UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

VIET NAM

Report No. 1773

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Report on the Audit of UNDP Viet Nam
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Viet Nam (the Office) from 4 to 12 April 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 March 2017. The Office recorded programme and management expenditures of approximately $29.6 million. The last audit of the Office was conducted by OAI in 2013.

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 / Major Improvement Needed** which means, "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in the HACT framework implementation process, and lack of documentation of assurance activities undertaken under programme and project management and operation activities.

Key recommendations: Total = **10**, high priority = **3**

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	6, 9, 10	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 4, 5	High
	1, 2, 7, 8	Medium

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. All high (critical) priority recommendations are presented below:

Gaps in management of Harmonized Approach to cash Transfer (HACT) assurance process (Issue 4)	The Office delivers more than 90 percent of its programme delivery through national implementing partners using the Harmonized Approach to Cash Transfer (HACT) Framework. The Office had not fully undertaken assurance activities required under the HACT framework. The following shortcomings were noted: adequate justifications were not documented for making amendments to the 2016 HACT assurance plan; all assurance activities in the 2016 assurance plan were not fully undertaken; there were delays in the completion of assurance activities; there was no formal process to follow up on action plans and document updates on issues noted during assurance activities; and inadequate capacity development activities were undertaken on implementing partners.

Recommendation 3:

The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' on Harmonized Approach to Cash Transfers, and work with the Resident Coordinator Office by: (a) reviving the HACT working group to adhere to the relevant requirements under the 2014 UNDG HACT Framework. This should include undertaking micro assessments of implementing partners for the new program cycle within a specified timeframe; and (b) developing a joint assurance plan to the extent feasible, for the entire programming cycle taking into consideration key factors such as the micro assessments implementing partners and other relevant risks.

Recommendation 4:

The Office should address all HACT related discrepancies noted by: (a) implementing all the assurance activities as indicated in the assurance plan. Any changes to the assurance activities from the approved assurance plan are properly authorized and justifications are documented for future references; (b) establishing processes to ensure that recommendations noted in the various assurance activities are promptly followed up and acted upon; and (c) developing and implementing comprehensive action plans for capacity development activities of implementing partners, based on the results of various assurance activities and micro-assessments conducted.

Inadequate controls over project assurance (Issue 5)	The review of a sample of nine projects with total project expenditures of $12.4 million in 2016, noted that Programme Officers had not documented programme monitoring and assurance visits for these projects. The Office management explained that even though many visits were undertaken, these were not consistently recorded using a "Back to Office" report. In the absence of documentation on project monitoring visits, the audit was unable to assess the quality of monitoring undertaken and the follow up actions taken on issues noted during the project monitoring process. Further, the Office had not documented project risks and issues either in the Atlas project management module or outside the Atlas system. Hence, it was not evident if the Office was actively monitoring and managing project risks effectively and timely.

Recommendation 5: The Office should strengthen its project assurance and monitoring process by: (a) regularly undertaking field monitoring and verification visits, and documenting them within seven days of returning to the Office; (b) regularly updating Atlas with project reporting, risk management, and quality management data; and (c) regularly monitoring projects undertaken so that activities in the monitoring and evaluation framework are completed within specified timelines. The results of these monitoring activities should be promptly documented and retained.

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 have 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 Hanoi, Viet Nam (the Country), is one of eight pilot offices to have undertaken 'Delivering as One' initiatives since February 2006. This initiative brings together the expertise, experience and capacities of United Nations agencies to provide more coordinated and effective assistance. The Office continues to work on the six pillars of reform: One Plan, One Budget, One Leader, One Set of Management Practices, One Voice and the Green One UN House. In June 2015, the Office moved to new premises, which host 12 United Nations Agencies.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Human Resources.</u> Adequate and effective controls were in place.
(b) <u>Operations/ICT and general administrative management/staff and premises security.</u> Adequate controls were established and functioning well.

OAI made three recommendations ranked high (critical) and seven 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 recommendations, arranged according to significance:
   (a) Strengthen project assurance and monitoring (Recommendation 5).
   (b) Address all HACT related discrepancies noted (Recommendation 4).
   (c) Work with Resident Coordinator Office to activate the HACT working group and undertake plans to undertake micro assessments of implementing partners (Recommendation 3).

Medium priority recommendations, arranged according to significance:
   (a) Conduct regular programme review either together with UN Country Team as part of the One Strategy Plan 2017 to 2021 review or individually on UNDP's programme (Recommendation 2).
   (b) Improve documentation of closure of recommendations from Programme evaluations (Recommendation 6).
   (c) Enhance efforts to ensure that all pending matters pertaining to the Green One UN House are resolved (Recommendation 1).
   (d) Ensure projects are promptly closed both operationally and financially and supporting documentation is completed (Recommendation 7).
   (e) Improve the process of receipt of procurement offers (Recommendation 9).
   (f) Recover outstanding Government Contributions to Local Office Costs (GLOC) (Recommendation 8).
   (g) Establish and maintain a roster for local individual consultants as well as consider using consultants' rosters maintained in Headquarters (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1   <u>Absence of formal delegation of authorities</u>

The 'UNDP Programme and Operations Policies and Procedures' state that a delegation of authority is the assignment of a vested authority of an appointment holder (delegator) to another person (delegatee), to carry out specific activities or to take decisions that are within the authority of the delegator.

The Office management issued a memo as of 31 December 2016 addressed to all staff with revised delegations of approving authority granted to various positions within the Office. However, the memo did not name the individuals to whom the authority was being delegated. The Office management confirmed that the delegation of authority was not formally granted to individuals, but only to positions. The Office management further commented that in its views there was no confusion between the individual and position as the memo had been circulated to all staff. However, the audit noted that this practice was prone to creating confusion, as according to the Atlas Users List as of February 2017, there were 18 individuals with project manager profiles, five with treasury/finance user profiles and four with travel processor profiles. There were also 29 individuals with multiple Atlas profiles, which would add to the confusion if delegated authority was granted to positions and not to individuals. Moreover, it would be difficult to trace accountability, if delegations of authorities were not granted to individuals but instead to position titles.

The absence of a formal written delegation of authority to personnel specifying their approval rights and authorities may result in the lack of clarity and accountability in the Office's personnel's roles and responsibilities when carrying out their functions.

Comment Subsequent to the audit fieldwork, the Country Director issued delegation of authorities to staff specifying their approval rights and authorities individually. As the Office addressed the issue, OAI is not issuing an audit recommendation.

Issue 2   <u>Delays in the closure of the Green One UN House (GOUNH) construction project</u>

The Delivering as One initiative in Viet Nam comprised six key pillars of which the GOUNH was identified as the sixth pillar. The GOUNH was inaugurated on 23 May 2015 by the UN Secretary General and 12 participating UN entities had moved into the new premises by end of June 2015.

The construction of the project which began in January 2013 was expected to be completed by February 2014, however, due to delays it was eventually completed in May 2015. The Office management indicated that the delay was due to design and construction challenges beyond the control of UNDP.

As mandated by the Memorandum of Agreement with the Government and the Memorandum of Understanding with United Nations Agencies, the Office had opened a project specifically to oversee and manage the construction of GOUNH. However, the project could not be closed due to matters such as prolongation costs claimed by two vendors. While the Office settled the claims of one vendor in January 2017 –

the claims of the other vendor were still outstanding. The Office was liaising with UNDP's Legal Support Office on the quality of service rendered by this vendor. Hence, the construction project remained open.

Further, the Office indicated that the complex indoor climate system of this modern office building did not fully achieve design parameters related to air cooling and air flow. The Office had approached specialized vendors to receive advice on possible solutions.

The Office management informed the audit that the Project Board chaired by UN Resident Coordinator would be convened soon to follow-up on the above issues, however it may not be able to close the Project until climate and other issues are resolved. The Office management added that the Regional Bureau for Asia and the Pacific had also advised them not to close the project until all outstanding issues have been satisfactorily addressed.

If outstanding issues are not resolved promptly, this may have a financial and reputational impact on the organization.

Priority	Medium (Important)
Recommendation 1: The Office should ensure that all pending matters are resolved satisfactorily within a specified timeframe so that the GOUNH construction project can be closed.	
Management action plan: Two pending activities are being addressed for completion: Solutions to resolving indoor climate issues and settling the vendor claim. **Estimated completion date:** December 2017	

B.   Programme

1.   Quality Assurance Process

Issue 3   <u>Weaknesses in Country Programme annual review</u>

The 'UNDP Programme and Operations Policies and Procedures' state that systematic review of the UNDP country programme is mandatory. The review, which should take place annually, should include assessing the achievement of the overall annual targets of UNDP-funded activities in the context of the UNDAF and national results/outcomes; recommendations of the previous annual review were appropriately followed up and make suggestions/recommendations to overcome any new issues or seize opportunities identified.

The audit noted that a formal annual review of the Country Programme Document had not been conducted during the 2012 to 2016 programme cycle. The Office management informed the audit team that as part of Delivering as One in Viet Nam, each individual agency was not supposed to hold individual annual programme reviews, but rather that these were to be held at the interagency level. The Office added that the United Nations had set-up Focus Area Coordination Groups for each of the three thematic areas and UNDP chaired the

Governance Group. The Office had one Focus Area Coordination Group meeting in 2014 and no further meetings were held till the date of the audit fieldwork. The Office management indicated that Joint Programming Group meetings were held together with other Agencies that included annual programme reviews at the outcome level of the One Plan which was designed to Deliver as One.

However, the Joint Internal Audit of Delivering as One in Viet Nam report dated April 2017, highlighted that the Joint Programming Groups were high level strategic vision forums to coordinate policy rather than at activity level. The audit report further added that interviews with some UN Agencies indicated differences in understanding the roles of Joint Programming Groups with some seeing them as informal forums for joint discussions and high level coordination. Our review of three Joint Programming Group Meeting minutes shared by the Office indicated that these were not forums that undertook annual programme reviews as indicated by the Office. There were also no documentary evidence that reviews of results of overall UNDP's programmatic intervention as required were undertaken in these Joint Programming Group meetings.

The Office commented that the United Nations Country Team has agreed that regular reviews of the 'One Strategic Plan 2017-2021' would be conducted annually beginning in 2017.

If formal annual reviews are not conducted, the Office may not be in a position to assess the achievements of UNDP's programmatic interventions in the Country. Further, without annual programmatic reviews, the Office may not be in a position to effectively report achievements made against its programme outputs and outcomes.

Priority	Medium (Important)

Recommendation 2:
The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on the systematic review of the UNDP country programme. This should include that regular annual UNDP programme review is conducted either together with UN Country Team as part of the One Strategic Plan 2017 to 2021 review or if this is not done, then to undertake it individually.

Management action plan:
UNCT has agreed that there will be a joint annual review chaired by RC as well as a joint GoV-UN annual review to guide the implementation of One Strategic Plan (OSP) 2017-2021. This has been clearly stated in the OSP document and the TOR for OSP annual review is being finalized with the first annual reviews scheduled for late 2017 and quarter 1, 2018.

Estimated completion date: March 2018 |

2. Programme / Project Design and Implementation

Issue 4   Gaps in management of Harmonized Approach to Cash Transfer (HACT) assurance process

The Office's programme delivery for 2016 was $18 million, of which $16.3 million (90 percent of total programme delivery in 2016) was delivered through national implementing partners. The Office is HACT compliant since 2015 and had developed a joint HACT Assurance Plan from 2014 to 2016 for the remaining period of the 2012 to 2016 programming cycle. Given the fact that a significant proportion of programme delivery was completed

through the national implementation modality, the assurance needed over these national implementation partners was critical.

The 'UNDP Programme and Operations Policies and Procedures' state that the purpose of assurance activities is to determine whether the funds transferred to Implementing Partners were used for their intended purpose and in accordance with the work plan. Proper planning and implementation of assurance activities is an integral part of HACT framework. Assurance is obtained by carrying out the spot checks, programme monitoring and scheduled audits as documented in the Assurance Plan. The HACT guidelines also provide that without appropriate completion of the assurance activities, the HACT framework would only serve as a mechanism for risk assessment/identification, rather than a mechanism for risk management and mitigation. This would expose the United Nations to significant risk.

The audit reviewed the Office's role in implementing HACT and its compliance with the Framework for Cash Transfers to Implementing Partners. The following weaknesses were noted:

(i)   Not all assurance activities in the assurance plan for 2016 were fully undertaken. As against, 28 spot checks, two internal control audits and one financial audit planned, the Office undertook only 16 spot checks, seven internal control audits and two financial audits. The audit also noted delays in the completion of assurance activities. For example, five internal control audits of implementing partners were started only in December 2016, which were yet to be completed as at the audit field work date, even though the programme cycle duration was from 2012 to 2016.

(ii)   There was no formal process to follow-up on action plans and to document updates on issues noted in the various assurance activities. For example, spot check reports had highlighted several weaknesses in internal controls in implementing partners' systems and processes, and recommendations were made for actions to be taken. The Office management informed the audit that there were some projects that had a very active and rigorous follow up process. However, our review of 10 spot check reports for 2016, indicated there was no systematic follow up and monitoring of actions taken to implement recommendations made in these spot check reports.

(iii)   The HACT Framework identifies developing the implementing partners' capacity, with assistance from UNDP and other development partners, as core to managing risk. Offices should use HACT assessment results to help focus future capacity development activities necessary for the implementing partners. The Office had shared a two-page sheet to outline 27 action plans to be implemented based on micro assessment results to address internal control issues noted in implementing partners. The completion date of these activities was December 2014, although there was no evidence to indicate if adequate actions were taken to address these internal control issues. However, the Office indicated that these actions were completed. Further, similar types of issues had been reported in spot checks carried out in 2016. There was limited evidence to indicate that the Office had fully met the objective of enhancing capacity development among implementing partners in a formal and planned manner.

(iv)   Inadequate follow-up by the joint UN working group on HACT. The last documented meeting minutes of the HACT working group were dated June 2016. The Macro-Assessment for the current programme cycle was completed in March 2017 while a joint HACT assurance plan had not been developed for 2017 to 2021. The Office had developed its own assurance plan for 2017. The micro assessments of the implementing partners for the current cycle were yet to be conducted, although the micro assessments undertaken in 2013 and 2014 for the implementing partners would be valid for 2017. Subsequent to the audit fieldwork, a working Group meeting was convened on 17 April 2017 to discuss HACT

Implementation Plan for 2017-2021, micro assessments and selection of third party service provider for conducting micro assessments.

The Office management acknowledged limitations in the coordination and documentation of the HACT related decisions due to the closure of the programme cycle in 2016 and transition of key staff.

Failure to undertake HACT assurance activities would not enable the Office to obtain adequate assurance that funds transferred to implementing partners were used for their intended purposes.

Priority	High (Critical)

Recommendation 3:
The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' on Harmonized Approach to Cash Transfers, and work with the Resident Coordinator Office by: (a) reviving the HACT working group to adhere to the relevant requirements under the 2014 UNDG HACT Framework. This should include undertaking micro assessments of implementing partners for the new program cycle within a specified timeframe; and (b) developing a joint assurance plan to the extent feasible, for the entire programming cycle taking into consideration key factors such as the micro assessments implementing partners and other relevant risks.
Management action plan: The inter-agency Programme Support Working Group (PSWG) of UNDP, UNFPA and UNICEF under the leadership of the RCO has been operating and is responsible for the promotion of UN programmatic business practices harmonization, including HACT. After the completion of the Macro Assessment for the current program cycle in March 2017, the PSWG convened a meeting on 17 April 2017 to move forward with the joint micro-assessment and assurance plan. A joint assurance plan for the entire programming cycle will follow upon having micro-assessment results. **Estimated completion date:** March 2018

Priority	High (Critical)

Recommendation 4:
The Office should address all HACT related discrepancies noted by: (a) implementing all the assurance activities as indicated in the assurance plan. Any changes to the assurance activities from the approved assurance plan are properly authorized and justifications are documented for future references; (b) establishing processes to ensure that recommendations noted in the various assurance activities are promptly followed up and acted upon; and (c) developing and implementing comprehensive action plans for capacity development activities of implementing partners, based on the results of various assurance activities and micro-assessments conducted.

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Management action plan:

The Office has strengthened HACT management and implementation with emphasis on quality of the process, including strengthened responsibilities of HACT focal point (Finance and Assurance Analyst) and a more direct line of reporting and accountability. An interim action plan for HACT Management and Implementation has been developed for 2017.

Further, the Office will take following specific actions:

- Implement the UNDP 2017 Interim HACT Assurance Plan.
- Develop an internal monitoring tool for Findings/ Recommendations/ Agreed Follow-up Actions from assurance activities.
- Implement, monitoring and update on Findings/ Recommendations/ Agreed Follow-up Actions from assurance activities.
- Work within the PSWG and based on results of joint micro assessments to develop and implement capacity building activities at project level.

Estimated completion date: March 2018

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Issue 5   Inadequate controls over project assurance

According to the 'UNDP Programme and Operations Policies and Procedures', the Office should ensure that adequate assurance systems are in place and functioning, to ensure compliance, accountability and attainment of intended outcomes. Programme Officers are responsible for providing project monitoring and assurance. Specific responsibilities include conducting verification visits to projects at least once a year and documenting those visits within seven days of returning to the Office. Field visits serve the purpose of results validation and should provide latest information on progress for annual reporting preparation. The 2014 UNDG HACT Framework also requires that one programme monitoring visit be completed per programme year for each implementing partner to provide assurance on program implementation compared to the work plan.

The review of nine projects (with total project expenditures in 2016 amounting to $12.4 million, as compared to the overall programme delivery in 2016 of $19 million) noted the following:

(a) Programme Officers had not documented programme monitoring and assurance visits for all these projects. The Office management explained that many visits were made, but were not consistently recorded using a "Back to Office" report. In some cases, the Office had shared records of project visits with donors or Government partners. However, the record of project visits shared did not indicate any monitoring activities undertaken during these visits. In the absence of adequate documentation on project monitoring visits, the audit was unable to ascertain the quality of monitoring undertaken and the follow up actions taken on any issues noted during the project monitoring visits. The Office management indicated that they had shared the documentation of project monitoring and assurance visits for five projects, and, in addition, the Office management claimed that policy projects do not hold field monitoring visits but rather regular meetings with the Project Management Units. The meeting minutes for these projects were shared with the auditors. However, these documents referred to were not adequate, as they did not specify the monitoring activities undertaken during these visits.

(b) The 'UNDP Programme and Operations Policies and Procedures' require that project risks and issues are recorded in Atlas for effective risk management and quality management. The review of the nine projects

indicated that the Office had not documented project risks and issues either in the Atlas project management module or separately outside Atlas system. Hence, it was not evident if the Office was actively monitoring and managing project risks effectively and timely. The Office management indicated that it has been monitoring risks using off-line mechanisms (e.g. quarterly reports, regular meetings, and memos), and agreed that these risks also need to be populated in Atlas system. Without adequate monitoring and documentation of project issues and risk information, the Office is exposed to the risk that issues may not be detected and remedied in a timely manner.

(c) The 'UNDP Programme and Operations Policies and Procedures' state that monitoring is a continuous management function that provides decision-makers with regular feedback on the planned and actual results and implementation performance. It provides a regular indication of the likelihood that expected results will be attained. Monitoring provides an opportunity to validate and make evidence-based decisions to improve programming performance and results achievement. Evidence collected from monitoring is reviewed periodically to assess performance and inform actions and decisions.

(d) The Office's project documents included the monitoring and evaluation framework (along with the objectives, outcomes, outputs, and indicators) that were to be regularly monitored by the Project Management Unit. However, there was inadequate evidence that the Project Management Unit undertook monitoring activities as outlined in the monitoring and evaluation framework in the project documents. Further, there was also no evidence that the Office Programme personnel regularly provided inputs on monitoring activities undertaken by the project management unit on the monitoring and evaluation frameworks. The Office management indicated that all nine projects had developed their monitoring and evaluation plans, which met the requirements of planning for monitoring and evaluation purposes. In addition, six projects had also developed annual monitoring and evaluation plans that set out detailed monitoring and evaluation activities to be undertaken during the year. The audit acknowledged that the projects had monitoring and evaluation plans attached together with project documents. However, there was inadequate evidence that the Project Management Unit and Office Programme personnel undertook monitoring activities included in the monitoring and evaluation plans.

Absence of adequate monitoring over projects would not enable the Office to achieve sufficient assurance that progress reported is accurate and provide the necessary feedback. Subsequent to the audit fieldwork, the Office circulated a memo to all personnel on the need to improve project monitoring and retain records of programme visits.

Priority	High (Critical)
Recommendation 5: The Office should strengthen its project assurance and monitoring process by: (a) regularly undertaking field monitoring and verification visits, and documenting them within seven days of returning to the Office; (b) regularly updating Atlas with project reporting, risk management, and quality management data; and (c) regularly monitoring projects undertaken so that activities in the monitoring and evaluation framework are completed within specified timelines. The results of these monitoring activities should be promptly documented and retained.	

Management action plan:

Immediately following the audit, the Office issued a memo on Strengthening Programme and Project Assurance, which included also the mechanism for monitoring its effective implementation.

The Office will ensure that this policy and mechanism indicated in the memo is fully implemented, including:

(a) Back-to-office reports of field visits are prepared and submitted in accordance with policy;
(b) Atlas is quarterly updated with project reporting, risks and issues; and
(c) Monitoring activities and findings are documented.

Estimated completion date: December 2017

Issue 6   Weaknesses in updating project evaluation recommendations

The Office conducted projects evaluation in accordance with its evaluation plan 2012 to 2016. The management responses to evaluation recommendations were uploaded in the Evaluation Resource Centre's (ERC) website and to implement these recommendations within certain timelines. However, at the audit fieldwork date some of these actions were not completed. The Office commented that in the past it had updated the management actions in ERC on a six-monthly basis with the last update completed in April 2017. In the future, it planned to increase the frequency of management actions update in ERC to quarterly basis.

Subsequent to the audit fieldwork, audit noted that four project evaluations undertaken in 2016 recommended 31 key actions to be taken by the Office. As at April 2017, seven key actions have been recorded as completed while the remaining 24 key actions were stated as having been initiated in the ERC. On further review audit noted that there was inadequate documentation to support evidence of actions initiated and already taken which would accurately represent the status of these key actions in the ERC. Hence in the current process, there was inadequate audit trail especially for the supervisors or senior management to obtain assurance that actions indeed have been taken satisfactorily to address the recommendations in the evaluation reports.

We also noted absence of process to monitor regularly the status of these recommendations leading to satisfactory implementation of key actions as agreed in these evaluation reports. For example, the assessment of development results conducted by the Independent Evaluation Office in December 2015, resulted in nine recommendations and 26 key actions; however, as at April 2017 the Office has completed 6 key actions and the remaining 20 were stated as having been initiated.

The Office indicated that it will ensure that the ERC is updated quarterly.

Weaknesses in management and regular follow-up of evaluation recommendations may impact the objective of the evaluations.

Priority	Medium (Important)
Recommendation 6: The Office should improve documentation of closure of recommendations from Programme evaluations by: (a) retaining appropriate documentary evidences; (b) regularly updating the status of recommendations and key actions in the evaluation resource centre; and (c) timely completing key actions.	
Management action plan: The Office has recently updated the ERC for the first quarter of 2017 and will continue to update at least quarterly, and will ensure that appropriate evidences on the implementation of key actions are properly documented for all projects. **Estimated completion date:** December 2017	

Issue 7   Weaknesses in closure of Projects

The 'UNDP Programme and Operations Policies and Procedures' stipulate that projects should be operationally closed once activities have been implemented and no new activities are planned. The operationally closed projects should then be financially closed no more than one year after operational closure. Before the status of a project is changed to financially closed in Atlas, the programme officer and the head of finance must complete the project completion check list, and ensure that projects funded from cost-sharing have zero balances. The check list to be signed by the Head of Office, includes 29 items to be satisfied before the project could be financially closed and relevant records maintained to support the comments made in this checklist.

The Office had financially closed 72 projects and operationally closed 19 projects in 2016. The audit review indicated that the Office had not established adequate processes for the closure of projects. The Office was not able to provide the relevant checklists signed by the Head of office that relevant actions have been taken and documented before projects were financially closed.

Our review of the 19 operationally closed projects in 2016 indicated that four projects have ceased project activities earlier than 2016 as there were no project expenditures in these projects for 2016.

Subsequent to the audit fieldwork, the Office developed a standard operating procedure on closing projects and the Programme Finance Associate was formally assigned as the focal point to monitor the implementation of the standard operating procedure.

If projects are not closed timely, there is a risk of unauthorized expenditures and in the absence of adequate processes relating to closure of projects, there is a risk that the Office would not meet all requirements as stated in 'UNDP Programme and Operations Policies and Procedures'.

Priority	Medium (Important)

Recommendation 7: The Office should ensure that projects are promptly closed both operationally and financially in accordance with the Programme and Operations Policies and Procedures. This should include completing the checklist to be signed by the Head of Office along with adequate supporting documentations.
Management action plan: The Office immediately issued a SOP on closing projects (aligned with the corporate SOP for project closure) whereby the Programme Finance Associate has been formally assigned as the focal point to regularly monitor the implementation of the SOP. **Estimated completion date:** December 2017

C. Operations

1. Financial Resource Management

Issue 8   Supporting documents not secured

In line with the Financial Rules and Regulations and 'UNDP Programme and Operations Policies and Procedures' UNDP Offices are required to ensure that supporting documents of financial transactions are maintained and kept secure. Copies of financial documentations should be maintained for a minimum period of seven years to support transactions that are recorded in Atlas.

The audit noted that supporting documents for financial transactions such as payment vouchers, General Ledger transactions, and account receivable vouchers for years 2016 and 2017 had been stored in unlocked cabinets in common areas that were accessible to United Nations personnel based in Green One UN House.

Following the audit fieldwork, the Office confirmed that files containing financial transaction supporting documents were being moved into a locked cabinet and remaining documents would be moved to other cabinets which were being purchased and installed.

There is a risk that the supporting documents may be lost or accessible to unauthorized personnel if not stored in a safe and secure place.

Comment Given the action already taken by the Office to address the issue, OAI is not making a recommendation.

Issue 9   Outstanding Government Contributions to Local Office Costs (GLOC)

The Standard Basic Assistance Agreement provides that the host government is expected to contribute towards the local cost of Country Offices. The UNDP Executive Board "encouraged all host country governments to meet their obligations towards local Office costs."

As of 10 April 2017, an amount of $416,000 of GLOC was outstanding (of which $86,000 was for 2015 and $330,000 for 2016). The Office informed that there were several follow-ups with the Government. The Office informed that they again followed up on 14 April 2017 requesting the Government to settle outstanding GLOC.

Failure to fully collect GLOC contributions may impact the financial resources available to support local office costs.

Priority	Medium (Important)
Recommendation 8: The Office should consult with the Regional Bureau for Asia and Pacific on outstanding Government Contributions to Local Office Costs and follow-up to recover the payment within a specified timeframe.	
Management action plan: The Office has (a) requested a meeting with the responsible Ministry to discuss GLOC responsibility and (b) is also consulting with the Bureau on this issue. **Estimated completion date:** December 2017	

2. Procurement

Issue 10   Inadequate controls over receipt of procurement offers

The 'UNDP Programme and Operations Policies and Procedures' require the procurement to be conducted in a manner that is fair and competitive. Therefore, the offers submitted by vendors should be kept secure until all offers are simultaneously opened at a designated time and place.

During the audit period, there were four requests for proposals valuing $1.7 million where the offerors were invited to submit bids by courier or via emails.

There were inadequate controls over the receipt of offers received manually. The existing practice was that the bids/offers were received by the Office Registry, which in turn forwarded the offers to the Procurement Unit. There were no instructions in the Request for Proposals to instruct the offerors to sign bid submission forms when delivering the proposals, also the bid opening committee did not check the records of the Office Registry to ensure all bids delivered to the Office were complete. Subsequent to the audit field work, the Office management indicated that the Request for Proposal template has been revised, instructing the offerors to submit bids within working hours and signing bid submission form when delivering the proposals.

While OAI noted controls in place for bids received electronically, using e-Tendering facility provided by Atlas enhances the controls over receipt of bids and offers. The Office agreed in principle to start using the e-Tendering for bids over $30,000.

Priority	Medium (Important)
Recommendation 9: The Office should improve the process of receipt of procurement offers by: (a) enhancing controls over bids received manually, this could include installing locked box; and (b) considering the use of the e-Tendering system for procurement cases over $30,000.	

Management action plan:
 	
(a) Bids received manually: recommendation was already implemented i.e.:
     ▪   Adding in RFP template instructions for bidder to (i) submit bids within working hours, (ii) call procurement staff to receive their offers;
     ▪   Requesting the offerors to sign bid submission forms when delivering the proposals;
     ▪   offers upon receipt will be kept in locked cabinet of procurement unit until opening date and time
(b) E-tendering:
         Action plan has been in place that E-tendering will be used for procurement cases valued over USD 30,000 with firms expected from September 2017 upon completing the on-going learning/testing the e-tendering system. The Office has been in contact with Regional Procurement support to guide on e-tendering system which currently has technical problems.
 	
Estimated completion date: February 2018	

Issue 11   Absence of roster for individual contracts

The Individual Contract guideline encourages Country Offices to establish a roster of qualified Individual Consultants/Contractors who are potentially suitable and have the relevant track record on the required work to be performed.

During the audit period, the Office issued 64 National Individual Contracts and 45 International Contracts with total a value of $1.6 million. Forty-one contracts were below $5,000, which do not require a competitive process.

The Office had not established a local roster to be used for contracting individual consultants. The Office management indicated that it did not use the roster established by the Bangkok Regional Hub as there were fees to be recovered for using this roster. The Office had not made any cost benefit analysis to determine if these fees would be higher compared to if the Office had to undertake the entire contracting process on its own. Maintaining a roster enables the efficient use of the Office resources and ensures well qualified and experienced candidates to be identified.

The Office indicated it had maintained a database of over 11,000 qualified Individual Consultants. However, OAI noted this data had not been formally established to be used as a roster.

Given the high number of Individual Contracts issued by the Office, there was increased risk that may impact the efficiency in using the Office resources.

Priority	Medium (Important)
Recommendation 10: The Office should establish and maintain a roster for local individual consultants, and also consider using the roster maintained by headquarters when the need arises.	
Management action plan: The Office will establish and maintain a roster of local individual consultants on services frequently required by UNDP and will consult with Procurement experts from RBAP for advice. Additionally, Business Operations Strategy is being established including procurement consultant rosters for all UN agencies in Viet Nam. UNDP is leading in the Procurement Group and has submitted the group proposal for review. The Office will resume its use of HQ roster as and when the need arises. **Estimated completion date:** December 2017	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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>.