

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

PAPUA NEW GUINEA

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Report on the Audit of UNDP Papua New Guinea Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Papua New Guinea (the Office) from 15 to 26 July 2019. 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 2018 to 30 June 2019. The Office recorded programme and management expenses of approximately \$25 million. The last audit of the Office was conducted by OAI in 2016.

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 the following: a high number of projects that were not financially closed, long-outstanding bank reconciliation items, and a lack of controls over assets management.

Key recommendations: Total = 6, high priority = 3

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	2	Medium
Reliability and integrity of financial and operational information	4	High
Effectiveness and efficiency of operations	5	Medium
Safeguarding of assets	6	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3	High
	1	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:

High number of projects not financially closed (Issue 3)

There were 49 projects that were pending financial closure at the time of audit. The closure process was prolonged as these mainly related to projects receiving funds under the Multi-Partner Trust Fund Office (MPTF). Funds had been transferred from project to project, resulting in mismatches between budgets and expenditures, and in the incorrect use of account codes.

Recommendation: The Office should seek support from the Bangkok Regional Hub and ensure that relevant projects are closed within a specified timeframe.

Long-outstanding and unresolved bank reconciliation items (Issue 4)

There had been long-outstanding unreconciled bank items dating back to 2004 that remain unresolved. In September 2018, the Office submitted a request to the Office of Financial Resources Management (OFRM) to write off the unexplained difference totalling \$203,000. The issue was still pending at the time of the audit. As a result, bank reconciliations for the Office had yet to be transferred to the Global Shared Services Unit.

Recommendation: The Office should resolve the outstanding reconciliations by: (a) seeking assistance from the Regional Bureau for Asia and the Pacific management to liaise with the Bureau for Management Services and assist the Office in finding an urgent resolution to the outstanding bank reconciliation issue and to possibly consider a write-off; and (b) the Office, in consultation with the Regional Bureau for Asia and the Pacific should transfer the bank-to-book functions to the Global Shared Services Unit once the unreconciled items in the bank reconciliations issue is resolved.

Lack of controls over assets management (Issue 6)

Although the Office had been submitting its asset certifications regularly, it failed to thoroughly conduct the asset verification and certification process over a prolonged period, which led to discrepancies between Atlas records and physical assets.

Recommendation: The Office should strengthen asset management by: (a) conducting a thorough physical verification of assets and reconcile physical count records with Atlas asset records, and updating Atlas asset records accordingly; (b) investigating any missing items and disposing the items in accordance with UNDP rules and regulations; and (c) reinforcing the policies and procedures for proper recording of assets acquisition and disposal to all relevant staff.

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.



Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Port Moresby, Papua New Guinea (the Country) had a total of 23 staff members, 34 service contract holders, and 11 international United Nations Volunteers at the time of the audit. The Office was implementing 15 projects within the Governance and Environment thematic areas. The operating environment in the Country was challenging due to the following: (a) high operating costs, because of the relatively large impact of the extractive industry over the local supply of goods and services and market prices, as reflected in the relatively high management ratio of the Office *vis-à-vis* other UNDP Offices in the region; (b) human resources retention, as the private sector and extractive industries were much more competitive; and (c) limited access to the Highlands to expand programmatic activities due to poor communication infrastructure following the 2018 earthquake. All these factors also contributed to a relatively costly operating environment, which made it difficult for UNDP to reach particularly vulnerable locations. Despite these challenges, the Office was able to achieve a programme delivery of \$15 million against the internal target of \$17 million in 2018.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Safety and security. The review highlighted no exceptions and all controls were adequate and working effectively.
- (b) UN coordination. The review indicated that the controls were well established, and no reportable issues were noted.
- (c) Human resources. Controls were generally adequate, and no reportable issues were identified.

OAI made three 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) Resolve outstanding bank reconciliations (Recommendation 4).
- (b) Seek support from the Bangkok Regional Hub and ensure that projects are closed within a specified timeframe (Recommendation 3).
- (c) Strengthen asset management (Recommendation 6).

Medium priority recommendations, arranged according to significance:

- (a) Enhance controls over financial management (Recommendation 5).
- (b) Enhance project monitoring (Recommendation 1).
- (c) Institute a robust donor reporting system (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Programme

1. Project design and implementation

Issue 1 Weaknesses in project monitoring

According to the 'UNDP Programme and Operations Policies and Procedures', programme and project management quality assurance measures include, at minimum: (1) tracking of performance through the collection of appropriate and credible data and other evidence; and (2) analysing evidence to inform management.

The audit team selected 10 out of 15 projects for detailed review. The audit team reviewed the projects' results framework and noted the following weaknesses:

- (a) Weak/absent indicators and baselines
 - For three out of 10 projects, the indicators, baselines and output targets were generally poorly articulated, or not updated for projects that had been ongoing for a number of years.
 - There were no baselines and qualitative indicators for two projects.
 - A review of two evaluation reports for 2 projects of the 10 projects highlighted weaknesses in monitoring of the project activities and results, with weak indicators and baselines.
 - None of the projects reviewed had developed theories of change that would have provided the causal relationship between the activities and the intended results.
- (b) Absence of project assurance monitoring
 - The Office did not plan for any programme monitoring in 2018, nor were any programme monitoring visits undertaken. As at 25 July 2019, only one assurance monitoring mission was undertaken even though a 2019 monitoring and evaluation plan had been developed. In the absence of assurance monitoring, there is no validation of the information submitted by projects.

In the absence of adequate data collection, the Office may not be able to demonstrate development results, risking future donor support.

Priority	Medium (Important)
Recommendation 1:	
The Office should enhance its project monitoring by:	
(a) developing a robust project results framework with a clear theory of change, measurable quantitative and qualitative indicators baselines for all new projects and refining these for existing projects; and	
(b) implementing the monitoring and evaluation plan, including regular assurance monitoring of the indicators through site visits by programme staff.	

Management action plan:

Management agrees with the auditors' recommendations, and will undertake the following:

- (a) Develop relevant standard operating procedures in line with the 'UNDP Programme and Operations Policies and Procedures'.
- (b) Organize an in-country training for Office staff on revised Programme and Project Management policies.
- (c) Review and adjust the results framework indicators, baselines and targets as well as theories of change for ongoing projects as necessary, including implementation of the monitoring and evaluation plan.

Estimated completion date: June 2020

Issue 2 Gaps in donor relations/reporting

According to the 'UNDP Programme and Operations Policies and Procedures', donor relations and adequate reporting are key in providing assurance that the Office is providing value for money to remain the partner of choice for development partners. UNDP is accountable for ensuring that donor reports are prepared according to expected quality, agreed-upon frequency, and in a timely fashion.

A review of the reporting process highlighted the following:

- In 2018, six progress reports were submitted to the donors directly by project staff, while five project reports were submitted to donors and government counterparts as part of the One United Nations Annual Report. None of these progress reports were routed through the Programme Support Unit for a review of accuracy and consistency, and endorsement by senior management prior to their submissions to stakeholders.
- Inconsistencies and inaccurate information in the reports were noted by development partners interviewed during the audit fieldwork, necessitating numerous communications with the Office to provide clarifications on the discrepancies.
- Although the Office had developed standard operating procedures for programme management, including donor reporting, these were yet to be approved and implemented.

Failure to meet the donor reporting and information requirements may jeopardize UNDP's ability to successfully mobilize resources.

Priority Medium (Important)

Recommendation 2:

The Office should institute a robust donor reporting system by:

- (a) ensuring that the programme and project standard operating procedures, including donor reporting, are endorsed and implemented; and
- (b) reviewing the draft donor reports for accuracy and consistency, and having the final reports cleared by senior management before submission to the donors.

Management action plan:

The Office agrees with the recommendation, and will:

- (a) Finalize and endorse relevant programme and project standard operating procedures.
- (b) Ensure that draft donor reports, including One UN Trust Fund and Vertical Funds will be reviewed in line with the finalized standard operating procedures.

Estimated completion date: June 2020

Issue 3 High number of projects not financially closed

According to the 'UNDP Programme and Operations Policies and Procedures', projects should be closed in a timely manner to manage fiduciary risk, meet donor expectations, avoid costly extensions and enable the timely transfer of assets for the sustainability of results. Financial closure must take place, at the latest, within 12 months of operational closure or after the date of cancellation.

At the time of audit, there were 49 projects (10 regional, 35 development and 4 management) that had ended between 2005 and 2017 and indicated as ongoing in Atlas (enterprise resource planning system of UNDP) and not financially closed. While the closure process had been ongoing since 2018, the main reasons why the projects had not been financially closed were due to the fact that the financial balances of projects funded through the Multi-Partner Trust Fund Office (MPTF) did not match, and also due to the incorrect recording of expenditures and account codes.

While some progress had been made in reducing the number of projects to be closed, the Office could not complete the closure exercise.

The Office may run financial and implementation risks should these projects remain financially open. .

Priority	High (Critical)
Recommendation 3:	
The Office should seek support from the Bangkok Regional Hub and ensure that relevant projects are closed within a specified timeframe.	
Management action plan:	
The Office agrees with the recommendation, which is currently being implemented through detailed assignment and Bangkok Regional Hub support, as necessary.	
Estimated completion date: December 2019	

B. Operations

1. Financial resources management

Issue 4 Long-outstanding and unresolved bank reconciliation items

UNDP Financial Rule 125.10 states that all bank accounts shall be reconciled on a regular basis, at least monthly, with the statements submitted by the banks. The Operational Guide of the Internal Control Framework for UNDP also states that bank reconciliations are an extremely important internal control and must be done monthly to detect errors promptly and to reduce the risk of error or fraud.

The Office engaged the services of a consultant in 2016 to, *inter alia*, help identify the causes of the long-pending unreconciled items in the bank reconciliations of its PGK (local currency) and USD bank accounts identified in the previous audit of the Office. The Office explained that the consultant was able to identify many of the unreconciled items; however, there were many legacy issues dating back to the Atlas migration in 2004, resulting in several unexplained items.

In September 2018, the Office approached the Office of Financial Resources Management (OFRM) in seeking a way forward. The Office followed up on this matter with OFRM in April 2019 proposing that the best option would be to write off the unaccounted net difference in the two bank accounts amounting to \$203,000, as a transaction-based review approach would be time-consuming with no guarantee that the result would eliminate all the differences. Based on the most recent communication from OFRM to the Office in April 2019, the matter was to be discussed with the Comptroller.

In the meantime, the Office continued to perform its in-country bank reconciliations unlike most other Country Offices in the region, which had handed over the process to the Global Shared Services Unit. This added additional unnecessary strain on the resources of the short-staffed Finance Unit of the Office, while increasing financial risks for the Office.

Priority	High (Critical)
Recommendation 4:	
The Office should resolve the outstanding reconciliations by:	
<ul style="list-style-type: none"> (a) seeking assistance from the Regional Bureau for Asia and the Pacific management to liaise with the Bureau for Management Services and assist the Office in finding an urgent resolution to the outstanding bank reconciliation issue and to possibly consider a write-off; and (b) the Office, in consultation with the Regional Bureau for Asia and the Pacific should transfer the bank-to-book functions to the Global Shared Services Unit once the unreconciled items in the bank reconciliations issue is resolved. 	
Management action plan:	
The Office will seek assistance from the Regional Bureau for Asia and the Pacific management to liaise with Bureau for Management Services on the write-off of bank-to-book.	

The Office, in consultation with Regional Bureau for Asia and the Pacific will transfer the bank-to-book functions to the Global Shared Services Unit once the issue on the write-off of bank-to book is resolved.

Estimated completion date: 30 November 2019

Issue 5 Poor controls over financial management

The 'UNDP Programme and Operations Policies and Procedures' require that financial transactions be processed in accordance with prescribed rules, policies and procedures. The stock of cheque books must be controlled by a register, and spare cheque books must be properly secured.

During the audit period, the Office processed 3,149 accounts payable vouchers for \$17.76 million and posted 320 General Ledger Journal Entries. As part of its services, the Global Shared Services Unit was processing payments to vendors on behalf of the Office.

The audit team reviewed a sample of 35 purchase order-based vouchers (payments for procurement conducted by the Office), 24 non-purchase order vouchers (used on direct payment requests when the procurement was conducted by implementing partners other than the Office), and 15 General Ledger Journal Entries based on which the following weaknesses were noted:

- In five instances of 24 payments using non-purchase order vouchers valued at \$138,257, the transactions were not supported through requests for direct payments using signed Funding Authorization and Certificate of Expenditure forms.
- In 13 of the 35 purchase order-based vouchers valued at \$692,252, key supporting documentation such as the contract and/or the agreed terms of payment and due dates was missing. Thus, it could not be verified whether the payments were processed in accordance with agreed contractual terms.
- In nine out of 15 instances, the documentation was not adequate to support the posting of General Ledger Journal Entries.
- In five instances, the requester of the General Ledger Journal Entries was also the approver in Atlas.
- All unused cheque books/cheque leaves for two bank accounts were maintained by finance staff in an open and unsecured location easily accessible to other staff.
- The Office did not maintain a record of the number of cheque books that were received from the banks, nor did it maintain a register for the issuance of cheques or record the proof of identities of payees to whom cheques were issued. The Office also voided 30 cheque payments amounting to \$182,000 for which the voided cheques were not readily traceable due to poor records management.
- There was inadequate storage of Human Resources personnel files.

The Office explained that these exceptions were due to lack of proper quality assurance over the voucher submissions by project administrative staff directly to the Global Shared Services Unit for final payment. There was also no control by finance/operations over the approval and posting of General Ledger Journal Entries in 2018 which were primarily approved by the Program Support Unit.

The Office's finance function as staffed at the time of the audit – with a service contract holder and a United Nations Volunteer – lacked the capacity to undertake any quality assurance function over transaction processing or an adequate review of non-finance General Ledger Journal Entries.

Insufficient oversight over the processing of financial transactions increases the risk that expenses will not be accurately recorded and that payments will not be processed as per applicable policies and procedures.

Priority	Medium (Important)
Recommendation 5:	
The Office should enhance controls over financial management by:	
<ul style="list-style-type: none"> (a) strengthening the finance function by adding additional staff with a strong understanding of UNDP financial policies and procedures and limiting the processing of General Ledger Journal Entries to the finance function with proper oversight by the Operations Manager; (b) establishing procedures for performing quality assurance over transactions processed by project teams prior to their submissions to the Global Shared Services Unit for final payments, as well as for the processing and safekeeping of cheques; and (c) ensuring secure storage of Human Resources personnel files. 	
Management action plan:	
The Office agrees with the recommendation, and will undertake the following:	
<ul style="list-style-type: none"> (a) Enhance the finance function by adding capacity with support from the Regional Bureau for Asia and the Pacific, in the 2020 Annual Business Plan. (b) Quality assurance of documentation prior to submission to the Global Shared Services Unit and the standard operating procedures will be adjusted to reflect the changes. (c) Ensure separate and secure seating arrangements taking office space constraints into account. Actions have been taken regarding safekeeping of HR personnel files and finance records, including cheques. 	
Estimated completion date: March 2020	

2. General administrative management

Issue 6 Lack of controls over assets management

The 'UNDP Programme and Operations Policies and Procedures' state that each mid-year and end of year, all offices are to produce the Atlas In-Service Report (ISR) and the Atlas Management Summary Report reconciled to the fixed assets physical inventory verification report for their business units.

Although the Office had been submitting its asset certifications regularly, it failed to conduct the asset verification and certification process thoroughly, which led to discrepancies between Atlas records and physical assets.

The Office provided a list of 12 vehicles managed by the Office. However, only six of them were recorded as assets in the ISR in Atlas. The six vehicles not recorded in the ISR were valued at \$184,931. The Office explained that five of the six vehicles not found on the ISR were acquired between 2015 and 2017 but due to omissions, they had not been recorded as assets. For the other vehicle, there were no institutional records of its acquisition even though it was presently under the use and control of the Office.

From a physical verification conducted of a sample of 11 Office assets and 3 United Nations Department of Safety and Security (UNDSS) assets, the following was noted:

- Three Office assets (one laptop and two multi-function printers) with a value of \$20,312 could not be physically found. The responsible asset focal point explained that the assets were no longer with the Office and may have been disposed of. However, no records were available of such disposal.
- Two UNDSS vehicles recorded in the ISR could not be found; instead, two other vehicles and one multi-function printer currently under use by UNDSS were physically verified but not recorded in the Atlas ISR. The Office explained that the first two vehicles were old and disposed in 2013 and replaced by new vehicles at the same time, while the multi-function printer was acquired in 2018. However, the disposal of the old and acquisition of new assets were not properly documented and recorded in Atlas ISR.

Following the audit fieldwork, the Office requested the Global Shared Services Unit to correct the discrepancies identified above in Atlas asset records.

Without adequate controls over assets, the Office may be exposed to risks of loss or misuse of assets and to misstatement of asset balances, which may negatively impact UNDP corporate balance sheets.

Priority	High (Critical)
Recommendation 6:	
The Office should strengthen asset management by:	
<ul style="list-style-type: none"> (a) conducting a thorough physical verification of assets and reconcile physical count records with Atlas assets records, and updating Atlas asset records accordingly; (b) investigating any missing items and, accordingly, disposing the items in accordance with UNDP rules and regulations; and (c) reinforcing the policies and procedures for proper recording of assets acquisition and disposal to all relevant staff at the Country Office. 	
Management action plan:	
The Office agrees with the recommendation and most items have already been implemented subsequent to the audit. Further, the Office will:	
<ul style="list-style-type: none"> (a) Complete a physical verification of assets and reconcile physical count records with Atlas assets records to identify omitted, missing or impaired assets. (b) Prepare relevant asset disposal documents and submit them to Global Shared Services Unit. (c) Include specific provisions on asset management in the standard operating procedures, to be included in the proposed training to Office staff. 	
Estimated completion date: December 2019	

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.