UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP NEPAL

Comprehensive Disaster Risk Management Programme
(Directly Implemented Project No. 77652)

Report No. 1200
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Report on the audit of UNDP Nepal
Comprehensive Disaster Risk Management Programme (Project No. 77652)
Executive Summary

From 2 September to 7 October 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through T R Upadhya & Co. (the audit firm), conducted an audit of the Comprehensive Disaster Risk Management Programme, Project No. 77652 (the Project), which is directly implemented and managed by the UNDP Country Office in Nepal (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 2009.

The Project reported expenditure totalling $6.4 million during the period from 1 January to 31 December 2012. The following donors contributed to the Project: Department for International Development, UNDP, World Bank, European Commission - Humanitarian Aid and Civil Protection and UNISDR.

Audit scope and objectives

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2012 and the Statement of Assets as of 31 December 2012.

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditure			Project Assets		
Amount (in $ '000)	Opinion	NFI (in $ '000)	Amount (in $'000)	Opinion	NFI (in $ '000)
6,396	Qualified	529*	335	Adverse	335

NFI = Net Financial Impact
**The NFI for Project expenditure is the sum of $700,344 (expenses of $325,034 incorrectly recorded as assets and expenses of $375,310 incurred by Responsible Parties not reflected in the Combined Delivery Report), less $171,314 (value added tax of $120,608, excess GMS charged to the Combined Delivery Report of $29,054 and vehicles costing $21,652 charged to expenses instead of capitalizing)*

The audit firm qualified its opinion on project expenditure due to incorrect classification of donor codes, incorrect recording of expenses as assets, and failure to record expenses in the Combined Delivery Report.

The audit firm issued an adverse opinion on project assets due to incorrect recording of expenses as assets and failure to record fixed assets in the statement of assets.

Key issues and recommendations

The audit raised five issues and resulted in five recommendations, all of which 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:

Project management (Issue 1.1.1)	Expenses not reported in Combined Delivery Report. Expenses amounting to $229,000 incurred by Responsible Parties during the reporting period were not recorded in the Combined Delivery Report due to delays in submitting the financial reports to the Office. Also, expenditure for $146,000 was recroded in the year 2011 but was actually incurred in the first semester of 2012. OAI recommends that the Office establish adequate procedures to ensure that reports are received from Responsible Parties in a timely manner so that all relevant expenses are correctly reported in the financial year.
(Issue 1.2.1)	Unfunded programme expenses incorrectly charged to Department for International Development funds. The Office had incorrectly charged expenditure of $444,122 to funds received from the Department for International Development instead of charging the World Bank funds. The Office advised this was a temporary measure taken pending the receipt of funds from the World Bank and that it was subsequently adjusted. OAI recommends that the Office does not incur and charge expenditure to donor funds without the prior approval of the donor concerned.
Financial management (Issue 2.1.1)	Value added tax charged as expenses. Value added tax was paid on goods and services procured amounting to $120,000. Instead of accounting for value added tax under a receivable account and claiming a refund from the Inland Revenue Department, the Project's management recorded the amount as expenses. OAI recommends that the Office record value added tax under a receivable account and request a refund from the Inland Revenue Department.
(Issue 2.2.1)	Weaknesses in the payment process. There were inadequate controls in processing payments related to project expenses. This resulted in unauthorized payments to the vendor. OAI recommends that the Office enhance the controls over the payment process by verifying relevant supporting documents before making payments to vendors.
Asset management (Issue 3)	Incorrect recording of expenses as assets. The Office recorded as assets emergency rescue and response equipment of $325,000 that was purchased for the Project. However, in accordance with UNDP accounting policies, this amount should have been recorded as expenditure. Further, two vehicles valued at $22,000 were not recorded as assets. OAI recommends that the Office correct these errors.

Management's comments

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

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