UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

INDIA

Report No. 1467

Issue Date: 21 August 2015

Report on the audit of UNDP India
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP India (the Office) from 23 June to 2 July 2015. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) Operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 30 June 2015. The Office recorded programme and management expenditures totaling $69 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office 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." This rating was mainly due to weaknesses in the Office's management of micro-capital grant recipients as well as extensive use of direct contracting without sufficient justification.

Good practice

The Office has implemented a rigorous process for project closure, with a detailed checklist that goes over and beyond the corporate requirements. The process is also well documented.

Key recommendations: Total = **8**, high priority = **2**

The eight recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 4 and 5); (b) effectiveness and efficiency of operations (Recommendations 1, 2 and 3) and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 6, 7 and 8).

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Inadequate controls over the management of micro-capital grant recipients (Issue 6)	The Office signed 69 micro-capital grant agreements valued at \$6 million for the current programme cycle of 2013-2017. There were weaknesses in the management of micro capital grants such as lack of an independent mechanism to identify applicants for the grants, the Project board not meeting regularly, no annual report with the aggregated contributions of the micro-capital grant agreements, and inadequate monitoring. The Office stated that programmatic and financial monitoring was done through periodic reports and meetings with project partners at the Office. However, these were not supported by field visits or spot checks to independently verify the information presented by the micro-capital grant recipients. Recommendation: The Office should comply with the 'UNDP Programme and Operations Policies and Procedures' on the selection of micro-capital grant recipients by broadening the prospective grant recipient identification process to attract a wider range of applicants, regularly monitoring grant recipients, and capturing results and linking them to the overall country programme in the project annual report.
Weak justification for direct contracting (Issue 8)	During the audit period, the Office procured \$1.3 million value of goods through direct contracting, representing 21 percent of total procurement. The sample review of 10 procurement cases valued at \$300,000 indicated that in 8 cases totalling \$200,000, the justifications were not in accordance with the UNDP Financial Rules and Regulations. There were also cases with no adequate documentation to support that the best value for money was achieved. Recommendation: The Office should enhance controls over direct contracting by complying with UNDP's Financial Rule No. 121.05; and documenting justifications of how the principle of best value for money was achieved through direct contracting.

Management comments and action plan

The Resident Representative accepted all the recommendations and in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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