

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Report No. 1168
Issue Date: 8 November 2013

Report on the audit of UNDP Lao People's Democratic Republic Executive Summary

From 1 to 11 April 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Lao People's Democratic Republic (the Office). The audit covered the activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling \$18 million. The last audit of the Office was conducted by OAI in 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Partially Satisfactory			
2. United Nations system coordination				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Satisfactory			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 8 issues and resulted in 7 recommendations, of which 2 (29 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.”

The high priority recommendations are as follows:

Financial sustainability (Issue 1)	<u>Incorrect application of Implementation Support Services cost recovery policy.</u> The Office did not adhere to the cost recovery policy for the Implementation Support Services (ISS), which calls for recovery on the basis of actual costs or transaction fees. Instead, the Office recovered ISS as a flat rate based on the extrabudgetary resources it required during the year as stipulated in an agreement with the Government. OAI recommends that the Office propose revising the Letter of Agreement with the Government for Country Office support services and ensure that costs are recovered in compliance with existing policy.
Finance (Issue 5)	<u>Lack of proper verification of project expenditures.</u> The Office procedures require that requests for quarterly advances to Implementing Partners are accompanied by documentation, such as a completed Funding Authorization and Certification of Expenditure form, as well as documentation of the reconciliation of the prior advance, and cash on hand and a budget analysis. The Office approved new advances to Implementing Partners on the basis of the available funds, even though the required supporting documents had not been received. OAI recommends that project advances are processed and disbursed after receipt and verification of all the required quarterly reporting documents.

Cross-cutting themes


As part of the 2013 OAI Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at corporate level, and, thereafter, a consolidated report will be issued separately. For this particular audit, the following was noted:

- **Asset management: Satisfactory.** At the close of 2012, the Office had 113 assets, all classified as tangible and valued at \$363,000. The audit reviewed the procedures in place for acquisition, accounting for capital assets, management and custody, utilization and disposal of assets. A sample of 10 assets with a value of \$114,000 (31 percent of the total value) was physically verified and found to be properly tagged. The disposals made during the year, through auctioning to staff members and write-off of a lost laptop computer, were approved as required. No reportable issues were noted.
- **Leave management: Satisfactory.** OAI reviewed the procedures in place for managing the absence of staff members and monitoring leave balances. Staff members used e-service in leave applications, while manual attendance leave records were maintained by the leave monitor. These systems were reconciled with the Atlas records on a monthly basis and any necessary adjustments were made promptly. OAI also reviewed the certified annual leave records and found them to be reconciled to the manual records. The year-end employee benefits certification was completed and leave balances noted as “without error.” No reportable issues were noted.
- **Global Environment Facility:** The Environment portfolio of the Office comprised of 12 projects, 7 of which received funding from the Global Environment Facility, totalling \$2.6 million. OAI reviewed one

Global Environment Facility-funded project: Improvement in the Resilience of the Agriculture Sector in the Lao People's Democratic Republic to Climate Change Impact. The project has a budget of \$9 million, with \$4 million funded by the Global Environment Facility. OAI reviewed project oversight, financial management, resource mobilization and knowledge management. No reportable issues were noted.

Management comments and action plan

The Resident Representative accepted all 7 recommendations and is in the process of implementing them.



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