



AUDIT

OF

UNDP COUNTRY OFFICE

IN

VIET NAM

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Report on the Audit of UNDP Viet Nam Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Viet Nam (the Office) from 2 to 23 August 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 also designed the following performance audit questions to guide the review of the following areas and sub-areas:

- (a) Development Activities
 - i) Were projects designed with clear and measurable results linked to the strategic objectives of the Country Programme?
 - ii) Were project monitoring and course correcting activities undertaken in a timely manner?
- (b) Procurement
 - i) Were procurement transactions completed in a timely manner?
 - ii) Was the Office adequately leveraging economies of scale in its procurement process?
- (c) Finance
 - i) Were payments to vendors processed in a timely manner?
- (d) Human Resources
 - i) Were recruitments completed in a timely manner?

The audit covered the activities of the Office from 1 January 2020 to 30 June 2021. The Office recorded programme and management expenses of approximately \$36 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*. 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 were not conducted.
- (d) Verification of assets was performed virtually.
- (e) Safe contents and petty cash 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." This rating was mainly due to the fact that no recommendations were rated high (critical) priority.

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 the sub-optimal use of available programme resources.

The two recommendations aim to ensure the achievement of the organization's strategic objectives.

Implementation status of previous OAI audit recommendations: Report No. 1773, 9 June 2017

Total recommendations: 10

Implemented: 10

Management comments and action plan

The Resident Representative, and the Assistant Administrator and Director of the Regional Bureau for Asia and the Pacific accepted the two recommendations and are 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 Ha Noi, Viet Nam (the Country) and its Country Programme covered the period 2017–2021 with the following development priorities:

- a) poverty eradication and greater socioeconomic equity;
- b) low-carbon, resilient and environmentally sustainable development; and
- c) institutional accountability, people's voice and access to justice.

During the period from January 2020 to June 2021, the Office spent \$33.8 million on development activities, an increase of 14 percent compared to the previous period.

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

Title	Expenditure January- December 2020 \$million	Expenditure January- June 2021 \$million
Korea - Vietnam Mine Action Project	6.31	1.96
GCF-Resilient development in coastal zones	5.70	1.56
Response to Crisis in Vietnam	1.71	0.85
Governance Public Administration Performance Index	1.08	0.27
Energy Efficiency in Commercial Building	0.75	0.59
Total	15.55	5.23

Source: UNDP STREAM Analytics

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
Green Climate Fund	16.59
Korea International Cooperation Agency	6.65
Global Environment Facility	5.66
Total	28.90

Source: UNDP STREAM Analytics

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. Controls and procedures within governance activities, including corporate planning, organization and staffing, and the internal control framework were adequate.
- (b) Operations/Procurement. Controls over the procurement of goods and services, individual contractors and long-term agreements were generally functioning effectively.
- (c) Operations/Finance. Controls over cash and bank management, payments, receipts and management of implementing partner advances were found to be adequate and generally functioning well.
- (d) Operations/Human Resources. Processes related to recruitment, separations, leave management and performance management were found to have adequate controls.

- (e) Operations/Administrative Services. Controls and procedures over travel, assets and vehicle management were found to be adequate.
- (f) Operations/Information Communication and Technology. At the time of the audit, the Office had an approved and tested Disaster Recovery Plan. For other ICT activities, the Office received ICT support from the UN Country Team entity.

The assessment of performance audit questions was as indicated below:

(a) Development activities

- i. Were projects designed with clear and measurable results linked to the strategic objectives of the Country Programme?

The audit team reviewed 7 out of 37 projects with total expenditures of \$16 million in 2020 and \$9.4 million in 2021, representing 65 percent and 81 percent of total expenditures for 2020 and 2021 (up to 30 June 2021), respectively. Three of the sampled projects were funded by the Global Environment Facility (GEF). The review included project design, appraisal, implementation, and oversight arrangements in place for project implementation and closure. The controls governing project design, their results frameworks, and monitoring and implementation were adequate and enabled clear linkages to the strategic objectives and outcomes articulated in the Country Programme. The 2020 Partnership Survey was also positive; UNDP's contributions that were valued most included technical expertise, policy advice and programme and project implementation.

- ii. Were project monitoring and course correcting activities undertaken in a timely manner?

Project monitoring was well planned and documented, with regular monitoring undertaken on a timely basis to assess progress towards project outputs. Further, findings raised in the monitoring reports were discussed with relevant partners and remedial actions were regularly monitored through follow-up visits. Therefore, the oversight processes in place were effective in ensuring that risks were adequately managed.

(b) Procurement

- i. Were procurement transactions 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 51 calendar days from the start of the requisition to the receipt of goods and services. This was deemed an acceptable timeframe when compared with two other offices of similar size and while also considering that the procurement transactions were undertaken during the period of the COVID-19 pandemic.

- ii. Was the Office adequately leveraging economies of scale in its procurement process?

The Office leveraged economies of scale through the establishment of Long-Term Agreements for procurement of goods and services procured in large volumes. In addition, the Office also leveraged on Long-Term Agreements established by other UN agencies. However, the audit team noted that there were delays in submitting project procurement plans until the second quarter of each year during the audit period. As a result, the Office could not perform an effective analysis of its consolidated procurement plan through which economies of scale may have been further enhanced. While the impact was non-reportable, the Office was advised to improve its procurement planning and analysis processes.

(c) Finance

i. Were payments to vendors processed in a timely manner?

The audit team assessed whether payments to vendors were processed in a timely manner, within 30 working days of the receipt of invoices. Out of a total of 3,796 vouchers with a value of \$34.32 million processed during the audit period, there were 689 vouchers valued at \$4.44 million indicating potential delays in processing as per OAI's data analytics. Of these, the audit team selected a sample of 38 vouchers valued at \$233,436 for further review to identify any systematic issues causing these delays. The review revealed that the primary cause of the delays was the Office's belated submission of vendor invoices to the Global Shared Services Unit (GSSU) for payment processing. For the selected samples, the Office took an average of 32 working days to submit invoices to the GSSU. The Office explained that the submission of vendor invoices to the GSSU was centralized through its finance unit and the delays were likely caused by belated submissions from the requesting units. In the remaining 42 percent of cases, the delays in invoice processing were attributable to the late receipt of invoices from vendors.

Considering the low impact, the identified delays were not considered reportable. However, the Office was advised to analyse its payment workflow to identify the root causes of the delays in order to initiate corrective action.

(d) Human Resources

i. Were recruitments completed in a timely manner?

The Office's generic workflow established for recruitments indicated a timeline of 35 working days from application screening to contract issuance. The audit team assessed whether recruitments were completed in a timely manner considering the Office's internal estimates. Out of 20 recruitments during the year, a sample of 10 recruitments were reviewed. In five instances, the relevant recruitment processes were completed within the timelines established by the Office. In two instances the recruitment processes did not apply, as these related to contract conversions due to changes in contract modality. In the remaining three cases related to project personnel, the recruitment processes took extended periods of time to be completed, exceeding in each case 200 working days. However, these delays were attributed to delays in the processes under the control of the projects and thus, were deemed non-reportable.

OAI made two recommendations both 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) Enhance the effective use of its available and expected resources by setting up multi-year budgets linked to annual programme delivery targets (Recommendation 1).
- (b) Develop a process for reviewing and validating the programme delivery targets proposed by Country Offices within its region (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Development Activities/Country Programme

Issue 1 Sub-optimal use of programme resources

The 'UNDP Programme and Operations Policies and Procedures' require that financial available resources be utilized within an agreed timeframe. The UNDP Strategic Plan 2018–2021 requires offices to be more effective and efficient in utilizing resources to deliver results.

(a) Utilization of available programme resources

Over the course of the ongoing Country Programme cycle (2017–2021) with a total budget of \$133.30 million, the Office recorded relatively satisfactory performance in its annual programme delivery rates when compared to budgeted resources. Indicatively, the Office averaged a programme delivery rate (against budgeted resources) of 81 percent in the four completed years of the ongoing programme cycle. However, as shown in Table 1 below, programme delivery rates were low when compared with available resources, averaging 62 percent between 2017 to 2020. Over the same period, an average of 23 percent of available resources remained unbudgeted each year.

Table 1: Delivery trend (in USD million) from 2017 to 2021¹

Year	Available Resources \$	Budgeted Resources \$	Resources Budgeted %	Programme Delivery Target \$	Actual Programme Delivery \$	Delivery on available resources	Delivery over budget %
2017	26.46	20.25	77%	22.10	16.15	61%	80%
2018	35.54	23.96	67%	19.00	20.22	57%	84%
2019	31.35	26.85	86%	22.42	22.89	72%	85%
2020	43.83	32.23	74%	22.49	24.56	56%	76%
2021	36.47	31.27	86%	23.06	9.42*	52%**	60%**

Source: UNDP STREAM Analytics and Country Office Business Plan

*Delivery from January through June 2021

** Delivery rates for 2021 considered semi-annualized figures of available resources and budgeted resources

The Office explained that annual programme delivery targets could not be used to account for the utilization of available resources due to several factors, which included the following: resources received are for multi-year utilization and not necessarily for use and delivery in the year of receipt; resources to be received during a year are not known at planning; budgeting of resources is performed over several accounting periods for the use of resources; and annual programme delivery targets are agreed based on factors that are country specific, including government laws, consideration for the quality of results achieved, and the impact of the COVID-19 pandemic since 2020.

The audit team noted that the timing of the receipt of resources and multi-year budgeting of resources could have been predicted based on historical trends over several periods. Although programme resources may have been received for use over a multi-year period, there is an established timeframe in which available resources need to be utilized.

Sub-optimal use of available resources may undermine stakeholders' confidence and weaken the Office's ability to attract and increase its donor funding.

¹ The information on resources and their utilization reflects year-end figures except for 2021. Resources are received and budgeted during each year. Hence, year-end figures may vary with those at the beginning of the period.

(b) Inadequate due diligence in setting programme delivery targets

The 'UNDP Accountability Framework and Oversight Policy' states that Directors of Regional Bureaux are accountable to the Associate Administrator for monitoring the performance of the respective Country Offices.

The Regional Bureau for Asia and the Pacific did not have a methodology to assess and validate the annual programme delivery targets proposed by Country Offices within its region. The annual programme delivery targets were discussed and agreed between Country Offices and the Regional Bureau as part of the annual Country Office Business Plan meeting.

The Regional Bureau explained that it was currently developing a review framework, which would provide a detailed view of the availability of programme resources at the Country Office level linked to the duration of projects for which those resources had been budgeted. This framework was intended to be piloted as part of the next Country Office Business Plan cycle in 2022.

If the process of determining programme delivery targets is not properly validated, it may lead to setting objectives that are not aligned to the available programme resources.

Priority	Medium (Important)
Recommendation 1:	
The Office should enhance the use of its available and expected resources by setting up multi-year budgets linked to annual programme delivery targets in order to achieve the results planned in the Country Programme.	
Management action plan:	
The Office will ensure that multi-year budgets are set up according to specific project work plans agreed with donors and in line with schedules of payment as stipulated in cost sharing agreements. The Office will also make sure that in the beginning of each year funds not used are re-phased to the next years in line with the multiple year budgeting principles.	
Estimated completion date: 28 February 2022	

Priority	Medium (Important)
Recommendation 2:	
The Regional Bureau for Asia and the Pacific should develop a process for reviewing and validating the programme delivery targets proposed by Country Offices within its region.	
Management action plan:	
The Regional Bureau will rigorously review the available resources and programme pipeline information of Country Offices while agreeing on the annual programme delivery during the Annual Planning Cycle for 2022.	
Estimated completion date: 31 January 2022	

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.