



AUDIT

OF

UNDP BANGLADESH

URBAN PARTNERSHIPS FOR POVERTY REDUCTION
(Directly Implemented Project No. 58224)

Report No. 1027
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**Report on the audit of UNDP Bangladesh
Urban Partnerships for Poverty Reduction (Project No. 58224)
Executive Summary**

From 26 November 2012 to 3 February 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through Rahman Rahman Huq KPMG (the audit firm), conducted an audit of Urban Partnerships for Poverty Reduction, Project No. 58224 (the Project), which is directly implemented and managed by the UNDP Country Office in Bangladesh (the Office). The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The last audit of the Office was conducted by OAI in 2011.

The Project reported expenditures totalling \$12.8 million and \$19 million during the periods which ended on 31 December 2010 and 31 December 2011, respectively. The Project was funded by the Department for International Development and UNDP.

Audit scope and objectives

The audit work covered financial transactions as well as internal controls and systems for the purpose of expressing an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations, as well as assess compliance with UNDP regulations, rules, policies and procedures and donor agreements. The audit covered the expenditure incurred by UNDP and recorded in the Project's Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2010 and 1 January to 31 December 2011, and Statement of Assets as of 31 December 2010 and 31 December 2011. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, Project management, human resources management, financial and cash management, procurement, asset management, information systems and general administration. The scope of the audit did not cover expenditure incurred by other parties, such as government counterparts and UN agencies, and charged to the Project.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." The details of the audit results are presented in Figures 1 and 2.

Figure 1: Summary results of the financial audit

| Year | Project Expenditure | | Assets | |
|------|------------------------|-------------|------------------------|-------------|
| | Amount (in \$ '000) | Opinion | Amount (in \$ '000) | Opinion |
| 2010 | 9,579 | Unqualified | 1,213 | Unqualified |
| 2011 | 8,900* | Unqualified | 1,232 | Unqualified |

* The Combined Delivery Report of 2011 was adjusted by \$7.9 million (a credit), a correction which pertained to expenditure incurred by other UN agencies and which had been incorrectly recorded and reported as UNDP disbursements in prior years.

Figure 2: Internal controls and systems audit ratings summary

| Audit Areas | Not Assessed/ Not Applicable | Unsatisfactory | Partially Satisfactory | Satisfactory |
|----------------------------------|---------------------------------|----------------|---------------------------|--------------|
| 1. Organization and staffing | | | | |
| 2. Project management | | | | |
| 3. Human resources management | | | | |
| 4. Financial and cash management | | | | |
| 5. Procurement | | | | |
| 6. Asset management | | | | |
| 7. Information systems | | | | |
| 8. General administration | | | | |

Key issues and recommendations

The audit raised six issues and resulted in five recommendations, of which three (60 percent) were ranked high (critical) priority, meaning “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 and may affect the organization at the global level.”

Project management (Issue 2) Misappropriation of funds. There were inadequate controls over the transfer of funds in one town office, which resulted in a staff member misappropriating funds amounting to \$7,291 (Tk.516, 796). OAI conducted an investigation to this effect and the Office indicated that the government has filed a legal action against the persons concerned. OAI recommends that all payments from the town office bank accounts be made by cheque or bank transfer to the designated payee bank accounts only.

Project management (Issue 3) Inadequate controls within Project management. The Office entered into community development cluster contracts for waste management and advanced the related funds so that Project activities could be implemented. In some cases, there were significant implementation delays where no activity had taken place two years after the funds had been advanced. OAI recommends that Project activities be completed within the defined implementation period. Furthermore, the Project should ensure that non-implemented and/or unexpended contract amounts are recovered from partners.

Assets management (Issue 6) Inadequate controls over assets and equipment. A physical verification of assets was not completed for 2010 and 2011. Furthermore, one Project vehicle was not used for Project purposes, but instead was being used by a government official. OAI recommends that the Project ensure that the physical verification of assets is conducted regularly and that the Project vehicle be recovered from the government official and used for Project purposes only.

Management's comments

The Resident Representative accepted all of the recommendations and is in the process of implementing them.

A handwritten signature in blue ink, enclosed in a rectangular box. The signature is stylized and appears to read 'Antoine Khoury'.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations