

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

NEPAL

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Report on the Audit of UNDP Nepal Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Nepal (the Office) from 4 to 13 September 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 August 2017. The Office recorded programme and management expenses of approximately \$64 million. The last audit of the Office was conducted by OAI in 2014.

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 four 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 the management of project cash advances, Office vehicles, and operations of the UN Clinic.

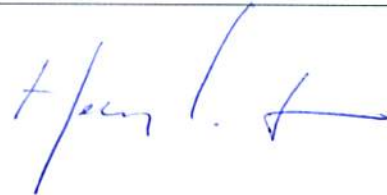
The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Safeguarding of assets	4	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1, 2, 3	Medium

Management comments and action plan

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

Low risk issues (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 Kathmandu, Nepal (the Country) has four Field Offices in Nepalgunj, Biratnagar, Chautara and Dhangadhi. The current programme cycle will end 31 December 2017. A new Country Programme Document covering the period from 2018 to 2022 has been approved by the Executive Board in September 2017. As at August 2017, the Office had 74 personnel managing various functions.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. No reportable issues were identified in the review of the Office's governance, including leadership, and corporate oversight and assurance.
- (b) Operations/Procurement. Adequate and effective controls were in place for procurement planning and compliance with UNDP guidelines.
- (c) Operations/Human resources. Adequate and effective controls were in place for recruitment, separation and learning processes.
- (d) Operations/ICT. Adequate controls were in place for back up procedures and management of ICT functions.
- (e) Operations/Staff and premises security. No reportable issues were identified for the security plan and security risk assessment.
- (f) United Nations Leadership and Coordination. Adequate and effective controls were in place for the UN coordination related functions such as managing UN joint programmes, joint activities, reviewing and reporting results of annual reports, convening UN Country Team meetings and thematic working group meetings.

OAI made four 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) strengthen management of project cash advances (Recommendation 2)
- (b) strengthen controls over vehicles management (Recommendation 3)
- (c) strengthen controls in project management (recommendation 1)
- (d) enhance controls in the UN Clinic operations (Recommendation 4)

The detailed assessment is presented below, per audit area:

A. Programme Activities

1. Programme/project Design and Implementation

Issue 1 Development projects not closed timely

The 'UNDP Programme and Operations Policies and Procedures' stipulate that operationally closed projects should be financially closed no more than one year after operational closure. Before the project is 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.

As of the audit fieldwork, the Office had 28 closed project outputs that had not been financially closed one year after operational closure.

Subsequent to the audit fieldwork the Office financially closed 4 of 28 project outputs in Atlas.

The Office risks unauthorized expenditures charged to these projects when they are not closed timely.

Priority	Medium (Important)
Recommendation 1:	
The Office should strengthen controls in project management by financially closing projects within 12 months of their operational closure.	
Management action plan:	
The Office reiterates its commitment to ensure timely closure of all operationally closed projects.	
Estimated completion date: September 2018	

B. Operations

1. Finance

Issue 2 Weaknesses in the management of project cash advances

According to the 'UNDP Programme and Operations Policies and Procedures', project cash advance is a one-time advance issued to a custodian for a specific one-time project activity. Typically, the one-time project activity includes workshops, training seminars or conferences relating to certain projects that take place in remote locations. These project cash advances should be cleared within seven days after the last day of the project activity. A project 'cash custodian appointment form' must be completed and signed by personnel receiving advances. Further, the assigned finance staff is responsible for tracking project cash advance to ensure that all onetime project activities concluded by 23rd do not have outstanding project cash advance at the last day of the month. The Operations Manager must review the project cash advance status monitor at each month end.

In the previous audit report (OAI Report No. 1328, Issue No. 8), an audit issue was raised pertaining to inadequate management of project cash advances. The audit recommendation was closed after the Office took actions to strengthen the controls on project cash advance and liquidation.

The Office provided 263 project cash advances amounting to \$565,000 from 1 January 2016 to 31 July 2017. OAI reviewed a sample of 27 project cash advances amounting to \$99,000 together with their corresponding liquidations and noted the following exceptions:

- There were delays in liquidating advances, ranging from 2 to 36 days in 20 of 27 project cash advances reviewed totalling \$72,000.
- During the audit period, 23 fixed-term appointment staff and 74 service contract holders were entrusted with project cash advances. None of them signed the 'cash custodian appointment form' to acknowledge that they were aware of their responsibilities of handling the cash entrusted to them.
- The Finance Unit did not use the project cash advance status monitor nor the Operations Manager reviewed it. The Finance Unit generated the AAA report from Atlas and relevant outstanding project cash advances were followed up on a regular basis. However, this may not be completely effective in monitoring the project cash advances because the AAA report did not capture the project activity dates.

The Office explained the delays in liquidation were mostly due to the remoteness of project locations.

Subsequent to the audit fieldwork, the Office issued instructions that staff applying for cash advance should sign the cash custodian form and should liquidate the advance within seven days from the end of the project activity date. The Office also agreed to use project cash advance annexes as prescribed by POPP and the Operations Manager will review the PCA Status Monitor each month.

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

Priority	Medium (important)
Recommendation 2:	
The Office should strengthen management of project cash advances by requiring staff to sign the cash custodian form; and establishing an effective monitoring mechanism to ensure liquidation of project cash advances within the required timeframe.	
Management action plan:	
<p>The Office will strengthen its monitoring mechanisms to ensure timely settlement of project cash advance within seven days after completion of the last day of project activities. The Office has already taken steps as follows:</p> <ul style="list-style-type: none"> - Cash advance form has been revised and brought in compliance with the 'UNDP Programme and Operations Policies and Procedures' - Inter-office communication has been issued on 8 September 2017 - The Office started using project cash advance annexes as prescribed in the 'UNDP Programme and Operations Policies and Procedures' and the Operations Manager will conduct the necessary review. 	
Estimated completion date: September 2017	
OAI response:	
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.	

2. General Administration

Issue 3 Inadequate controls over vehicles management

The 'UNDP Programme and Operations Policies and Procedures' require that all UNDP vehicles (including motorcycles) be used for official purposes only except in instances approved by the Head of Office where costs are to be recovered. It includes that vehicle log books are reviewed and verified daily and vehicle history records are maintained for each vehicle.

The audit noted the following weaknesses in the Office management of 45 vehicles (including motorcycles):

- (a) The Office maintained 13 motorcycles that were assigned to individual staff members (including drivers). Further, the Office did not maintain records on the use of these motorcycles. Therefore, the Office could not determine the official and personal use of these vehicles.
- (b) While vehicle log books were maintained, there was no evidence that these were being reviewed.
- (c) Vehicle history records (e.g. maintenance and repairs) were not maintained by the Office.

The Office had implemented a fleet management system for management of UNDP vehicles. While the fleet management system was useful for scheduling and managing trips, the Office maintained a separate record for vehicle mileage and calculation of average fuel consumption. The maintenance of two records for vehicle management was inefficient and required periodic reconciliations to ensure accuracy and completeness.

Failure to manage vehicles in accordance with POPP requirements may lead to inappropriate use of official vehicles and lack of efficiency in fleet management.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen controls over vehicles management by: <ul style="list-style-type: none"> (a) maintaining proper records of all vehicles (including motorcycles); (b) conducting regular reviews of vehicle logs; and (c) considering making enhancement to the fleet management system in collaboration with the software vendor to avoid maintaining two records for vehicles management. 	
Management action plan: The Office has taken the following actions: <ul style="list-style-type: none"> ▪ The issue of motorcycles is being handled at the level of Operations Management Team. All UN agencies have agreed to take back motorcycles issued to the drivers and other staff, and run fewer in a common pool. One to one communication with respective staff members have already been made by the Operations Manager. ▪ Software suppliers who developed the fleet management system have been requested to add a new feature in current system as suggested by the audit. 	
Estimated completion date: June 2018	

OAI response:

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.

Issue 4 Inadequate controls in UN Clinic operations

The 'UNDP Programme and Operations Policies and Procedures' provide minimum requirements in respect of, storing medicines, and establishing protocol for disposing medical waste. In respect of personnel, POPP stipulates that UN Clinic personnel must be recruited internationally or locally under staff contracts such as a fixed term appointment.

The UN Clinic did not meet some requirements in the 'UNDP Programme and Operations Policies and Procedures' as follows:

- (i) The stock of Tamiflu® medication had expired in June 2010. Although this had been identified for destruction by the UN Clinic personnel, it was still stored in the clinic premises.
- (ii) A protocol for the disposal of medical waste had not been established.

In March 2017, the UN Clinic was reviewed by a team from the UN Medical Services Division at the request of the Office. However, results of this review had not been communicated to the Office. The Office informed that it had already followed-up with the UN Medical Services Division.

Non-compliance with 'UNDP Programme and Operations Policies and Procedures' in managing UN Clinic operations may negatively impact the well-being of UN staff and their dependents.

Priority	Medium (Important)
Recommendation 4:	
The Office should enhance controls in the UN Clinic operations by:	
<ul style="list-style-type: none"> (a) informing the UN Country Team and taking appropriate actions to address all the requirements in the 'UNDP Programme and Operations Policies and Procedures'; and (b) seeking support from the Regional Bureau for Asia and Pacific to obtain the report from the UN Medical Services Division on the review of the UN Clinic, and taking appropriate actions on the recommendations. 	
Management action plan:	
Outcome of UN Clinic review by UN Medical Services Department is awaited, after which recommended actions will be implemented.	
Estimated completion date: 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.