AUDIT

OF

UNDP COUNTRY OFFICE

IN

PHILIPPINES

Report No. 1620
Issue Date: 17 June 2016
Report on the Audit of UNDP Philippines
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Philippines (the Office) from 12 to 20 April 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 2015 to 12 April 2016. The Office recorded programme and management expenditures of approximately $27 million in 2015 and $4 million from January to April 2016. The last audit of the Office was conducted by OAI in 2011. Furthermore, an audit of the ‘Support to Typhoon Recovery and Resilience in The Visayas Project’ was undertaken in September in 2014.

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 the cost recovery policy not being fully implemented, implementation challenges related to the ‘Early Recovery for Areas Affected by Typhoon Haiyan Project’ (Haiyan Project), and weaknesses in the management of project cash advances.

Good practices

Finance:
The Office developed a comprehensive checklist for approving accounts payable journal and payment vouchers.

Governance and strategic management:
The Office developed a management dashboard that provided a snapshot of Office progress of various indicators at any given time.
Key recommendations: Total = 10, high priority = 3

The 10 recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1, 2, 3</td>
<td>Medium</td>
</tr>
<tr>
<td>Reliability and integrity of financial and operational</td>
<td>4</td>
<td>High</td>
</tr>
<tr>
<td>information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>8</td>
<td>High</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>9</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>5, 7, 10</td>
<td>Medium</td>
</tr>
</tbody>
</table>

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:

Cost recovery policy not fully implemented (Issue 4) While the Office had recovered the operational costs incurred to support project implementation, it had yet to implement charging direct project costs to projects that included programme-related costs, such as programme planning, quality assurance, and advisory support.

Recommendation 4: The Office, with the support of the Regional Bureau for Asia and the Pacific, should take steps to recover costs for services provided to the projects in accordance with the UNDP cost recovery policy. This should include full recovery of direct project costs based on the staff members’ time spent on project activities.

Inadequate controls over ‘Early Recovery for Areas Affected by Typhoon Haiyan Project’ (Issue 6) The audit reviewed the progress made by the Office in implementing Haiyan Project activities in 2015 and noted that only about $8.3 million (61 percent) of the project budget of $13.5 million was expended at year-end, with 20 activities completed, 17 partially implemented, and 4 activities not initiated. A review of the various reports and discussions identified issues relating to weaknesses in implementation of project activities and in project procurement planning, which resulted in the lower than planned expenditures during 2015.

Recommendation 6: The Office should enhance controls over the ‘Early Recovery for Areas Affected by Typhoon Haiyan Project’ by ensuring the following: (a) programme and operations staff are included in the annual planning process to provide guidance where relevant, and to have a common understanding of the expectations; (b) alternative implementation instruments such as micro-capital grants with local entities are used in the procurement of small-value items; (c) project budgets are based on realistic estimates to ensure planned procurements are well resourced; and (d) project delays beyond the control of the Project Manager are escalated to the Project Board.
Delays in liquidating project cash advances
(Issue 8)

The ‘UNDP Programme and Operations Policies and Procedures’ provide that project cash advances must be closed and fully accounted for within seven days following the conclusion of a one-time project activity. There were delays in liquidating 20 out of the 30 project cash advances reviewed. Of the 20, 7 cash advances totalling $156,000 were liquidated more than 100 days after the conclusion of the project activities. The remaining 13 cash advances were liquidated between 30 and 100 days after the conclusion of the project activities. Furthermore, the Office released 8 out of 30 project cash advances although previous cash advances were not yet liquidated.

Recommendation 8: The Office should further enhance controls over project cash advances by: (a) establishing specific procedures to ensure liquidation of project cash advances seven days after completion of the project activities and avoiding releasing cash advances until previous advances are fully liquidated; and (b) exploring options to further reduce the level of project cash advances.

Implementation status of previous OAI audit recommendations: Report No. 1412, dated 6 March 2015.
Total recommendations: 12
Implemented: 12

Management comments and action plan

The Resident Representative accepted all 10 recommendations and is in the process of implementing them.

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

Helge S. Ostvetein
Director
Office of Audit and Investigations