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AUDIT

OF

UNDP GLOBAL SHARED SERVICE CENTRE

IN

MALAYSIA

Report No. 1242

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Report on the audit of Global Shared Service Centre
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Global Shared Service Centre (the Centre) in Malaysia from 11 to 26 November 2013. 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 (organizational structure, roles and responsibilities, risk management, reporting, internal control and monitoring);

(b) strategy (alignment of the Centre's mandate to the UNDP corporate strategy, its strategic role and responsibilities as part of the Office of Financial Resources Management and as a service office for other UNDP offices and bureaus);

(c) operations (revenue management, asset management and Document Management Systems support, and the Centre's own operational such as human resources, finance and budget); and

(d) Information Technology (IT) tools.

The audit focused on the activities of the Centre from 1 January 2012, when operations started, to 30 September 2013. The Centre recorded management expenses totalling $5.6 million. The last audit of the Centre was conducted by the United Nations Board of Auditors in 2012 and the results of their work were included in their Audit Report on the Financial Statements of UNDP for the year ended 2012. This is OAI's first audit of the Centre.

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

Overall audit rating

OAI assessed the Centre as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity."

Since its establishment in January 2012, the Centre provided services and support for revenue and assets management, which were the two significantly changed business processes since UNDP had transitioned from the United Nations System Accounting Standards (UNSAS) to International Public Sector Accounting Standards (IPSAS) in the preparation of the financial statements. Following this transition in 2012, the United Nations Board of Auditors expressed an unqualified audit opinion on UNDP's first IPSAS-compliant financial statements for the year ended 2012.[1]

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[1] A/68/5/Add.1, United Nations Development Programme, financial report and audited financial statements for the year ended 31 December 2012 and report of the Board of Auditors, United Nations, NY, 2013.

Key recommendations: Total = **7**, high priority = **1**

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. The high (critical) priority recommendation is presented below:

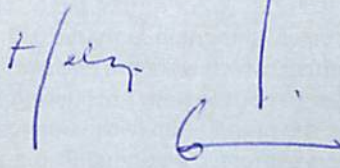|	
Lack of documentation of risk management activities (Issue 1)	When the Centre was being established in 2011, the Office of Financial Resources Management conducted a risk assessment, where key risks were identified and fully documented. Since then, the risk log has not been updated. According to management, risk management activities were carried out since the Centre started operations, but these were not documented through the risk log or through an alternate method.

Recommendation:
(a) Enhance the documentation of risk management activities based on a regularly conducted risk analysis and management processes (risk identification, assessment, prioritization and mitigation) by completing and maintaining an updated risk log; and
(b) Document lessons learned as reference and guidance for future changes and improvements, including possible expansion of scope and responsibilities.

Management comments and action plan

The Director of the Office of Financial Resources Management (the parent entity of the Centre) and the Director of the Office of Information Systems and Technology accepted the recommendations addressed to their respective offices and are 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.

Helge S. Osttveiten
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Office of Audit and Investigations

I.   About the Centre

The Global Shared Service Centre, located in Cyberjaya, Malaysia, is part of the Office of Financial Resources Management of the Bureau of Management, and officially started its operations on 1 January 2012. Its objective was to support the increased workload in financial transactions arising from the adoption of IPSAS. Initially, it was intended to provide support to UNDP globally in processing asset, revenue and expense management in accordance with IPSAS.

(a) For revenue management, the services in scope include the review and entry of agreements in Atlas and all related activities (e.g. new agreements, deposits, amendments) as basis for revenue recognition and provisions for doubtful accounts.

(b) For assets management, the Centre processes and records in Atlas all activities involving asset acquisitions, adjustments, disposals, losses and depreciation.

(c) Expense management has not been pursued by the Centre in 2012 to date. Following the UNDP Structural Review in 2013, transfer of additional services to the Centre, including the expenses management is being considered. The exact scope of additional business processes and changes has not yet been determined.

The Centre had a total of 39 personnel at the end of September 2013, including 6 individual contract consultants. During the period under review, the Centre incurred $5.6 million in expenses ($4.7 million for staff costs and $0.9 million for general operating expenses).

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Governance (organizational structure, job descriptions)</u>. OAI determined that the organizational structure, including internal and external periodic reporting to and communication lines with UNDP Headquarters bureaux, Regional and Country Offices met existing objectives. Job descriptions of the Centre's management and staff were found to be complete and informative.

(b) <u>Operations</u>. The Centre's own operations relating to human resource management, finance and budgeting were supported by the UNDP Country Office in Malaysia. OAI's review of monthly expenditures and interviews with relevant personnel in the Country Office did not reveal any significant variances or issues.

During the audit, OAI was informed that the Centre obtained high scores in the last client survey.

OAI proposes seven recommendations that are ranked high (critical) and medium (important) priority. Six of these recommendations are addressed to the Office of Financial Resources Management with one requiring consultation with the Office of Information Systems and Technology. One is addressed to the Office of Information Systems and Technology.

Low priority recommendations were discussed directly and agreed with the Centre management and are not included in this report.

High priority recommendation:
(a) Enhance documentation of risk management activities with an updated risk log and document lessons learned (Recommendation 1).

Medium priority recommendations, arranged according to significance:

(a) Implement without delay more comprehensive system enhancements agreed upon between the Centre and the Office of Information Systems and Technology (Recommendation 7).

(b) Review and communicate the evolving roles and responsibilities of the Centre and update the relevant documents (Recommendation 3).

(c) Update Section 4 - Financial Clauses of the Revenue Module Checklist form (Recommendation 4).

(d) Institute modalities for more efficient performance of asset management related tasks (Recommendation 5).

(e) Define and establish a structured process for the handling, escalation and resolution of unresolved cases of asset management related tasks (Recommendation 6).

(f) Complete the Centre's Business Continuity Plan (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance

Issue 1   Lack of documentation of risk management activities

The UNDP Programme and Operations Policies and Procedures on Enterprise Risk Management provide that the unit's senior management ensure that major risks (threats/opportunities) are identified, assessed and prioritized and that the unit risk assessment should continuously be updated.

When the Centre was being established in 2011, the Office of Financial Resources Management conducted a risk assessment, where key risks were identified and fully documented. Since then, the risk log has not been updated. OAI was not provided with an up-to-date risk log where risks were identified, assessed and mitigated on an ongoing basis. According to management, risk management activities were carried out since the Centre started operations, but these were not documented through the risk log or through an alternate method.

As envisioned, there are anticipated changes to further expand the roles and responsibilities of the Centre with the ongoing Structural Review. In implementing significant corporate decision to consolidate and off-shore common services, the absence of a documented risk management process may deprive the organization from the opportunity to learn lessons from this initiative of setting up the Centre and make a more informed decision in the future. This is especially useful as it appears that the Centre had successfully supported the transition of the Organization from UNSAS to IPSAS. The expected expansion on the scope of the Centre may give rise to new significant risks (e.g., non-availability of qualified staff, weak management structures, limited facilities and technological infrastructures, dependencies on other Headquarters bureaux, inadequate IT systems to carry out new transactions and support for and monitoring of increased workload).

Priority	High (Critical)
Recommendation 1:	
(a) Enhance the documentation of risk management activities based on a regularly conducted risk analysis and management processes (risk identification, assessment, prioritization and mitigation) by completing and maintaining an updated risk log; and	
(b) Document lessons learned as reference and guidance for future changes and improvements, including possible expansion of scope and responsibilities.	

Responsible HQ bureau: Office of Financial Resources Management/Global Shared Service Centre
Management action plan: Risk management processes will be better documented through updating of the risk log. **Estimated completion date:** 1 May 2014

Issue 2   Inadequate business continuity management

The policy statement on UNDP business continuity management provides that the central elements of business continuity management are:

(a) incident management, which involves crisis/emergency/disaster response and recovery activities to be set out in Security, Crisis Communication and IT Disaster Recovery Plan; and

(b) business continuity, which involves recovery strategies for critical business functions reflected in a business continuity plan.

The Centre's Business Continuity Plan that was presented to OAI covered mainly IT-related aspects and was essentially a disaster recovery plan. No information was available on activation mechanisms, communication arrangements, incident response, recovery of critical functions/activities, recovery time objectives and business resumption for business continuity.

The absence of a complete and comprehensive business continuity plan may lead to the unavailability of important information and/or guidance that may be needed during emergencies or disaster situations. These could result in the taking delayed actions or making erroneous decisions and put at risk critical operations and delivery of services by UNDP bureaux and Country Offices as well as that of the Centre.

Priority	Medium (Important)
Recommendation 2: (a) Complete the Centre's Business Continuity Plan based on a business impact analysis, and add missing elements, such as: plan activation mechanisms; responsibilities of all expected participants; incident response structure; scenarios; devolution; plan maintenance and testing; recovery plan for critical functions/activities; and business resumption plan. (b) Define specific recovery time objectives for the Centre's operations and agree to these with the Centre's clients. (c) Test all elements of the Business Continuity Plan on a regular basis. **Responsible HQ bureau:** Office of Financial Resources Management/Global Shared Service Centre	

Management action plan:

The Centre's Business Continuity Plan is presently being updated.

Estimated completion date: April 2014

B.   Strategy

Issue 3   <u>Inadequate communication on the evolving role and responsibilities of the Centre</u>

The Centre was created as part of the Office of Financial Resources Management, with the Head of the Centre directly reporting to the Deputy Director (Finance and Administration) to centralize knowledge and ensure quality and efficiency of accounting processes, and facilitate UNDP's introduction of IPSAS. The Centre's success was heavily dependent upon the support and cooperation of other Office of Financial Resources Management units and other bureaux.

During the planning phase, it was foreseen that the Centre would be responsible for assets, revenue and expense management. When the Centre went live, the Office of Financial Resources Management decided to focus on revenue and asset management. According to management, this was due to well-functioning processes in expense management that were being performed by the Headquarters bureaux and offices.

OAI noted that the Centre's intended roles and responsibilities were communicated within UNDP before its establishment in 2012. However, as the Centre started to operate, the evolving roles and responsibilities were not being reflected in the relevant documents and not being consistently communicated to other parts of the organization. At the time of the audit, there was lack of clarity and consistency in communicating the revised roles and responsibilities of concerned offices. Examples of the responsibilities that were not well clarified and communicated were: the transfer of the authority for clearance of contribution agreements from the Bureau of External Relations to the Legal Support Office; and the requirement to review contribution agreements given to the Centre (requirement for such function was raised in a previous OAI audit (Report No. 773, Audit of UNDP Management of Third Party Cost Sharing Resources). Further, the service agreement between the Centre and Regional/Central Bureau was not formally and consistently communicated to all Country Offices.

The Centre's roles and responsibilities had been referred to and mentioned in various documents, some of which were created during, but not updated since the initiation phase of the Centre. These documents included the following: Internal Control Framework; the Programme and Operations Policies and Procedures on assets and non-core contributions; service agreements between the Centre and Regional/Central Bureaux; and the Office of Financial Resources Management Guidance Note for the Review of Non-Standard Agreements (see Issue 4, Operations - Revenue Management). To date, there is no complete and up-to-date documentation of the Centre's roles and responsibilities, as well as its work flow and responsibility, accountability, authority, consultation and information relationship with other Headquarters offices (Office of Financial Resources Management, Bureau of External Relations and Advocacy, Legal Support Office), even for its existing service lines of assets and revenue management.

Further, on asset management, the Programme and Operations Policies and Procedures stipulate the specific responsibilities of the Centre. OAI noted that three of these responsibilities were not carried out by the Centre on a systematic basis. These tasks were:

(a) reviewing asset summary and other exception reports with a view to identifying large or unusual transaction balances that may have been due to errors or irregularities;

(b) ensuring the timely recording of assets by reviewing exception reports to the three-way matching process in Atlas; and

(c) reviewing reports on freight and installation costs to ascertain if these required capitalization.

According to the Office of Financial Resources Management, these tasks were performed by other Office of Financial Resources Management units. However, these changes were not based on a written policy or on standard operating procedures, and actually remain the responsibility of the Centre.

Unclear and outdated policies and other official documents prescribing the specific roles and responsibilities of the Centre and other concerned offices may lead to confusion, inefficiencies and duplication of tasks or tasks not being carried out at all.

Priority	Medium (Important)
Recommendation 3: (a) Regularly review and update the roles and responsibilities of the Centre in the Programme and Operations Policies and Procedures and other relevant documents as they evolve, as well as the necessary working relations between the Centre, other bureaux and Country Offices, and the other units in the Office of Financial Resources Management; and (b) Post on the Centre's intranet site its roles and responsibilities, detailed information on the services it provides, and a template of the service agreement for easy access and as reference for all users and clients. **Responsible HQ bureau:** Office of Financial Resources Management/Global Shared Service Centre	
Management action plan: **Estimated completion date:** March 2015	

C. Operations - Revenue management

Issue 4   Unclear guidance and documentation on assessing new types of agreements

On revenue management, the Centre's staff review new standard and non-standard revenue agreements (mostly financial clauses). Where standard template agreements are provided by the Bureau of External Relations and Advocacy (where available) the Centre establishes whether there is any variance between the two documents.

New non-standard revenue agreements that do not follow the standard templates provided by the Bureau of External Relations and Advocacy require clearance from the Legal Support Office. Previously, they required clearance from Bureau of External Relations and Advocacy.

The detailed requirements for the clauses in these agreements were not defined in the Programme and Operations Policies and Procedures, or in the standard operating procedures. These were not also reflected in

the Revenue Module Checklist, which is a form used by the Centre in documenting their review of agreements. Where template agreements were available, the extent (if any) by which the Centre was allowed to deviate from the standard clauses in the template was not clearly stated.

A case in point is a third party cost-sharing agreement reviewed by OAI. A comparison between the agreement on file and the template on the Bureau of External Relations and Advocacy intranet site revealed that not all the wording in both documents exactly matched. The Revenue Module Checklist form used for the review was given the note "passed". OAI observed that overall, descriptions of the test items for standard and non-standard revenue agreements in the Revenue Module Checklist, Section 4 in particular, was not clear enough to guide the Centre reviewer in all cases. For instance, test questions and statements such as "bank information is stated" or "cost recovery allowable and meets the requirements" could have been open to interpretation by staff members and did not encourage consistent application and verification of the clauses of the agreements.

OAI further observed that when the Centre's staff identified discrepancies between revenue agreements received and the templates, they were sent back to the Bureau of External Relations and Advocacy for clearance. The clearance e-mail from the Bureau did not include the necessary information showing who approved the agreement, what version of the revenue agreement was being cleared and the date when the agreement was reviewed by the Bureau of External Relations and Advocacy.

Lack of clarity, lack of detailed guidance, and inconsistent application of tests and checks made in the review of standard and non-standard revenue agreements may result in concluding agreements with clauses that expose UNDP to legal or financial risks.

Priority	Medium (Important)
Recommendation 4: Update Section 4 – Financial Clauses (Standard/Non-Standard revenue agreement test) of the Revenue Module Checklist by clearly indicating what each test should include, who approved the agreement, which version was approved, and the date of approval. **Responsible HQ bureau:** Office of Financial Resources Management/Global Shared Service Centre	
Management action plan: A formal comprehensive standard operating procedure for non-standard revenue agreements is under development. **Estimated completion date:** June 2014	

D.   Operations - Asset management

Issue 5   Inefficiencies in assets management

During the period under review, the Centre performed a total of 12,929 tasks on asset management in Atlas. Due to time and staff constraints, the Centre had to perform tasks involving 3,269 "basic adds" (i.e. registration of

assets) and 4,226 "disposal in error" (i.e. removal of assets from Atlas) in Atlas. These "basic adds" and "disposal in error" tasks were to correct erroneous codes used by the Country Offices, and represented approximately 57 percent of all asset management tasks performed by the Centre. Management indicated that a significant portion of these tasks would not have been undertaken by the Centre's staff if the Country Offices used the right codes in the UNDP catalogue.

OAI also noted that Country Offices did not always submit to the Centre a complete set of documents needed for appropriate processing and recording of assets in Atlas. Through discussions with the Centre's management and review of task cases, OAI estimated that up to 37 percent of asset management tasks logged through the Document Management System were incomplete, and the Centre had to send these back to the concerned clients for additional information, clarification and/or documentation. This process was often lengthy and inefficient.

The Centre maintained regular communication with the concerned Regional Bureaux on weaknesses noted and conducted training for staff in Country Offices. However, these training activities were not directed to Country Offices with reported high error rates or to staff directly involved in the recording of acquisition of assets. For example, no training was conducted for Haiti and Colombia, the top two countries that required corrections with "disposal in error" tasks.

It was further noted that the Document Management System did not have certain built-in controls that would have clearly specified all the necessary supporting documents for asset related transactions (for example, having a mandatory field that requires the uploading of a copy of a lease contract for lease-related requests).

According to the Office of Information Systems and Technology, it would be ideal for modifications and system enhancements for asset management related tasks to be addressed within the context of organizational changes and the expanded role of the Centre. However, implementation will be subject to approval by the ICT Governance Group and identification of funding for the project.

Without accurate and sufficient supporting information, efficient processing of asset management tasks could be hindered and could prevent the staff from performing their required tasks and put at risk the accounting of assets.

Priority	Medium (Important)

Recommendation 5:

Institute modalities for more efficient performance of asset management related tasks by:

  (a) continuing to analyze the error rates by Country Office in asset management submissions and immediately communicate the issues with the concerned Regional Bureaux and Country Offices so that corrective measures can be taken;

  (b) developing a training module that addresses common weaknesses and conduct focused training on where the highest efficiency gains can be achieved; and

  (c) discussing with the Office of Information Systems and Technology system enhancements of the Document Management System to facilitate the submission of complete information to the Centre in order to increase efficiency.

Responsible HQ bureau: Office of Financial Resources Management/Global Shared Service Centre in consultation with the Office of Information Systems and Technology

Management action plan:

(a) & (b) Training will be offered to those Country Offices/Headquarters units that are indicating high error rates with asset submissions, and Regional Bureaux will continue to be advised of the issues through the Quarterly Global Shared Service Centre Regional Reviews.

(c) The Centre is currently reviewing the Document Management System in terms of process efficiencies and will discuss findings and opportunities for mandatory fields with the Office of Information Systems and Technology in the near future.

Estimated completion date: December 2014

Issue 6	Weaknesses in the management and follow-up of unresolved cases of asset management

The Centre used the Atlas Customer Relationship Management System to support the tracking of the asset management related tasks performed by Country Offices. OAI was informed that unresolved cases were closed by the Centre in the Customer Relationship Management System module after 14 days of unsuccessful follow-up with the Country Offices for submission of complete information and documents. Best practice requires that such unresolved cases be followed up in a formal and systematic manner and resolved in a timely manner. It was noted that the Centre had not implemented a formal and consistent process of following up with the Country Offices on these cases, some of which had financial implications. This process of closing unresolved cases is not documented in the Programme and Operations Policies and Procedures or the Centre's standard operating procedures.

The Centre stated that the responsibility for following up with the respective Country Offices had been assigned to the staff processing the respective cases. However, the frequency of follow-up or escalation process for long-outstanding cases had not been clearly defined.

The lack of clear and defined rules and procedures for resolving unresolved cases and varied follow-up procedures could lead to the inconsistent treatment of cases and could have financial implications.

Priority Medium (Important)

Recommendation 6:

Define and implement guidelines through standard operating procedures on the handling and resolution of unresolved cases, including follow-up and escalation processes, to ensure consistent application by the Centre's staff.

Responsible HQ bureau: Office of Financial Resources Management/Global Shared Service Centre

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Management action plan:

A formalized escalation procedure will be prepared and implemented for the Centre.

Estimated completion date: June 2014

E.   IT tools

Issue 7   Inefficient and ineffective IT systems and environment

Generally accepted IT principles require that IT assets (such as tools and systems) be placed into service to help achieve business goals, and be constructed and implemented in a way that supports staff to perform their tasks and strengthen the overall internal control environment.

With regard to the IT systems and environment, several issues that had an impact on the efficiency of the Centre's operations were identified.

Overall, OAI noted that systems used by the Centre were not integrated and required repetitive manual data entry (e.g., contract number, case number, donor, fund amount) into the Document Management System, Customer Relationship Management System of Atlas. The Centre indicated that when there are tasks requiring manual work-around and duplicate action (on more than one system), approximately 30 percent of additional time is required for these manual processes. Further, the following were observed:

- The Centre's requests for system improvements had been communicated to the Office of Information Systems and Technology on several occasions in 2013, including changes to the Customer Relationship Management System of Atlas, which did not effectively support monitoring of work distribution and work completion. However, solutions had not been provided. No deadlines for completing the Centre's requirements were provided by the Office of Information Systems and Technology. According to this Office, certain changes were put on hold due to expected, but not yet fully known changes of the Centre's responsibilities in the course of the UNDP Structural Review. Further analysis and further discussion with the Centre and the Office of Financial Resources Management is needed in order to avoid developing stand-alone solutions (e.g., further development of the Document Management System or Customer Relationship Management System). In addition, the increased scope of tasks for the Centre will require a redesign of the existing IT security architecture in Atlas.

- The Centre is the business owner of the Document Management System. It relies, however, on the Office of Information Systems and Technology technical support in case of system disruptions. Due to the different time zones, the technical support is not always readily available during the Centre's office hours. There is no local Document Management System IT focal point with relevant authorities at the Centre, e.g., to restart and terminate workflows.

The lack of streamlined and well integrated IT tools hinders the efficiency of business operations. Manual processing and inputting data several times in different systems increases the risk of incorrect recordings. The existing support arrangements may lead to system downtimes and delays in processing tasks, as well as backlogs and duplication of work.

Priority	Medium (Important)

Recommendation 7:

Implement without delay the required system enhancements agreed upon between the Centre and the Office of Information Systems and Technology by:

(a) developing more comprehensive, longer-term solutions to support the Centre's business requirements, taking into account requirements of all parties concerned and their interdependencies, value-for-money, efficiency and effectiveness of solutions; and

(b) developing and implementing in collaboration with parties concerned more suitable solutions in the Document Management System for carrying out low risk administration tasks (such as restarting and terminating workflows) locally in Malaysia.

Responsible HQ bureau: Office of Information Systems and Technology

Management action plan:

(a) Specific technical solutions/alternative approaches to address the issue will be discussed with business owners, with system changes contingent upon approval by the IT Governance Group and identification of funding for the project.

(b) The Centre and the Office of Information Systems and Technology will identify an appropriate approach.

Estimated completion date: (a) December 2014, (b) October 2014

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**   Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory**   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.

- **Unsatisfactory**   Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**   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.

- **Medium (Important)**   Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low**   Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.