UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

BANGLADESH

Report No. 1922

Issue Date: 7 June 2018

Table of Contents

Executive Summary **i**

I. About the Office **1**

II. Audit results **1**

A. Governance **2**

1. Leadership 2

B. Programme **3**

1. Programme/project design and implementation 3

C. Operations **7**

1. Financial resources management 7

Definitions of audit terms - ratings and priorities **9**

Report on the Audit of UNDP Bangladesh
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bangladesh (the Office) from 28 March to 9 April 2018. 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 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately $46 million. The last audit of the Office was conducted by OAI in 2015.

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/some improvement needed**, which means "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." This rating was mainly due to delayed programme approval and implementation, and high project administrative costs.

Key recommendations: Total = **5**, high priority = **2**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2	High
Reliability and integrity of financial and operational information	4	Medium
Effectiveness and efficiency of operations	3	High
	1, 5	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:

Delayed programme approval and implementation (Issue 2)	OAI reviewed seven projects with a total expenditure of $24.9 million or 62 percent of total project expenditures for the audit period. The audit team noted delays in the approval of project documents and annual work plans mainly due to the approval process within the Government. The Office also had a financial delivery target of $75 million per year (or a total budget of $300 million for the entire period of the current programme) for the three focused areas, namely (1) increasing opportunities, especially for women and disadvantaged groups; (2) developing and implementing improved social policies and programmes; and (3) enhancing effective management of the natural and man-made environment. In the first year of the current Country Programme Document, the Office had a delivery of $34 million, and stated that it was unlikely to deliver more than $40 million/year at most given the current structure and programming. If all things remained equal, this could be translated to $160 million over the four years of the current programme, resulting in a total delivery of just over 50 percent of the planned Country Programme Document budget. Recommendation: The Office should enhance the programme approval process and implementation by: (a) considering consolidating projects in portfolios, to facilitate the approval process and developing single multi-year annual work plans per project; (b) obtaining clear commitment from the government counterparts to expedite the review and endorsement of new projects and the signing of annual work plans; and (c) reviewing the current Country Programme Document budget with a view to revising it for a more realistic budget due to the current trends and delays.
High project administrative costs (Issue 3)	OAI reviewed the level of project staff costs, the direct project costs related to organizational effectiveness charged through Direct Project Costing, and the overall project expenditures for seven sampled projects. The audit team noted that for four of the seven projects, the ratio of the total project staff costs (including direct project costs) against the total expenditure ranged between 37 percent and 53 percent of the overall project expenditures. Recommendation: The Office should streamline project support by considering pooling support services for similar projects, such as projects located in the same localities or projects with the same implementing partners.

Implementation status of previous OAI audit recommendations: Report No. 1429, 28 May 2015.

Total recommendations: 10
Implemented: 10

Management comments and action plan

The UN Resident Coordinator and UNDP Resident Representative accepted all five recommendations and is in the process of implementing them. 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 Dhaka, Bangladesh (the Country) comprised of 43 staff and 316 service contract holders at the time of the audit. The Country Programme Document (2017-2020) focused on three priorities, namely (a) ensuring economic growth is inclusive and supports economic opportunities, particularly for women; (b) improving social policies and programmes, with a focus on good governance and structural inequalities; and (c) building resilience and improving environmental sustainability.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Procurement. A review of procurement planning, assessment of procurement processes, including contract management, and a review of individual contracts did not highlight any reportable audit issues.

(b) Human resources management. A review of human resources unit capacity, recruitment and separations did not identify any reportable issues. Adequate controls were established.

(c) Staff and premises safety and security. A review of emergency communication, safety-related capacity and training demonstrated sufficient controls were in place.

(d) United Nations leadership and coordination. Adequate controls were established to manage and lead the United Nations coordination role in the Country. Numerous United Nations joint programming initiatives had been established, and the United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country, with various thematic and task groups operating to enhance coordination among the UN entities.

OAI made two recommendations ranked high (critical) and three 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) Enhance the programme approval process and implementation (Recommendation 2).
(b) Streamline project support by considering pooling support services for similar projects (Recommendation 3).

Medium priority recommendations, arranged according to significance:

(a) Review staff user access and profiles to ensure proper segregation of duties relating to review and approval of the pay cycle, and creation and approval of vendor profiles in Atlas (Recommendation 5).
(b) Develop and establish a comprehensive set of internal controls when setting up a sub-office (Recommendation 1).
(c) Ensure accurate charging of direct project costs to projects (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Inadequate support to Office's operations in Cox's Bazaar

A significant number of people crossed the border from Myanmar to Cox's Bazar in the Country since August 2017. A SURGE plan, which described the required boost in capacity that the Office needed to enable the implementation of an integrated recovery framework, amounted to $25 million over an 18-month period. UNDP planned to work with international and local partners to support a government-led process that: (1) increases livelihoods and economic opportunities; (2) supports host and refugee communities to manage environmental and disaster risks; (3) manages social risks through strengthened protection mechanisms for vulnerable communities; and (4) strengthens local capacities in assessing and responding to needs for effective service delivery and inclusive recovery.

As per UNDP's SURGE plan, the Office established a presence in Cox's Bazaar in January 2018 for an initial period of three months and was extended for another three months. Programme activities had been carried out using existing programming modalities and instruments such as the "Early Recovery Facility." At the time of the audit fieldwork, it was headed by a senior international consultant and supported by 20 other international and national consultants. The Office was making a plan to transform its presence in Cox's Bazaar into a sub-office to deliver its programme. The Office further commented that it had set up the organizational structure (SURGE and post-SURGE organization chart), revised the Terms of Reference of several key positions, as well as reviewed the office space and security measures.

OAI acknowledged the efforts that the Office had initiated and had taken note of the existing organizational platform under direct implementation modality, namely the ''Early Recovery Facility." However, in the event of a prolonged and larger intervention possibly leading to the creation of a sub-office, it is the view of OAI that the Office should establish a comprehensive set of internal controls.

The absence of a comprehensive set of internal controls may prevent the Office from achieving project objectives.

Priority	Medium (Important)
Recommendation 1: The Office, when setting up a sub-office in Cox's Bazaar, should develop and establish a comprehensive set of internal controls, including clear lines of accountabilities, delegation of authorities and responsibilities to provide an adequate control environment in a crisis context.	
Management action plan: The office in Cox's Bazaar will be run by a Head of Sub-Office based in Cox's Bazaar. As part of his/her overall responsibility, the Head of Sub-Office will support strategic programme planning, coordination and implementation in the geographic area of responsibility of the sub-office in consultation with the Country Office. He/she will be responsible for the smooth running of the office, maintain collaboration with the Country Office, ensure effective implementation of resource mobilization management tools, management of scorecard targets and other benchmarks.	

Estimated completion date: 30 June 2019

B. Programme

1. Programme/project design and implementation

Issue 2 Delayed programme approval and implementation

In accordance with UNDP corporate requirements, a project document must be officially endorsed before actual project activities can be initiated. The key approval required is the signing of the project document, which constitutes a commitment to implement the project in accordance with UNDP's mandate, policies, regulations and rules. The project document must be signed by UNDP, the implementing partner and/or the government coordinating agency. The project is to be implemented within a specified timeframe and indicated in the project documents. Similarly, annual work plans must be endorsed by both UNDP and the government counterparts under national implementation to ensure timely implementation of the project activities.

OAI reviewed seven projects with a total expenditure of $24.9 million or 62 percent of total project expenditures for the audit period. OAI identified the following challenges:

(i) Delays in project document approval

According to government rules and procedures, project implementation cannot start unless the Technical Project Proposal or Development Project Proposal process is completed and the project documents are formally approved. However, there were significant delays in the approval process, which seriously impacted the Office's delivery and reduced the implementation period of projects. At the time of audit, there were four projects that had not been initiated on time due to pending government approval even though the Local Project Appraisal Committees had recommended endorsement of these projects much earlier. The delays are highlighted in the table below:

Table 1: Project approval delays

Project No.	Project document signature date (UNDP)	Length of delay in government approval
84928	4-Jan-17	1 year 3 months
85984	22-Nov-16	1 year 4 months
95969	31-Jul-17	9 months
105480	11-Jun-17	10 months

Source: UNDP Bangladesh

For Project No. 84928, the 2017 annual work plan budget was $8 million. However, the reported total expenditure was only $2 million by December 2017. For Project No. 85984, the 2017 delivery was $0.1 million against a budget of $0.5 million, while Project No. 105480 delivered $1,300 against a 2017 budget of $0.3 million. For all three projects, expenditures were mainly on staffing and operational costs – an arrangement agreed upon with the government approving authorities. In addition, project staff personnel were not utilized to their full potential as they were unable to initiate activities that they were recruited for.

A meeting with a donor also highlighted dissatisfaction related to delays in project implementation and expending of donor funds, which in turn negatively impacted donor reporting to their respective governments. The Office stated that a working group had been set up with government counterparts to offer support to the initiatives started by the Principal Secretary in expediting the project approval process. The Office further stated that the projects would likely have to be extended beyond the current end dates to ensure all activities were implemented to achieve the expected results.

(ii) Delays in annual work plan approval

The government approval of the 2017 annual work plans for six of the seven selected projects were delayed for up to five months. Similarly, the 2018 annual work plan approvals for all seven projects were delayed for up to two and a half months. The Office stated that while project steering committee meetings were scheduled in the third or fourth quarter of the preceding year to approve the next year's annual work plans, these were generally delayed due to the unavailability of government counterparts. As a result, the Office had to put in additional efforts to ensure the annual work plan was implemented.

(iii) Slow start in programme cycle execution

The Office's 2017-2020 Country Programme Document comprised of three areas of focus: (1) increasing opportunities, especially for women and disadvantaged groups to contribute to and benefit from economic progress; (2) developing and implementing improved social policies and programmes that focus on good governance, reduction of structural inequalities and advancement of vulnerable individuals and groups; and (3) enhancing effective management of the natural and man-made environment focusing on improved sustainability and increased resilience of vulnerable individuals and groups.

The total budget identified for achieving the results related to the three focused areas was $300 million, translating to a delivery of at least $75 million/year. In the first year of the current Country Programme Document, the Office had a delivery of $34 million, and stated that it was unlikely to deliver more than $40 million/year at most given the current structure and programming. If all things remained equal, this could be translated to $160 million over the four years of the current programme, resulting in a total delivery of just over 50 percent of the planned Country Programme Document budget.

The Office stated that adjustments will be made to the Country Programme Document budget in consultation with the government counterparts during a planned mid-term review in the near future.

With the approval delays noted above, the Office may not meet the established targets of the current Country Programme Document.

Priority	High (Critical)
Recommendation 2: The Office should enhance the programme approval process and implementation by: (a) considering consolidating projects in portfolios to facilitate the approval process and developing single multi-year annual work plans per project; (b) obtaining clear commitment from the government counterparts to expedite the review and endorsement of new projects and the signing of annual work plans; and	

(c)	reviewing the current Country Programme Document budget with a view to revising it for a more realistic budget due to the current trends and delays.

Management action plan:

(a) The Office will continue to pursue, internally, efforts to streamline the approval process although umbrella projects may not be always applicable as they would still need to be appraised individually by project in cases of multiple implementing partners.
(b) The Office will continue to advocate with the counterparts the rationalization of the government procedures.
(c) The Office will commission the annual work plan preparation by November each year with an expected completion date by the end of January the following year.
(d) The Office will undertake a mid-term Country Programme Document review and revision of the resource mobilization targets.

Estimated completion date: 30 June 2019

Issue 3 <u>High project administrative costs</u>

In accordance with the 'UNDP Programme and Operations Policies and Procedures', Country Offices are accountable for contributing to developmental results in the most relevant, efficient and effective way. Hence, Country Offices are required to review and streamline their programme portfolios to enhance productivity, reduce transaction costs and increase efficiency and effectiveness.

OAI reviewed the level of project staff costs, the direct project costs related to organizational effectiveness charged through Direct Project Costing, and the overall project expenditures based on the projects selected for review as highlighted in the table below:

Table 2: Project-level staffing and related costs

Details	Project No.						
	45483	**81623**	**85987**	**85027**	**84928**	**61275**	**82279**
Direct Project Costing - staff costs	$69,504	$33,435	$170,512	$38,931	$116,131	$78,135	$3,067
Total project personnel costs	$845,167	$215,936	$1,220,674	$539,399	$980,939	$100,357	$1,172,915
Project personnel costs + Direct Project Costing - staff costs	$914,671	$249,371	$1,391,186	$578,330	$1,097,070	$178,492	$1,175,982
2017 CDR expenditure	$2,166,393	$1,060,940	$3,777,206	$1,510,862	$2,076,746	$5,058,063	$8,009,700
Total project staff costs as percentage of total expenditure	42%	24%	37%	38%	53%	4%	15%

Service contracts (Specialist)	20	5	16	6	7	3	11
Service contracts (Support staff)	30	8	27	4	25	3	17

Source: UNDP Bangladesh

As illustrated above, for four projects, staff expenditures ranged between 37 percent and 53 percent of the overall project expenditures. Further, the table above did not include costs of hiring consultants to undertake specific tasks.

For Project No. 84928, the project staff expenditures were as high as 53 percent as the project activities were still pending government approval. While it was expected that certain projects may have required a higher level of expert personnel, a breakdown of the different categories of project personnel indicated that at least 50 percent or more of these project personnel were support staff, such as finance associates, project associates, and procurement associates.

Additionally, there was no delegated authority at the project level for either finance or procurement (except for micro-purchasing up to $10,000) activities. Therefore, the actual operations-related processes were still conducted at the Office level. According to the Office, for all project teams embedded in government implementing partners, project staff may be required to undertake non-project related work, which may result in higher administrative costs to programme funds.

Overall, the Office had 43 staff and an ongoing project staff complement of 316, for a 2017 delivery of $34 million, representing a very modest ratio of programme delivery per staff.

The Office may not meet its commitments for development results if staffing inefficiencies are not addressed.

Priority	High (Critical)
Recommendation 3: The Office should streamline project support by considering pooling support services for similar projects, such as projects located in the same localities or projects with the same implementing partners.	
Management action plan: The Office will adhere to pooling resources for nationally implemented projects with the same implementing partners and will do the same for directly implemented projects. **Estimated completion date:** 31 December 2018	

C. Operations

1. Financial resources management

Issue 4 Flawed methodology used for Direct Project Costing

Direct project costs are organizational costs incurred in the implementation of a development activity or service provided by UNDP Country Offices and headquarters units that can be directly traced and attributed to that development activity (projects & programmes) or service. Therefore, these costs are planned and costed in the project budget and charged directly to the development project budget.

The Office indicated that it had estimated to recover $1.8 million, which was 4.6 percent of the delivery target of $40 million in 2017. The actual direct project costs recovered in 2017 was $1.3 million. In 2018, the direct project costs charged to all projects had increased to 5 percent.

However, the Office underwent a major restructuring exercise where its staffing structure was significantly changed along with the staff job descriptions. Applying the workload analysis undertaken in 2016 to charge direct project costs in 2017 could be misleading given the change in the Office's organization chart and staffing structure. For example, the number of personnel in the Office was reduced from 70 to 43 in 2017, after the restructuring exercise. Furthermore, the audit team noted instances where salary costs of programme staff were charged as direct project costs across all development projects, although they had not provided any services directly to projects outside their programme cluster. Lastly, the Office did not conduct a periodic review of direct project costs to ensure projects were accurately charged. Therefore, the recovery of direct project costs could be inaccurate.

The Office agreed that the current methodology had its shortcomings. The Office indicated that it would review the methodology in order to be more in line with the Regional Bureau for Asia and the Pacific's issued guidelines on Direct Project Costing in February 2018.

Failure to accurately calculate associated costs for services provided to projects may result in over or undercharging of direct project costs, which may result in donors questioning UNDP's methodology of recovering costs from projects.

Priority	Medium (Important)

Recommendation 4:

The Office should ensure accurate charging of direct project costs to projects by:

(a) ensuring that costs are traceable to relevant projects; and
(b) conducting periodic reconciliations (at least quarterly) of Direct Project Costing charges so that costs are calculated based on expenditures incurred and not on estimated programme budgets.

Management action plan:

The Office will undertake quarterly reconciliations to ensure that the Direct Project Costing is based on expenditure incurred. Also, a detailed reconciliation will be conducted at the end of the financial year to ensure that appropriate direct project costs are budgeted for annual work planning process.

Estimated completion date: 31 January 2019

Issue 5 Inadequate segregation of duties

The Office had outsourced several financial services, such as creation and approval of vouchers, vendor creation and approval in Atlas (enterprise resource planning system of UNDP), and bank reconciliation to the Global Shared Services Unit (GSSU) since July 2017.

In the existing process of voucher creation and approval, the Office initially gathers all relevant documents pertaining to payment to vendors and prepares a payment request to be forwarded to the approving officers. This request for payment (in hard copy) describing the payments to be made and other relevant details, is reviewed and signed by authorized approvers in the Office. The payment request is scanned and uploaded on to an Oracle platform together with relevant supporting documents, which is then reviewed and processed at GSSU. When GSSU approves the payment in Atlas, a list of payments is forwarded and included in the pay cycle run to the Operations Manager and Head of Finance in the Office.

Similarly, for the vendor creation and approval process, the Office submits a vendor request form via the Oracle platform to GSSU for approval and creation of a vendor profile in Atlas.

The audit team noted that the Operations Manager and Head of Finance who received the list of approved payment transactions to be included in the pay cycle run also had access to send the request for vendor creation and payment approvals to GSSU. These access profiles eliminated the detective control established in the current process flow. In addition, based on the current Argus profile list for the Office, there were still some individuals in the Office who could either create or approve vendor profiles in Atlas, although this function had already been outsourced to GSSU.

The above access profiles increase the risk of inadequate segregation of duties, which could lead to unauthorized payments being made to vendors.

Priority	Medium (Important)
Recommendation 5: The Office should review staff user access and profiles to ensure the proper segregation of duties relating to review and approval of the pay cycle, and the creation and approval of vendor profiles in Atlas.	
Management action plan: The Office will undertake a review of the current user access and profile in the Office to identify any potential instances of inadequate segregation of duties and will consult with the Bureau for corrective actions to be made. **Estimated completion date:** 31 August 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.