider range of potential offerors, hence obtaining the best-value-for money is more feasible.

In 2014, the Office issued 256 individual contracts (62 international and 194 national consultants). Of those, 20 individual contract records were reviewed and the following was noted:

- In five cases, individual contracts issued to the consultants allowed payments on a monthly basis. However, the written justification and approval by senior management was not available in the documentation provided to OAI.

- In seven cases, the selection criteria included "excellent written and oral communication skills" or "computer literacy." However, there were no interviews or written tests conducted, nor was any computer proficiency testing done. Therefore, it was difficult to determine how the panel assessed the candidates. The Office's head of the Procurement Unit explained that these criteria had minimal value in terms of points in the selection process. However, OAI disagreed with this assertion, as each selection criterion was an integral part of the evaluation process, and any points obtained were part of the assessment of whether the candidates met the minimum technical requirements. Otherwise, they should not be part of the selection criteria.

- In four cases, the requesting units conducted the reference checks, and in one case negotiated the rate with the consultant. The Procurement Unit head indicated that this was no longer the practice and presented a revised internal Office procedure removing this role from the requesting units.

- The Procurement Unit head indicated that only the short-listed candidates were asked to submit financial proposals.

It will be difficult to monitor whether the consultants are delivering the required outputs as outlined in their Terms of Reference if the payments are being made monthly and not tied to specific deliverables and quantifiable outputs. Also, the Office may not be able to hire the consultants best suited for the posts due to weak selection and evaluation criteria. Lastly, the Office may not be able to obtain best-value-for money, if financial proposals are requested from short-listed candidates only.

Priority	Medium (Important)

Recommendation 9:

Improve the management of individual contracts by:

(a) establishing a payment scheme based on the outputs consultants will produce and deliver to UNDP. When exceptional circumstances require a monthly equal payment scheme to be applied, documented justification must be given and approved by the Office's management;
(b) developing appropriate evaluation criteria that will assist the evaluation team in selecting technically qualified candidates;
(c) requiring all candidates to submit financial proposals at the same time they submit the technical proposal.

Management action plan:

The Office started implementing the recommendation and will conduct an assessment on the impact of the revised procedures in soliciting financial proposal.

Estimated completion date: August 2015

4. Information and communication technology

Issue 13 Incomplete documentation of data back-up

According to UNDP's 'Minimum Standards for Information Communications and Technology (ICT) Infrastructure and Telecommunications', the Office should maintain a library of documentation of all devices and system configurations as well as an up-to-date Disaster Recovery Plan. The documentation should also include records of back-up procedures performed and an inventory of back-up media stored on-site (server room) and off-site.

The Office used the corporate template in developing its Disaster Recovery Plan and submitted it to the Office of Information Systems and Technology as required. Specifically, it included information about business requirements, back-up arrangements, and recovery procedures. The Disaster Recovery Plan was last updated on 16 September 2014. The Office also provided evidence that the Disaster Recovery Plan was tested. Additionally, the Office's Disaster Recovery Plan described the back-up arrangement and procedures for recovering the back-up files. Specifically, the recovery plan indicated that back-up was done on a daily basis and back-up media were being deposited off-site once a week.

However, the Office's Information and Communication Technology Unit only provided a one-page document on when the critical files and applications were backed up, covering the period from 2009 to 2014. This document contained limited information on the management of data back-up, specifically, the details on when and which back-up media were stored on-site and off-site. The person responsible for doing the backup was also not identified.

The lack of proper documentation relating to back-up data may prevent the Office from quickly recovering data in cases of emergency.

Priority	Medium (Important)

Recommendation 10:

Enhance controls in maintaining records of backup conducted by the Information and Communication Technology Unit, including inventory of the back-up media stored in an off-site location and the person responsible.

Management action plan:

The records of backup conducted by the Information and Communication Technology Unit will be uploaded online and they will be reviewed by management periodically.

Estimated completion date: August 2015

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.