

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



*Empowered lives.  
Resilient nations.*

**AUDIT**  
  
**OF**  
  
**UNDP COUNTRY OFFICE**  
  
**IN**  
  
**BHUTAN**

**Report No. 1882**  
**Issue Date: 11 August 2017**

---

## **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. Governance</b>	<b>1</b>
1. Corporate Direction	1
<b>B. Programme</b>	<b>2</b>
1. Programme/project design and implementation	2
<b>C. Operations</b>	<b>4</b>
1. Procurement	4
<b>D. United Nations Leadership and Coordination</b>	<b>5</b>
1. Harmonized Approach to Cash Transfers	5
<b>E. Delivering as One</b>	<b>7</b>
1. One Programme	7
<b>Definitions of audit terms - ratings and priorities</b>	<b>9</b>

## Report on the Audit of UNDP Bhutan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bhutan (the Office) from 4 to 14 July 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); and
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security).
- (d) United Nations leadership and coordination.

The audit also reviewed the implementation of two pillars, One Operations and One Programme of Delivering as One (DaO), by the UN agencies in Bhutan. The objective was to assess the extent to which the One Operations and One Programme pillars are adequately configured and implemented to contribute to the achievement of the country development goals.

The audit covered the activities of the Office from 1 January 2016 to 30 June 2017. The Office recorded programme and management expenditures of approximately \$10.5 million. The last audit of the Office was conducted by OAI in 2010.

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 “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.”

**Key recommendations:** Total = 4, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are seven medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to address weaknesses in governance, programme, procurement management, and United Nations Leadership and Coordination.

The four recommendations aim to ensure the following:

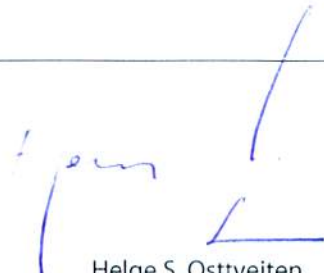
Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3	Medium

One recommendation relates to alignment with the Delivering as One Standard Operating Procedures (Recommendation 4, medium priority).

#### Management comments and action plan

The Resident Representative and Resident Coordinator accepted all four 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 Thimphu, Bhutan (the Country), comprised of 24 staff and 4 Service Contract holders that manage a portfolio of 14 projects. The current United Nations Development Assistance Programme (UNDAF) 2014-2018, focuses on four thematic areas: sustainable development, essential social services, gender equality and child protection, and democratic governance and participation.

In April 2017, the Office submitted a proposal for \$43 million to the Green Climate Fund focusing on supporting climate resilience and transformational change in the agriculture sector in the Country. The Office was also one of the pilot Offices for clustering of operational processes, including finance and procurement to the Global Shared Services Unit. The United Nations system in the Country operates as Delivering as One (DaO).

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Human resource management. The review of recruitment and separation processes, including Atlas (enterprise resource planning system of UNDP) profiles of staff, did not identify any reportable issues.
- (b) Staff and premises security. The Office was compliant with the Minimum Operating Security Standards. The Business Continuity Plan was also endorsed.
- (c) One Operations. Under DaO, the Office instituted several measures to harmonize operational processes such as Long-Term Agreements. Common services managed by UNDP were also functioning well.

OAI made 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.

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

- (a) Adhere to requirements on Harmonized Approach to Cash Transfers (Recommendation 3).
- (b) Enhance project management processes (Recommendation 1).
- (c) Enhance controls over monitoring of procurement processes (Recommendation 2).
- (d) Improve harmonized consolidated reporting (Recommendation 4).

The detailed assessment is presented below, per audit area:

### A. Governance

#### 1. Corporate Direction

##### Issue 1 Office sustainability challenges

The organizational effectiveness of the office depends on its adequate organizational structure, with clear roles and responsibilities, as well as reporting lines, to ensure an office is 'fit for purpose'.

The Office's programme structure, with four programme portfolios, was supported by six national officers and three programme associates. According to the extra budgetary report, the staffing costs charged to extra

budgetary resources had increased from \$86,000 in 2015 to \$150,000 in 2016. In addition, the overall staff costs increased from \$0.7 million in 2015 to \$0.8 million in 2016. However, the allocation of core funds to the Office declined from \$1 million in 2015 to \$0.5 million in 2017. Further, the Office's General Management Services fee collected decreased from \$216,000 in 2014 to \$106,000 in 2016.

The Office was aware of the issue and in consultation with the Bangkok Regional Hub, initiated an organizational change process. A Management Consulting Team mission was scheduled to review the Office's structure in 2016. However, the visit was postponed. In the interim to streamline the structure, the Office merged the four programme portfolios into two.

The Office developed its pipelines portfolio which was expected to materialize before the end of 2017, including a \$43 million proposal submitted to the Green Climate Fund, a \$13 million proposal to the Global Environment Facility and Least Developed Country Fund, and a \$3 million proposal on sustainable urban transport system to the Global Environment Facility. The General Management Services fee and Direct Project Costs earned from the pipeline are expected to be sufficient to support the current Office structure. If the pipeline does not mature, senior management will consider restructuring during the last quarter of 2017, as part of the 2018 Integrated Work Plan/Country Office Business Plan dialogue with the Bangkok Regional Hub.

#### Comment

The Office and the Regional Bureau for Asia and the Pacific are closely monitoring the funding status, in line with the ongoing discussions for the new Country Programme Document (2019-2023). Therefore, OAI is not making a recommendation.

## B. Programme

### 1. Programme/project design and implementation

#### Issue 2 Weaknesses in project management

According to the 'UNDP Programme and Operations Policies and Procedures', a Monitoring and Evaluation (M&E) framework should be developed for each project, describing indicators, activities and outputs to be monitored, reviewed and assessed.

OAI selected six projects with a total expenditure of \$8 million representing 76 percent of total programme expenditure during the audit period for a detailed review and identified the following:

##### (a) M&E framework not developed

The Office had not developed an overall M&E framework that would outline activities to be undertaken, staff responsible, when these activities would be undertaken and what indicators would be monitored. For one project four missions took place however no documentation on monitoring was available, for one project no information on monitoring activities was available.

There was also no segregation between the implementation and assurance functions. Programme staff, responsible for the assurance function, were also involved in the implementation of activities.

The Office planned to recruit M&E staff, however, due to insufficient budget, the recruitment was postponed to 2018. In the meantime, Bangkok Regional Hub planned to support the Office with two M&E staff on detailed assignments to establish M&E systems, and provide the relevant training to the Office staff.

(b) Indicators were not specific

The audit noted that joint Annual Work Plan indicators were not specific. For example, the indicator “urban development incorporates sustainable principles and practices” is not measurable without a definition of what sustainable principles and practices are. Similarly, while the joint Annual Work Plan had a set of indicators, these were not in line with those identified in related project documents. Further all indicators included in the joint Annual Work Plans and UNDP project documents reviewed were quantitative and no qualitative indicators had been identified. The Office stated that the Integrated Resources and Results Framework would be strengthened during the development of the new UNDAF (2019-2023).

Weaknesses in project monitoring and inadequate quality assurance may prevent the Office from managing for results, and may impact future project investments.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should enhance project management processes by:	
<ul style="list-style-type: none"> <li>(a) developing a M&amp;E framework for the programme/project portfolio;</li> <li>(b) undertaking regular assurance monitoring activities and documenting results, including follow-up actions; and</li> <li>(c) revising programme and project indicators to ensure they are specific, measurable, attainable, relevant and time-bound.</li> </ul>	
<b>Management action plan:</b>	
<p>As part of implementing the 2017 Learning Plan and Country Office Business plan, staff training on M&amp;E has been conducted (24 July to 2 August 2017). A detail assignment on M&amp;E has been advertised, and an overarching M&amp;E strategy as well as Standard Operating Procedures for monitoring and evaluation will be developed, with roles and responsibilities clearly defined.</p> <p>Where practical, indicators will be revised within the current UNDAF cycle and a robust results framework for the next Country Programme Document and UNDAF will be developed.</p>	
<b>Estimated completion date:</b> (a) 30 November 2017; (b), (c) and (d)-ongoing	
<b>OAI response:</b>	
OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

## C. Operations

### 1. Procurement

#### Issue 3 Procurement cases not submitted to Contracts, Assets and Procurement Committee

The 'UNDP Programme and Operations Policies and Procedures' require that any contract or series of contracts including amendments to be awarded to a vendor in a calendar year with a cumulative value of more than \$50,000 over a 12-month period up to the delegated procurement authority of the Business Unit require a review by Contracts, Assets and Procurement Committee prior to approval.

In April 2016, the Office engaged an institutional contractor and the value of the contract was \$75,150. However, the Office did not submit the case to the Contracts, Assets and Procurement Committee for review. In addition, the Office submitted one post-facto case to Contracts, Assets and Procurement Committee with a value of \$73,940 in October 2016 only after the issuance of the institutional contract.

Failure to adhere to procurement requirements may result in financial losses to the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should enhance controls over monitoring of procurement processes by establishing a tracking system to ensure procurement cases are reviewed by the relevant procurement review committee prior to approval.	
<b>Management action plan:</b>	
The Office has prepared and has systematized the use of a sign-off checklist for procurements of goods and services, before the approval of the Head of the Office. This is intended to enhance controls and track cases exceeding the threshold at different levels for procurement committee review.	
<b>Estimated completion date:</b> July 2017	



## D. United Nations Leadership and Coordination

### 1. Harmonized Approach to Cash Transfers

#### **Issue 4**      Weakness in management of Harmonized Approach to Cash Transfers assurance process

The Office has been compliant with the Harmonized Approach to Cash Transfers Framework (HACT) since 2010, and developed a joint HACT assurance plan from 2010 to 2017. Since programme delivery came also through the national implementation modality, assurance was needed over these national implementation partners.

The audit reviewed the Office's role in implementing HACT and noted the following weaknesses:

#### (a) Weaknesses in assurance activities

The 'UNDP Programme and Operations Policies and Procedures' state that assurance is needed to determine whether the funds transferred to implementing partners were used for their intended purpose and in accordance with the Annual Work Plan. Proper planning and implementation of assurance activities is an integral part of the HACT framework. Assurance is obtained by carrying out spot checks, programme monitoring, and scheduled audits, as documented in the Assurance Plan.

The Office undertook four spot checks, one internal control audit, and one financial audit. There were delays in the completion of assurance activities. The Office stated that one spot check was not undertaken as expenditures under the implementation partner were all related to the country office support, while one spot check undertaken in April 2017 was due to the conflicting priorities at the end of 2016. The delay in internal controls audit was caused by conflicting priorities of the Supreme Audit Institution that undertook the audits.

#### (b) Incomplete Assurance Plan

According to the 'UNDP Programme and Operations Policies and Procedures', the implementing partner is typically the organization that mostly signs the Annual Work Plan and is accountable for delivery of programme outputs. However, in some cases, the organization that signs the Annual Work Plan may primarily serve in a coordination role and further delegate responsibility for the implementation and management of the programme to other departments or organizations. HACT assessment and assurance activities should be applied to the entity accountable for the delivery of programme outputs.

The audit noted that the 2016 Assurance Plan did not include spot checks for one government entity that was designated as implementing partner and that was accountable for the funds provided by UNDP.

#### (c) Inadequate assurance activities in the assurance plan

The 'UNDP Programme and Operations Policies and Procedures' require one spot check per year for low-risk implementing partners, and up to two spot checks per year for moderate-risk implementing partners. Furthermore, internal controls audits should be undertaken on the third or fourth year of the programme cycle for low-risks and the second and fourth year of the programme cycle for moderate-risk implementing partners.

There were 20 low-risk implementing partners with cash transfers from UNDP in 2015. However, the Office selected only six implementing partners for spot checks for the 2016 Assurance Plan. Similarly, for the 2017 Joint

Assurance Plan, the Office selected for spot checks 11 out of 14 low-risk implementing partners with cash transfers from UNDP in 2016. The Office management indicated that some of the project expenditures, especially the core funded governance projects had expenditures that did not warrant on-site reviews every year. Nine out of the twenty low-risk implementing partners in the 2016 Joint Assurance Plan had expenditures below USD 30,000. From the remaining 11, only 6 had spot checks. Additionally, in the current 2014-2018 programme cycle, no internal controls audits had been conducted in 2016 or had been planned in 2017 for six low-risk implementing partners with cumulative cash transfers over \$400,000 from 2014 to 2016.

The Office did not document criteria and methodology to identify appropriate assurance activities including the selection of implementing partners for spot checks and internal control audits.

(d) Micro-assessments of implementing partners expired

The 'UNDP Programme and Operations Policies and Procedures' provide that the results of the micro-assessments are valid for a period not to exceed the duration of the programme cycle and may extend across programme cycles.

Five implementing partners received cash transfers from the Office in 2015, however, their micro-assessments had expired in the same year. Similarly, three implementing partners received cash transfers in 2016, while their micro-assessments had already expired in the same year. A new micro-assessment had not been conducted.

Failure to identify and undertake required 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	Medium (Important)
<b>Recommendation 3:</b>  The Office should adhere to requirements on Harmonized Approach to Cash Transfers by: <ul style="list-style-type: none"> <li>(a) identifying appropriate assurance activities for inclusion in the joint assurance plan based on relevant risk assessments, and ensuring staff undertaking these activities are trained and approved by UNDP headquarters;</li> <li>(b) conducting spot checks and audits for implementing partners who are accountable for the funds provided, including systematic follow-up of actions taken; and</li> <li>(c) scheduling micro-assessments of the implementing partners, in coordination with the Resident Coordinator Office and other relevant agencies.</li> </ul>	
<b>Management action plan:</b>  The Office will develop comprehensive Standard Operating Procedures on HACT requirements, including conducting assurance activities. The 2017 Joint Assurance Plan will be revised to include assurance activities not yet completed in 2016, or not included in the 2017 plan.  Improving oversight for HACT across the compliant agencies in Bhutan will be raised for the United Nations Country Team deliberations.	

**Estimated completion date:** September 2017

## E. Delivering as One

### 1. One Programme

#### **Issue 5**      Weaknesses in harmonizing consolidated reporting

According to the 'Delivering as One' Standard Operating Procedures, the respective Results Groups will develop an annual United Nations Country Results Report (programme, financial, operations, and communications), demonstrating the collective contribution of the United Nations development system to the country and to the national development agenda. The report will be consolidated by the Resident Coordinator's Office.

The annual United Nations Country Results Report, with agency-specific annexes where required, will be utilized by each UN agency, as appropriate. The Administrative Agent will be responsible for providing consolidated financial reporting on the One Fund, utilizing agency inputs.

#### (a) Multiple reporting requirements

While a One UN Programme report was compiled for 2016, each participating agency also reported on their individual progress internally through project progress and annual reports. In addition, programme officers in UNDP were required to prepare substantive reports on programme implementation, using UNDP-specific format or tools, resulting in the preparation of two sets of reports for the same activities, including the Results Oriented Annual Report reporting. Each agency reported to its own headquarters at the end of each year, and to the One UN Programme annual report.

Harmonizing practices relating to programme management and reporting among United Nations agencies can provide important opportunities for increasing efficiencies. Without this, United Nations agencies and implementing partners will continue to bear the burden of increased transaction costs related to multiple reporting.

#### (b) Delayed annual reporting

For the annual reporting, DaO participating agencies prepared their reports, and consolidated at the Resident Coordinator Office level. The One Programme annual report for 2016 had been finalized in July 2017, seven months after the reporting period. The Resident Coordinator Office stated that the delay was due to staff capacity challenges.

Multiple reporting by DaO participating agencies may result in increased transaction costs, which goes against one of DaO's key objectives of reducing transaction costs. Further, delayed annual reporting may not provide an opportunity for lessons learned in a timely manner for corrective actions.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Resident Coordinator Office should improve harmonized consolidated reporting by:	
<ul style="list-style-type: none"> <li>(a) reducing transaction costs through ensuring that the annual report serves as the key reporting document for the United Nations agencies to the extent necessary to avoid duplicate requirements; and</li> <li>(b) ensuring that reports are finalized within the required timeframe.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The United Nations Country Team with support from the United Nations Planning Monitoring and Evaluation Team will work to harmonize the reporting requirements of the UNDAF Annual Work Plan mid- and end-year reviews with the reporting requirements of each agency. Efforts will focus to ensuring this is in place for the new UNDAF cycle.</li> <li>(b) The Resident Coordinator Office will ensure that the common United Nations annual results report is finalized within the first five months of the subsequent year.</li> </ul>	
<b>Estimated completion date:</b> March 2018	

## 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 not included in this report.