

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**CAMBODIA**

**Report No. 1525**

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## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the Office</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. United Nations system coordination</b>	<b>2</b>
<b>B. Programme activities</b>	<b>3</b>
1. Programme management	3
2. Project management	4
<b>C. Operations</b>	<b>7</b>
1. Financial management	7
<b>Definitions of audit terms - ratings and priorities</b>	<b>10</b>

## Report on the Audit of UNDP Cambodia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Cambodia (the Office) from 18 to 25 August 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, 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).

The audit covered the activities of the Office from 1 January 2014 to 31 July 2015. The Office recorded programme and management expenditures totalling \$30 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 **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."

**Key recommendations:** Total = **6**, high priority = **0**

The six recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 4); (b) effectiveness and efficiency of operations (Recommendations 1, 2 and 3); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 5 and 6).

The audit did not result in any high (critical) priority recommendations. There are six medium (important) priority recommendations, which means, "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." These recommendations include actions to address weaknesses in programme management, project management, and financial management.

### Management comments and action plan

The Resident Representative accepted all of the recommendations and 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.



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## I. About the Office

The Office, located in Phnom Penh, Cambodia (the Country) comprised of 58 staff at the time of the audit. The current Country Programme Document covered the period from 2011 to 2015. The Office had already prepared the new Country Programme Document for the upcoming programme cycle from 2016 to 2018. The Office had been undergoing a structural change since 2014, in accordance with its transformation plan approved by the Regional Bureau for Asia and the Pacific.

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. The Office had adequate controls over organizational structure and delegations of authority, leadership/ethics and values, risk management, and planning and monitoring. No reportable issues were noted on the financial sustainability of the Office.
- (b) Partnerships and resource mobilization. OAI reviewed the Office's overall relationship with partners, its resource mobilization strategy, and development project funding sources. No reportable issues were noted.
- (c) Human resources. Adequate controls were established in human resource management.
- (d) Procurement. Procurement controls were functioning adequately and no reportable issues were noted.
- (e) General administration. General administration controls were generally well established and functioning adequately.
- (f) Safety and security. The review of the security plan, the security risk assessment, and the updated United Nations staff list did not identify any reportable issues.
- (g) Information and communication technology. The audit of software and hardware management, back-up and restoration arrangements, site visits to the Office's servers and the latest available disaster recovery plan did not indicate any reportable issues.

OAI made six recommendations ranked medium (important) priority.

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

**Medium priority recommendations**, arranged according to significance:

- (a) Enhance project assurance activities in compliance with UNDP's 'Programme and Operations Policies and Procedures' (Recommendation 3).
- (b) Sign an agreement with the Government specifying what amount of the fund will be used for the related development activities (Recommendation 6).
- (c) Strengthen programme management (Recommendation 2).
- (d) Pursue the full implementation of the Harmonized Approach to Cash Transfers (Recommendation 1).
- (e) Ensure that the Project Boards approve the Annual Work Plans of projects in a timely manner. (Recommendation 4).
- (f) Enhance controls over project cash advances (Recommendation 5).

The detailed assessment is presented below, per audit area:

### A. United Nations system coordination

#### **Issue 1** Harmonized Approach to Cash Transfers not fully implemented

To reduce the burden that the multiplicity of United Nations procedures creates for its partners, the Framework for Harmonized Approach to Cash Transfers (HACT) to Implementing Partners requires that the participating United Nations agencies agree on and coordinate HACT activities. Compliance is achieved when the following have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing the HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

The Office did not fully implement HACT in the current programme cycle from 2011 to 2015, as the macro-assessment of the public financial system undertaken in 2012 was not finalized and no micro-assessment of the national implementing partners was completed until January 2015.

In February 2015, the HACT Working Group developed a plan to implement HACT by conducting macro- and micro-assessments and establishing an assurance plan. The Office had planned to complete the micro-assessments of all its implementing partners by the end of 2015. At the time of the audit fieldwork, six micro-assessments had been completed. The HACT Working Group was in the process of contracting a consultant to undertake a macro-assessment of the Country's public financial system.

The Office's management commented that they would prioritize HACT implementation by the end of 2015, however, they highlighted that this was a joint initiative with the participating United Nations agencies, and thus required coordination and joint effort from all parties concerned. Further, staff turnover and vacancies in the Resident Coordinator's Office also impacted HACT implementation.

The lack of leading actions by the Office and the HACT Working Group may cause further delays in HACT implementation.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should pursue the full implementation of the Harmonized Approach to Cash Transfers by:	
<ul style="list-style-type: none"> <li>(a) completing a macro-assessment of the public financial system followed by micro-assessments of all relevant implementing partners; and</li> <li>(b) establishing assurance plans and conducting assurance activities.</li> </ul>	
<b>Management action plan:</b>	
The HACT macro-assessment is scheduled to be finalized by the end of December 2015 in coordination with the Government and participating United Nations agencies. UNDP has taken the lead in coordinating the HACT Working Group through the process. Under a coordinated approach, all concerned United Nations agencies will support the establishment of a HACT assurance plan within the first quarter of 2016.	

**Estimated completion date:** March 2016

## B. Programme activities

### 1. Programme management

#### Issue 2 Weaknesses in programme evaluation activities

The following weaknesses were noted in the programme evaluation activities of the Office:

- The UNDP 'Programme and Operations Policies and Procedures' state that all outcomes to which UNDP is contributing should be monitored and evaluated regularly. They further require the development of a programme monitoring and evaluation framework that should include details such as clear results (outcomes and outputs), indicators, baselines, risks, annual targets as applicable, as well as necessary resources. Further, the 'UNDP Handbook on planning, monitoring and evaluating development results' states that the monitoring and evaluation framework should include details such as what is to be monitored and evaluated, indicating who is responsible for monitoring and evaluation activities, and how and when would monitoring and evaluation activities be carried out.

The current Country Programme cycle began in 2011, however, the Office had not developed a comprehensive programme monitoring and evaluation framework. The Office developed an evaluation plan for 2014 and 2015, which included the Country Programme Action Plan outcomes, project names and estimated evaluation dates with the relevant costs. The Office had also developed an annual development plan which included details such as the Country Programme Action Plan outcomes, project outputs, indicators and targets. However, there were no details such as what was to be monitored and evaluated, who would be responsible for monitoring and evaluation activities, or how and when would monitoring and evaluation activities be carried out.

The absence of a comprehensive programme monitoring and evaluation framework may impede the Office from monitoring and evaluating UNDP's overall programmatic interventions in the Country and make improvements where needed.

- The UNDP 'Programme and Operations Policies and Procedures' state that all outcomes to which UNDP is contributing must be monitored and evaluated regularly. The Country Programme Document covering the programme cycle from 2011 to 2015 included five outcomes. The evaluation plan attached to the Country Programme Action Plan had scheduled evaluations of outcomes to be undertaken from 2012 to 2015 progressively. As of the time of the audit, the Office had undertaken only two evaluations of programme outcomes. Office management stated that undertaking the remaining three outcome evaluations at this stage would involve a heavy workload and any lessons learned from these evaluations would not be very useful since the next Country Programme Document (2016 to 2018) had already been prepared and was awaiting approval by the Executive Board.
- The evaluation policy required UNDP's management to respond to the evaluation's key findings and recommendations, with follow-up actions with clear timelines and respective updates of the evaluation resource centre's website. As at the audit fieldwork date, the Office had completed 18 planned evaluations (against 24 planned) and updated the management responses to the evaluation

recommendations in the evaluation resource centre website. However, there was a slow or limited progress by the Office to address some recommendations. For example, in one case, 6 out of 10 recommendations raised in the final evaluation conducted in the second quarter of 2014 had not been implemented. Similarly, five recommendations of the mid-term review of another project undertaken in the first quarter of 2013 were still outstanding as at the audit fieldwork date.

- The total estimated costs of the 18 project and outcome evaluations undertaken was \$0.8 million.

By conducting timely programme outcome evaluations, the Office could have derived greater benefits, such as indicating the contributions of the programmatic interventions, as well as lessons learned that could have been incorporated into the upcoming programme cycle.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should strengthen programme management by:	
<ul style="list-style-type: none"> <li>(a) formulating and implementing a comprehensive programme monitoring and evaluation framework;</li> <li>(b) undertaking timely outcome evaluations to derive optimal benefits; and</li> <li>(c) enhancing efforts to ensure actions recommended in evaluation reports are implemented timely.</li> </ul>	
<b>Management action plan:</b>	
The Office will review and develop a standard monitoring and evaluation framework for the new programme cycle (2016-2018). The Office will also conduct a final poverty outcome evaluation by March 2016, and develop an action plan to address the recommendations in the new cycle. In developing the standard monitoring and evaluation framework for the new Country Programme cycle (2016-2018), priority will be given to outcome evaluations to the extent possible, rather than multiple project evaluations. Action plans to implement evaluation recommendations will be systematically developed with actions integrated into programme design and implementation.	
<b>Estimated completion date:</b> March 2016	

## 2. Project management

### Issue 3 Inadequate controls over project assurance mechanisms

OAI noted the following weaknesses in the Office's project assurance mechanisms:

- (a) Inadequate field monitoring visits

The UNDP 'Programme and Operations Policies and Procedures' stipulate that as part of the assurance function, a representative from a UNDP office should visit each project at least once a year. Field visits serve to validate results and should provide the latest information on progress for annual reporting preparation.



The Management Support Unit in the Office conducted spot checks together with staff from the Programme and Operations Units. Apart from these spot checks, project field monitoring visits were also undertaken by programme staff. The Management Support Unit had developed a spot check and monitoring and evaluation plan for 2014, which indicated that 17 field monitoring missions were to be conducted largely between September and October 2014. The Office shared reports indicating that eight field monitoring visits (relating to five projects) and eight spot checks were conducted in 2014. However, as the Office had 26 projects running in 2014, Programme Officers did not conduct any field monitoring visits for the remaining projects. Similarly, in 2015 until the date of the audit fieldwork, the Office had conducted 11 project field monitoring visits for 6 projects. Office management indicated that during the audit period, staff were involved in the Office's change management process and the preparation of the new Country Programme Document.

(b) Lack of a systematic process to monitor follow-up actions

Some field monitoring reports highlighted several issues and included recommendations to address these challenges.

The Office had not established a systematic process to ensure regular follow-up actions to address the recommendations made. Further, there was no process in place to monitor the progress of these actions. The Office indicated that spot check reports were sent to implementing partners for implementing actions recommended in the reports. In the review of five memos sent out to implementing partners, OAI noted that these memos were sent between three and four months after the spot checks were conducted, indicating a prolonged delay, which may also impact the implementation of recommendations made. The Office indicated that the delay was largely due to the time taken to finalize the issues as there was a need for a better understanding of the operating context, in order to articulate practical recommendations in the reports. For project monitoring visit reports, the issues noted or actions recommended were generally discussed in Programme Unit meetings. However, in the absence of a systematic process in place, it was not possible to determine if all of these actions recommended in the project monitoring visit reports were undertaken in a timely manner.

(c) Failure to update risk and issue logs for development projects

The UNDP 'Programme and Operations Policies and Procedures' require risk, issue and lessons learned logs to be created in Atlas (enterprise resource planning system of UNDP) and updated regularly.

The review of eight projects indicated that their risk logs, issue logs and lessons learned logs were not updated regularly. Office management explained that during the audit period, they experienced unusually high staff turnover, which resulted in risk and issue logs not being updated in Atlas.

(d) Lack of frequent Project Board meetings

The UNDP 'Programme and Operations Policies and Procedures' state that Project Boards should provide overall guidance and direction to the project, address project issues as well as conduct regular meetings to review progress and provide guidance to achieve plans.

However, a review of seven projects indicated the following:

- For three projects, the Project Boards only met twice.
- For another three projects, the Projects Boards met only once.
- For one project, the Project Board did not meet at all.

The lack of frequent meetings may prevent the Project Boards from effectively carrying out their duties.

(e) Failure to close projects in Atlas

The UNDP 'Programme and Operations Policies and Procedures' require projects to be operationally closed once activities have been implemented. The operationally closed projects should then be financially closed within one year of operational closure. The Office had four projects that had operationally ended, but were not financially closed within the stipulated one year. There were also nine projects that had ended but were not operationally closed. Subsequent to an audit follow-up, the Office closed these nine projects. Office management explained that the delays in project closure were due to pending issues that needed to be resolved, such as remaining donor funds.

Inadequate project assurance may result in projects performing poorly, or not attaining the intended outputs/outcomes, and increases the risk of resources being mismanaged.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
<p>The Office should enhance project assurance activities in compliance with the UNDP 'Programme and Operations Policies and Procedures' by:</p> <ul style="list-style-type: none"> <li>(a) conducting an adequate number of project monitoring field visits;</li> <li>(b) establishing a systematic process to monitor follow-up actions on issues and recommendations made on project monitoring field visits;</li> <li>(c) regularly updating logs in Atlas on project risks, issues and lessons learned;</li> <li>(d) increasing the frequency of Project Board meetings depending on project risks and needs; and</li> <li>(e) closing projects in Atlas in a timely manner.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office will:</p> <ul style="list-style-type: none"> <li>(a) produce guidance notes for project monitoring field visits, based on the UNDP Monitoring and Evaluation Handbook;</li> <li>(b) formalize a system for collection and follow-up of project monitoring issues;</li> <li>(c) establish a calendar for routine project Atlas updates;</li> <li>(d) based on identified risks and as the situation so demands, increase Project Board consultations to two per year; and</li> <li>(e) monitor project closure regularly at programme and operations meetings.</li> </ul>	
<b>Estimated completion date:</b> March 2016	

**Issue 4**      Delays in approval of project Annual Work Plans

The UNDP 'Programme and Operations Policies and Procedures' require that Annual Work Plans identify specific annual targets to be approved by the Project Board in the last quarter of the preceding year and signed by

implementing partners before implementation. The Annual Work Plans specify the activities to be delivered along with the resources allocated for the activities and the respective timelines for implementation.

There was a delay in approving the 2014 and 2015 Annual Work Plans. The review of eight projects highlighted that the Annual Work Plans of five projects were approved in April 2014 and one was approved in April 2015. For the remaining two projects, the Plans were signed in February 2015. Therefore, these Plans were delayed between two to four months.

The Office had initiated a two-year Annual Work Plan since 2014 to make up for the delay in the approval of the Annual Work Plan. However, progress in this regard was still slow.

The lack of timely approval of the Annual Work Plans may result in the delay of project implementation activities, which in turn may impact the delivery of intended outcomes.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should ensure that the Project Boards approve the Annual Work Plans of projects in a timely manner.	
<b>Management action plan:</b>	
The Office will further strengthen its current practice of multi-year budgeting with biannual work plans.	
<b>Estimated completion date:</b> December 2015	

## C. Operations

### 1. Financial management

#### Issue 5 Weaknesses over project cash advances

The UNDP 'Programme and Operations Policies and Procedures' stipulate that project cash advances must be closed and fully accounted for within seven days, following the conclusion of the one-time project activity. Offices should also appoint, in writing, a project cash advance custodian.

The review of 26 cases of cash advances totalling \$48,000 indicated the following:

- There was no officially appointed project cash advance custodian.
- In 10 out of 26 project cash advances reviewed, no liquidation took place within seven days following the conclusion of the project activity, as required. Liquidations were undertaken up to 27 days after the completion of project activities. These delays in liquidations were noted in project cash advances that took place in 2014. There were no delays noted during 2015.

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

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
<p>The Office should enhance controls over project cash advances so that they are managed in accordance with the UNDP 'Programme and Operations Policies and Procedures'. This should include appointing project cash advance 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.</p>	
<b>Management action plan:</b>	
<p>The Office will appoint project cash advance custodians and strengthen the oversight related to cash advance liquidation.</p>	
<b>Estimated completion date:</b> December 2015	

**Issue 6**      Lack of documented agreement for use of fund

UNDP procedures require that Country Offices obtain approval from the respective Government when using the interest on Country co-financing cost-sharing fund. The use of the fund should be restricted to the development project activities.

In July 2014, the Office transferred an amount of \$125,000 to the Development Advisory Services fund, to partially pay for staff salaries incurred in 2014. The transactions were completed without obtaining documented approval from the Government.

Office management indicated that the agreement of the Government was obtained during discussions, and the Office provided OAI with meeting minutes that indicated that using cost-sharing interest income to fund various staff positions was discussed with the Government. The Office's management also reported that an agreement with the Government would be formally documented in a new Project Document.

The absence of a signed agreement with the Government regarding the use of interest on country co-financing cost-sharing fund may negatively impact the relationships with the Government and expose UNDP to financial obligations.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
<p>The Office should sign an agreement with the Government specifying what amount of the fund will be used for the related development activities.</p>	

**Management action plan:**

The Office has already initiated the drafting of the Project Document for the concerned new Policy and Advocacy Project for 2015 and the following years, as per the approved Transformation Plan of 2014. The Project Document will have a detailed, costed Annual Work Plan to be formally approved by the Project Board. The Office is looking into finalizing the Project Document by December 2015.

**Estimated completion date:** December 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 not included in this report.