UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

PAPUA NEW GUINEA

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Report on the Audit of UNDP Papua New Guinea
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Papua New Guinea (the Office) from 16 to 24 February 2016. 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, business continuity, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – 'One UN', 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 to 31 December 2015. The Office recorded programme and management expenditures of approximately $17 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 financial management, weaknesses in managing cost recovery and extrabudgetary resources, and excessive leave balances and incomplete mandatory training.

Key recommendations: Total = **12**, high priority = **3**

Objectives	Recommendation Nos.	Priority Rating
Achievement of the organization's strategic objectives	2, 5	Medium
Reliability and integrity of financial and operational information	1	High
Effectiveness and efficiency of operations	4, 6, 10	Medium
	9	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3, 7, 8, 11	Medium
	12	High

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:

Weaknesses in managing cost recovery and extrabudgetary resources (Issue 2)	The contributions received from United Nations agencies and projects towards common services and other costs were incorrectly recorded as miscellaneous revenue in the Office's extrabudgetary resources. Further, there was inadequate justification for recovering a flat rate of 2 percent and 1 percent for monitoring and evaluation and communication costs, respectively. The actual costs incurred by the Office towards monitoring and evaluation costs and communication costs during 2015 were not available. As a result, the audit could not determine if the costs recovered by the Office from the projects at a flat rate were reasonable or if they were less or more than the actual costs incurred for monitoring and evaluation and communications. The monitoring and evaluation and communication recoveries made from the project budgets were recorded under the extrabudgetary account of the project instead of either charging the project budget account directly or setting up a separate project account for better accountability. There was no breakdown of how these amounts were utilized. Furthermore, the salary costs of one staff member amounting to $34,000 were charged as Direct Project Costs to a project. However, the terms of reference of the position could not be directly linked to the project. Recommendation 1: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on extrabudgetary resources and should enhance the transparency of cost recovery by: (a) recovering monitoring and evaluation and communication costs from projects in accordance with the Direct Project Cost policy and based on actual staff costs for these activities; (b) directly recording contributions and expenditures for common services in the common services project account and not under extrabudgetary resources; and (c) directly linking staffing costs to the services provided by the staff member for specific projects, and recovering costs based on actual cost adjustments made at the end of the year.
Weaknesses in financial management (Issue 11)	The Office had not reconciled its local currency bank account as of 31 December 2015. The bank reconciliation statement included unreconciled cheques valued at approximately $52,000 (PGK 129,000), and cash deposits of $370,000 (PGK 927,000), some of which had been pending since 2012. During the audit period, the Finance Unit cancelled 78 payment vouchers amounting to $351,000 and deleted 265 vouchers totalling $265,000. Moreover, 44 vouchers were corrected and reversed due to incorrect account codes used. The audit also noted over 170 vouchers created without clear or complete descriptions of the vouchers. As a result, the Finance Dashboard showed several rejections of transactions for fees charged to other United Nations agencies. The Global Shared Services Centre also highlighted this, with six 'Service Clearing Account' rejections valued at $17,000 remaining unresolved for more than three years. Recommendation 9: The Office should enhance its financial management by: (a) developing an action plan with milestones to ensure that long-outstanding unreconciled amounts are resolved; (b) providing appropriate training for current staff on accounting processes; and (c) conducting oversight over the functions performed by the Finance Unit and regularly reviewing the Finance Dashboard.

Excessive leave balances and incomplete mandatory training (Issue 14)	As at March 2015, 8 out of 15 (53 percent) local staff had leave balances of more than 60 days. As a result, the eight local staff forfeited their leave beyond 60 days since they had not been utilized before March. Additionally, 26 fixed-term appointment staff had not completed all of the mandatory courses. Furthermore, 12 out of 22 service contract holders had not completed the Basic Security in the Field Course. Recommendation 12: The Office should ensure compliance with the 'UNDP Programme and Operations Policies and Procedures' on human resources management by: (a) ensuring that staff prepare and agree on their leave plans with their supervisors so they do not forfeit their leave days; and (b) establishing a time frame for all staff to complete the mandatory training courses.

Management comments and action plan

The Resident Representative/Resident Coordinator accepted all of the recommendations and is 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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