

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

NEPAL

Report No. 2209
Issue Date: 7 May 2020

Table of Contents

Executive Summary	i
I. About the Office	1
II. Audit results	1
A. Governance	2
1. Organization Chart and Overall Staffing	2
B. Development Activities	4
1. Implementation Modalities	4
C. Operations/Procurement	6
1. Procurement of Goods and Services	6
Definitions of audit terms - ratings and priorities	8

Report on the Audit of UNDP Nepal Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Nepal from 2 to 13 March 2020. 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 (data analytics and performance management, organizational chart and overall staffing, internal control and delegation of authority);
- (b) development activities (country programme, projects administration, grants); and
- (c) operations (procurement, finance, human resources, administrative services, ICT).

The audit covered the activities of the Office from 1 January 2019 to 31 January 2020. The Office recorded programme and management expenses of approximately \$28 million. The last audit of the Office was conducted by OAI in 2017.

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.” This rating was mainly due to the Country Programme Document not being in line with the current resource framework.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 3, high priority, and Recommendations 1 and 4, medium priority); (b) effectiveness and efficiency of operations (Recommendation 5, medium priority); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2, medium priority).

Implementation status of previous OAI audit recommendations: Report No. 1894, 29 September 2017

Total recommendations: 4

Implemented: 4

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. The high (critical) priority recommendation is presented below:

Country Programme Document not in line with current resource framework (Issue 3)

The Office planned to deliver a minimum of \$42 million/year in order to achieve the target of \$209 million over the five years of the Country Programme Document, of which \$177 million was to be mobilized from third party entities. However, the Office delivered 50 percent and 58 percent of the target in 2018 and 2019, respectively. For 2020, the Office indicated a target of \$23.8 million. As of March 2020, the delivery amounted to \$1 million (4 percent). A proposal for \$7 million submitted to the Global Environment Facility in 2019 had yet to be approved.

Recommendation: The Office should re-align its programme portfolio to ensure it is more realistic by: (a) utilizing the results from the Country Programme Document mid-term review as a driver to reposition the Office to focus on targeted priorities; (b) developing a robust plan to undertake aggressive partnership building and communication with both the Government and development partners; and (c) ensuring the environment component is well capacitated to leverage on the vertical funds.

Management comments and action plan

The 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 Kathmandu, Nepal (the Country) had 45 staff members comprising of 24 General Service staff and 21 Professional staff at the time of the audit, which included staff from four field offices. The Office's 2018–2022 programme focused on governance and rule of law, resilience and reconstruction, and inclusive economic growth. Since 2017, the Country had undergone a transformation in its governance structure based on the provisions of the new constitution adopted in 2015, whereby a unitary government was replaced by a federal system with three tiers of government – local, provincial and federal. The new federal structure consisted of 753 local governments, 7 provincial governments and a federal government.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Operations – Finance. Financial resources management control procedures were found to be adequate and generally functioning well.
- (b) Operations – Administrative Services. Adequate controls were established and generally functioning well.
- (c) Operations – Human Resources. The processes related to recruitment, separation, leave management and training were generally found to have adequate controls and were working effectively.
- (d) Operations – Information and Communication Technology. At the time of the audit, the Office had an approved and tested Business Continuity Plan and a Disaster Recovery Plan.

OAI made one recommendation ranked high (critical) and 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.

High priority recommendation:

- (a) Re-align the programme portfolio (Recommendation 3).

Medium priority recommendations, arranged according to significance:

- (a) Consider reassessing the governance structure based on the results of the upcoming Country Programme Document mid-term review (Recommendation 1).
- (b) Enhance project/programme design and implementation (Recommendation 4).
- (c) Strengthen the effectiveness of the workforce diversity policy (Recommendation 2).
- (d) Enhance effectiveness of procurement planning (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance

1. Organization Chart and Overall Staffing

Issue 1 Need to strengthen strategic management and Office's organizational structure

The organizational effectiveness of an Office relies on the office's adequate organizational structure, which allows for clear roles and responsibilities. In defining the rationale for a local presence, offices should analyse the programmatic and operational challenges in the geographic area where the local presence is proposed.

In June 2018, the Office developed an optimization plan (the Plan) based on the results of a Management Consulting Team and Regional Bureau for Asia and the Pacific support mission conducted in March 2018. The audit team noted the following in the Plan:

- Weaknesses in the Office's engagement strategy in the reorganized field offices. For example, four field offices were set up in 2019 with identical staffing profiles despite a varied programmatic footprint at the provincial level.
- The organization chart of the Office had the four field offices reporting directly to the Resident Representative and performing a representational role at the regional level with no linkage to local implementation support.

The Office explained that certain weaknesses were caused by changes in staffing; the reporting line defaulted to the Resident Representative instead of the Country Director, a post that had not been part of the Office's structure since 2019.

Without an adequate organizational structure, the effectiveness of the Office may be hampered.

Priority	Medium (Important)
Recommendation 1: The Office should, in consultation with the Regional Bureau for Asia and the Pacific, consider reassessing its governance structure based on the results of the upcoming Country Programme Document mid-term review with a view to: <ul style="list-style-type: none"> (a) articulating a unified approach of its programmatic engagement strategy in order to enhance clarity on accountability expectations and minimize duplication of efforts; and (b) reviewing the reporting lines and structure of field offices based on programmatic footprints and priorities and broadening their roles to local programme implementation support. 	
Management action plan: The Office's management, in consultation with the Regional Bureau for Asia and the Pacific, will conduct the planned mid-term review and, as warranted by its findings, will develop a strategic document to further delineate the rationale for the current governance structure to deliver on the Country Programme Document objectives, focusing on the role and accountabilities of the advisory function as well as the role field offices.	

Estimated completion date: December 2020

Issue 2 Workforce diversity policy not reviewed

The 'UNDP Programme and Operations Policies and Procedures' state that "UNDP's workforce will reflect diversity and will strive to include equal numbers of men and women, staff members representing as wide a geographic distribution as possible and individuals from under-represented groups, indigenous groups and persons with disabilities."

In May 2007, the Office adopted and implemented a workforce diversity policy with the objective of diversifying its workforce both in terms of gender and social groups. The policy was revised in March 2009 and the Office indicated that it was endorsed by Office of Human Resources in December 2009.

The policy required that the targets for workforce composition specified therein would be monitored annually and adjusted as necessary. However, there was no evidence available to demonstrate that the monitoring provisions were enforced. The audit team also noted that the policy had not been revised since the last update in 2009. Although the Government conducted a census in 2011, those results had not been considered in updating the targets specified in the policy.

The recruitment and selection process may not be perceived as fair and objective if the data used to create assessment criteria for workforce diversity is not up to date.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen the effectiveness of its workforce diversity policy by:	
<ul style="list-style-type: none"> (a) undertaking a comprehensive review of the policy to assess its impact on achieving intended objectives; and (b) ensuring that all policy requirements are adhered to and monitored closely. 	
Management action plan:	
The Office's management accepted this recommendation and agreed to undertake a comprehensive review of the workforce diversity policy in consultation with the Office of Human Resources.	
Estimated completion date: March 2021	

B. Development Activities

1. Implementation Modalities

Issue 3 Country Programme Document not in line with current resource framework

UNDP Country Offices should ensure an adequate pace of implementation and delivery, to meet Country Programme Document targets within the budget. Country Offices are also required to mobilize resources for the effective implementation of the programme objectives. Where exogenous shocks impact the programme cycle, an evaluation or review should be undertaken to ensure the continued relevance of planned activities in line with resource availability and development context.

The current Country Programme Document 2018–2022 focused on three thematic areas: (a) governance and rule of law; (b) resilience and reconstruction; and (c) inclusive economic growth, with a budget of \$209 million to achieve the outcomes.

The Office planned to deliver a minimum of \$42 million/year in order to achieve the target of \$209 million over the five years of the Country Programme Document, of which \$177 million was to be mobilized from third party entities. However, the Office delivered 50 percent and 58 percent of the target in 2018 and 2019, respectively. For 2020, the Office indicated a target of \$23.8 million. As of March 2020, the delivery amounted to \$1 million (4 percent). The Office had not mobilized sufficient resources for environment and governance-related interventions, with the current environment portfolio reflecting only \$3.2 million in the Global Environment Facility pipelines for 2019 and 2020. A proposal for \$7 million submitted to the Global Environment Facility in 2019 had yet to be approved.

The Office stated that during this period, elections were held, and due to a new government structure, a slowing down of government processes was noted, which in turn had an impact on the Office's ability to mobilize resources.

Should the Office not be able to mobilize adequate resources to meet the delivery targets, it risks not being able to sustain its current structure.

Priority	High (Critical)
Recommendation 3:	
The Office should re-align its programme portfolio to ensure it is more realistic by:	
<ul style="list-style-type: none"> (a) utilizing the results from the Country Programme Document mid-term review as a driver to reposition the Office to focus on priorities; (b) developing a robust plan to undertake aggressive partnership building and communication with both the Government and development partners; and (c) ensuring the environment component is well capacitated to leverage on the vertical funds. 	
Management action plan:	
The Office's management accepted this recommendation and will:	

- (a) Develop options for re-prioritization, depending on the outcome of the planned mid-term review of the Country Programme Document implementation.
- (b) Review and enhance its Partnership and Communications Action Plan, which will guide the Office to strengthen partnerships and communication with the Government and development partners.
- (c) Actively pursue opportunities to enhance vertical fund portfolio based on Country demand and opportunities available with the Global Environment Facility and Green Climate Fund for the Country.

Estimated completion date: December 2020

Issue 4 Weaknesses in programme results framework

The 'UNDP Programme and Operations Policies and Procedures' stipulate that a project document must be developed for all projects and support the theory of change that links the project activities with the programme outcome. The achievement of the programme outcome also depends on the availability of funds to support projects; this implies that the funding for projects should be carefully managed through a pipeline of approved and proposed projects.

Unclear project objectives with weak results chain: The audit team reviewed a sample of 6 out of 24 projects. Three of these projects had various new outputs introduced before and after the original end dates of the projects. A review of these highlighted the following issues:

- An original project document results framework was not revised despite being extended; each new donor-funded component had its own results framework with donor reporting based on specific donor funds without a consolidated results chain.

Achievement of programme results at risk: A review of the current programme portfolio against the Country Programme Document outputs indicated the following weaknesses:

- Out of the 24 ongoing projects, only 10 were slated to continue beyond 2020, but there were only 5 projects (Class A) that were expected to commence in 2020, and 6 projects (Class B) that needed funding to commence.

The Office stated that it submitted several proposals and had secured government funding to provincial and local governance structures, and funding towards a rural renewable energy programme.

Priority	Medium (Important)
Recommendation 4:	
The Office should enhance project/programme design and implementation by:	
<ul style="list-style-type: none"> (a) enhancing the resource mobilization efforts to ensure healthy pipeline class conversion rates that result in a robust project portfolio; and (b) revising project documents and results frameworks as and when new outputs are introduced by re-examining, as necessary, the underlying theory of change. 	

Management action plan:

The Office's management accepted this recommendation. In order to address it, the Office will:

- (a) Make amends to programme strategy, if required, based on the outcome of the mid-term review of the Country Programme Document implementation.
- (b) As noted in 3(b) above, Office will review and update its Partnership and Communications Action Plan to bolster the resource mobilization strategy.
- (c) Develop a standard operating procedure (SOP) for the revision of project documents as needed whenever new resources become available and/or new outputs introduced, and to ensure overall consistency with the Country Programme Document theory of change.

Estimated completion date: March 2021

C. Operations/Procurement

1. Procurement of Goods and Services

Issue 5 Procurement efficiencies not leveraged

The 'UNDP Programme and Operations Policies and Procedures' require offices to develop consolidated annual procurement plans and to update these plans regularly.

The Office uses a tool called PROMPT for procurement planning, where project-wise planned procurement transactions are entered. However, the Office did not prepare its annual procurement plan in a timely manner. Indicatively, the Office's procurement plan in PROMPT as at the end of February 2020 consisted of transactions valued at \$1.1 million, which contrasted with its budgeted programme delivery for 2020 of \$19 million. Furthermore, \$7 million (28 percent) of the Office's FY2019 programmatic expenditures of \$25 million were incurred in December 2019. This is reflective of inadequate procurement planning, leading to rushed procurement at the year end.

The Office explained that the delay in creating a consolidated procurement plan was attributable to non-approval of development project annual work plans and project procurement plans. The Office had not considered including draft project procurement plans in PROMPT at the beginning of the year with minor amendments once the plans were approved.

There was no evidence to indicate that the Office had performed trend analysis of past procurement transactions, which would have enabled anticipating procurement trends to formulate the Office's procurement strategy for the near future. For example, among the major categories of expenditures in 2019 were computer equipment and accessories, office machines and supplies and consumer electronics for which the Office failed to optimize its purchasing power through the establishment of long-term agreements or securing volume rebates or discounts.

Failure to plan procurement activities effectively and undertake a spend analysis of anticipated procurement transactions may result in the Office having to rush procurement of goods and services, resulting in failure to obtain best value for money in respect of procurements undertaken.

Priority	Medium (Important)
Recommendation 5: The Office should enhance the effectiveness of its procurement planning by: <ul style="list-style-type: none"> (a) including all procurement transactions to be undertaken into the PROMPT system in a timely manner; and (b) reviewing the procurement plan and performing a spend analysis of goods and services to be procured for the year in order to benefit from economies of scale (such as rebates, discounts, or entering into long term agreements) when undertaking procurement transactions. 	
Management action plan: The Office's management accepted this recommendation and to address it will: <ul style="list-style-type: none"> (a) Ensure procurement plans are updated in PROMPT as a continuation of the annual work planning exercise and/or when there are changes to approved work plans. (b) In consultation with UN Operations Management Team, the Office shall explore the option of setting up long term agreements for categories of goods and services procured for repeat use. 	
Estimated completion date: March 2021	

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.