AUDIT

OF

UNDP NEPAL

UN Interagency Rehabilitation Programme
(Directly Implemented Project No. 00060018)

Report No. 989
Issue Date: 12 November 2012
Executive Summary

From 12 to 29 June 2012 the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through NK Sharma & Co (the audit firm), conducted an audit of UN Interagency Rehabilitation Programme, Project ID 00060018 (the Project), which is directly implemented and managed by the UNDP Country Office in Nepal (the Office). The audit firm was under the general supervision by OAI in conformance with the International Standards for the Professional Practice of Internal Auditing.

The Project reported expenditure totalling $3.4 million during the period from 1 January to 31 December 2011. The Project was funded by United Nations Peace Fund and UNDP.

Audit scope and objectives

The audit firm conducted a combined financial audit and audit of internal controls and systems to express an opinion on whether the financial statements present fairly, in all material aspects, the results of the Project’s operations, as well as assess compliance with UNDP regulations, rules, policies and procedures and donor agreements. The audit covered the review of the Project’s Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2011 and Statement of Assets as of 31 December 2011. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, project management, human resources management, financial and cash management, procurement, asset management, information systems; and general administration.

Scope limitation: The audit excluded expenses amounting to $496,000 which appeared under the UNDP disbursement column of the Combined Delivery Report as these expenses pertained to salaries, other benefits and expenses related to international staff for which payments were effected outside the Office.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, OAI assessed the management of the Project as partially satisfactory, which means “Internal controls, governance and risk management processes as applicable to the Project’s financial statements 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 processes. The details of the audit results are presented in Figures 1 and 2.

Figure 1: Summary results of the financial audit

<table>
<thead>
<tr>
<th>Project Expenditure</th>
<th>Project Assets</th>
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<tbody>
<tr>
<td>Amount (in $’000)</td>
<td>Opinion</td>
</tr>
<tr>
<td>3,433</td>
<td>Qualified</td>
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NFI = Net Financial Impact

The audit firm qualified its opinion on project expenditure due to the following:

i) Prior period expenditure amounting to $78,544.55 included in Combined Delivery Report for 2011;
ii) Advances outstanding with Regional Field Office booked as expenditure amounting to $ 84,157.87;
iii) Booking of purchase orders that should not have been created/or should have been cancelled of $182,313.67 and exchange gain associated with it amounting to ($18,467.31);
iv) Booking of expenditure not related to the project amounting to $17,046.64;
v) Excess charging of General Management Service Charges (GMS) for the year 2011 by US$ 32,540 due to wrong calculation made while charging GMS in 2011 based on revised method;
vi) Excess recovery of Program Implementation Support Unit cost of $6,542.09, and
vii) Monitoring and Evaluation and Communication cost for fourth quarter recovered during 2012 of ($25,928).

Figure 2: Internal controls and systems audit ratings summary

<table>
<thead>
<tr>
<th>Audit Areas</th>
<th>Not Assessed/Not Applicable</th>
<th>Unsatisfactory</th>
<th>Partially Satisfactory</th>
<th>Satisfactory</th>
</tr>
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<tbody>
<tr>
<td>1. Organization and staffing</td>
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<td>2. Project management</td>
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<td>3. Human resources management</td>
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<td>4. Financial and cash management</td>
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<td>5. Procurement</td>
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<td>6. Asset Management</td>
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<td>7. Information systems</td>
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<td>8. General administration</td>
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Key issues and recommendations

The audit raised five issues. There are five recommendations, of which three (60 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.” These recommendations include actions to address weaknesses noted in financial management processes.

Organization and Staffing (Issue 1)  Charging of recoverable costs not done properly. The project was overcharged $39,000 in respect of GMS and programme implementation support costs. OAI recommends that the Office make the necessary adjustments to correct the overcharge.

Financial and cash management (Issue 4)  Combined Delivery Report did not fairly present expenses for year 2011. There were several instances of 2010 expenses which were charged in 2011. In addition, advances amounting to $84,000 were incorrectly recorded as expenses. Several instances of poor use and management of purchase orders were also noted. OAI recommends that controls be enhanced to ensure that financial processes are undertaken in compliance with UNDP’s programme and operations policies and procedures.

Procurement (Issue 5)  Procurement done without raising purchase orders. Procurements of goods and services amounting to $96,000 were undertaken without raising purchase orders. OAI recommends that purchase orders are raised for procurement of goods and services which exceeds $2,500 as per UNDP’s programme and operations policies and procedures.
Management's comments

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

Egbert C. Kaltenbach
Director
Office of Audit and Investigations