



AUDIT

OF

UNDP COUNTRY OFFICE

IN

BANGLADESH

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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 12 April to 5 May 2021. 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
- (b) Development activities
- (c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed three performance audit questions to guide the review of the following areas:

- (a) Development activities
 - i. Was project implementation effectively undertaken?
 - ii. Did project design include clear and measurable results appropriately linked to the Country Programme Document?
- (b) Procurement
 - i. Were procurement processes being completed in a timely manner?

The audit covered the activities of the Office from 1 January 2020 to 31 March 2021. The Office recorded programme and management expenses of approximately \$75 million. The last audit of the Office was conducted by OAI in 2018.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) A physical verification of assets was not performed.
- (e) Safe and petty cash contents were not verified.
- (f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **fully 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."

Good practices

The Office had established a Monitoring and Evaluation (M&E) Network comprising 30 project-level M&E personnel to enhance communication and cross-learning and knowledge sharing, internal coordination and communications on M&E across projects.

The Office also instituted a mid- and end-year programme cluster self-assessment/review of their respective project portfolios, followed by joint reviews with senior management to assess assumptions/scenarios, including assessing impacts and possible re-purposing of project activities. This was especially useful when working within the context of the COVID-19 pandemic.

Key recommendations: Total = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two 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 inadequate vendor management and HACT assurance activities not being fully implemented.

The two recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendation 1); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2).

Implementation status of previous OAI audit recommendations: Report No. 1922, 7 June 2018.

Total recommendations: 5

Implemented: 5

Management comments and action plan

The Resident Representative accepted both 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 Dhaka, Bangladesh (the Country) and its Country Programme covered the period 2017–2021 with the following development priorities:

- a) ensuring economic growth is inclusive and supports economic opportunities;
- b) Improving social policies and programmes and building resilience with a focus on good governance and structural inequalities; and
- c) improving environmental sustainability.

During the period from January 2020 to March 2021, the Office spent \$72 million on development activities, an increase by 10.6 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan to Dec 2020 \$million	Expenditure Jan to Mar 2021 \$million
National Urban Poverty Reduction Programme	16.9	1.8
Disaster Response and Recovery Facility	8.1	1.4
Strengthening Inclusive Development in the CHT	7.4	1.4
Activating Village Court Phase II	6.0	0.7
Aspire to Innovate (a2i) Programme	4.1	1.8
Total	42.5	7.1

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period \$million
United Kingdom	21.5
European Union	6.4
Denmark	4.8
Gates Foundation	2.7
Global Environment Facility	2.5
Total	37.9

Other critical information

Due to the COVID-19 pandemic, lockdowns and restrictions of movement were imposed in the Country during certain periods of the first and second quarter of 2020 and between April and May 2021. As a result, various government institutions and national implementing partners were unable to operate during these periods. The Office implemented its business continuity plan during this period.

II. Good practices

OAI identified good practices as follows:

- (a) Project-level Monitoring and Evaluation Network

The Office established a Monitoring and Evaluation (M&E) Network comprising of close to 30 M&E project personnel to enhance communication and cross-learning and knowledge sharing, internal coordination and communications on M&E across the projects.

There were mandatory quarterly meetings, sub-group meetings as well as additional meetings as and when necessary. This resulted in enhanced peer learning to strengthen organizational and individual M&E capacities.

(b) Programme cluster self-assessments/review

The Office instituted a mid- and end-year programme cluster self-assessment/review of respective project portfolios, followed by reviews on assumptions/scenarios with senior management. The reviews also included assessing the impact and possible re-purposing of activities to respond to the COVID-19 pandemic. These exercises allowed the team to reflect and have a shared appreciation of achievements, challenges, risks and also opportunities going forward. The outcomes of the exercises were subsequently presented and discussed with senior management for actions. The programme self-assessment contributed to mitigating the impact of the COVID-19 pandemic in the Office's delivery. The Office surpassed its delivery target in 2020.

III. Audit Results

Satisfactory performance was noted in the following areas:

- (a) Governance. The review of the Office's governance that included the review of the organizational structure, governance processes and planning, and engagement with staff, indicated that adequate controls were established and working effectively.
- (b) Operations – Human Resources. The audit team reviewed various processes related to recruitments and separations of personnel. It was noted that adequate controls were established and working effectively.
- (c) Operations – Administrative Services. The audit disclosed that adequate controls were in place in administrative services reviewed, such as asset management and travel management. No reportable audit issues were noted during the audit review.
- (d) Operations – Information and Communication Technology. The Office's business continuity and disaster recovery plan had been tested and implemented satisfactorily during the audit period. No reportable audit issues were noted.

The assessment of performance audit questions was as follows:

- (a) Development activities
 - i. Was project management effectively undertaken?

The audit team reviewed eight projects with total expenditures of \$39.4 million in 2020 and \$6.5 million in 2021, representing 64 percent each of total expenditures for 2020 and 2021 (up to 31 March). Two of the sampled projects were funded by the Global Environment Facility (GEF). The review included the design and quality assurance of project documents, implementation, oversight, reporting and project closure. The audit team concluded that the projects were effectively managed and that there was adequate oversight provided by cluster teams and senior management. However, the Office had not fully implemented the Harmonized Approach to Cash Transfers (HACT) Framework during the audit period (see issue 1).

- ii. Did project design include clear and measurable results appropriately linked to the Country Programme Document?

The review of the selected sample of projects indicated that projects and outputs were clearly linked to the 2017–2021 Country Programme Document, which in turn reflected the corresponding UNDP priorities in the UN Development Assistance Framework for the same period. Appropriate indicators to ensure measurability of the progress towards results were also noted.

(b) Procurement

- i. Were procurement transactions being completed in a timely manner?

The audit team concluded that the procurement transactions were processed in a timely manner and were completed on average within 81 days from the start of the requisition to receipt of goods/services. This was deemed an acceptable timeframe when compared with two offices of similar size and also that the procurement transactions were undertaken during the period of COVID-19 pandemic.

OAI made two 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) Improve vendor management (Recommendation 2).
- (b) Maintain adequate levels of HACT assurance activities (Recommendation 1).

The detailed assessment is presented below, per audit area:

A. Development Activities

1. Project Administration

Issue 1 HACT assurance activities not fully implemented.

According to the Harmonized Approach to Cash Transfers (HACT) Framework, regular monitoring of expenditures is required through an assurance plan that details spot checks and programmatic visits for every implementing partner, and the implementation of assurance activities.

A review of HACT implementation in the Office highlighted the following:

- a) The initial HACT assurance plan in 2020 included 62 spot checks. The assurance plan was later revised and reduced to 16 spot checks, with the remaining 46 deferred to 2021. Of the 16 spot checks, 13 were completed in 2020.
- b) There were also 10 HACT audits planned in 2020 to be undertaken by the Government's audit institution; only 7 were undertaken, with 3 deferred to 2021.
- c) According to the revised HACT assurance plan, no programme visits were planned or undertaken in 2020. The Office stated that this was due to the COVID-19 pandemic and related restrictions in

place. The audit team did not find evidence of any programme monitoring visits after the restrictions were eased in the nine projects reviewed.

The audit acknowledges the extra challenges posed by movement restrictions due to the pandemic.

In the absence of regular oversight through spot checks, programme visits and audits, the Office risks exposure to improper use of programme funds.

Priority	Medium (important)
Recommendation 1:	
The Office should maintain adequate levels of HACT assurance activities by:	
<ul style="list-style-type: none"> (a) ensuring that a minimum number of spot checks and programme visits are undertaken to mitigate financial and programmatic risks, and that alternative risk mitigation measures are instituted in the absence of spot checks, audits and programme monitoring visits due to the COVID-19 pandemic; and (b) exploring other mitigating options including the possibility of engaging a third-party entity to undertake programme visits. 	
Management action plan:	
The Office will explore possibilities of alternative risk mitigation measures given the context of movement restrictions due to the pandemic. In addition, for the same constraining situation the Office will request OFRM/BMS for an exception to the existing policy.	
Estimated completion date: September 2021	

B. Operations/Finance

1. Vendor Accounts

Issue 2 Inadequate vendor management

To ensure UNDP only conducts business with eligible vendors, Country Offices are required to check multiple vendor sanction lists when setting up vendor profiles and are expected to perform due diligence to avoid conducting business with ineligible vendors and its subsidiary or affiliates. Country Offices are also required to keep vendor records as part of permanent contract and procurement records for future audit review.

A review of the Office's transactions revealed that:

1. The Office procured furniture amounting to \$9,945 from a branch of a sanctioned vendor during the audit period. The sanctioned vendor had been on the United Nations Global Marketplace (UNGM) sanction's list since October 2013. Further review showed that four vendors in Atlas, two of them active, had similar vendors' name and the same bank account information as the sanctioned vendor.

The Office explained that it believed the sanction was only applicable to one of the vendor's branches as the Interim Suspension Letter issued by the UNDP Vendor Review Committee had only stated one Atlas vendor profile number belonging to this vendor. Further, the UNGM site included the sanctioned vendor and mentioned the branch in the address column; however, the Office was under the impression that only one branch of the vendor was sanctioned while it was free to undertake transactions with other branches of the sanctioned vendor. The Office had not proved that these two active vendors were not related to the sanctioned vendor especially given the same bank accounts being used.

The Office did not provide the business registration certificates and other relevant vendor creation records for the sanctioned vendor, as part of the required vendor creation process to verify if these four vendor profiles belonged to the same entity. The Office stated that it did not keep the vendor business registration certificates and other relevant vendor creation records as the Office considered these records as temporary financial records that needed to be retained for only seven years. However, OAI was of the view that these vendor registration records are part of procurement files that should be retained permanently.

2. In addition to the above case, the Office had also conducted business with a sanctioned vendor (amounting to \$121) for procurement of printing services. The Office explained that it was due to an oversight.
3. The audit team also noted four instances where different vendors shared the same bank account details.

Conducting business with sanctioned vendors creates financial and reputational risks for UNDP. Having duplicate vendor profiles creates the risk of duplicate payments and circumventing controls in the procurement process.

Priority	Medium (important)
Recommendation 2: The Office should improve its vendor management by: <ol style="list-style-type: none"> (a) exercising due diligence in the review of vendors' eligibility and seeking guidance from the Vendor Review Committee on eligibility of sanctioned vendor's branches; (b) verifying that vendor creation procedures are followed, conducting regular reviews of existing vendors, and deactivating all vendors with duplicate profiles; and (c) ensuring the recordkeeping and retention policy for business documents is properly adhered to. 	
Management action plan: The Office would seek guidance from Vendor Review Committee and Programme Support Unit to address the issue pertaining to vendor sanctions and record retention policy on vendor creation documents. The Office would also exercise additional oversight on vendor creation process.	
Estimated completion date: July 2021	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.