UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP CLUSTERING PROCESS

Report No. 1912

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Report on the Audit of the UNDP Clustering Process
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP clustering process from 29 January to 31 March 2018. The audit aimed to assess UNDP's progress in implementing the clustering process, including whether the corporate clustering process was designed with a clear business case, objectives, budget, and governance mechanisms; as well as whether the clustering process to date has achieved the expected results, particularly the Regional Bureau for Asia and the Pacific (RBAP) financial clustering. The audit covered the clustering process from 1 January 2013 to 31 March 2018.

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

Overall audit rating

OAI assessed the UNDP clustering process as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to lack of implementation of the Executive Group's decision on corporate clustering, lack of end-to-end process and functional analysis, poorly defined role of the Global Shared Services Unit (GSSU), and lapses in the business process re-engineering.

Key recommendations: Total = **10**, high priority = **5**

Objectives	Recommendation No.	Priority Rating
1. Corporate clustering process was designed, with a clear business case, objectives, budget, and governance mechanisms.	1, 2, 3, 6	High
	4, 5, 7, 8	Medium
2. The clustering process to date has achieved the expected results, particularly the RBAP financial clustering.	10	High
	9	Medium

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:

Lack of implementation of the Executive Group's decision on corporate clustering (Issue 1)	In July 2013, the UNDP Executive Group endorsed the regional clustering approach for human resources and procurement services and the global approach for financial services at the GSSU in Kuala Lumpur. However, the process came to a halt in early 2014, without a formal decision. At the same time, Regional Bureaux instructed Country Offices (COs) to prepare financial sustainability and effectiveness plans, which needed to factor in the organization's proposed efforts to cluster select services related to finance, procurement and human resources. These plans included cutting various posts. Though COs prepared plans and abolished positions in some instances, there was no follow-up by the organization and therefore, many COs in the Regional Bureau for Latin America and the Caribbean (RBLAC) reduced their operational capacity. However, this was not followed by an organization-wide service

	offering to substitute that reduced capacity, thus, exposing UNDP COs to operational constraints.
	<u>Recommendation 1:</u> In coordination with the Executive Group, the Bureau for Management Services should prepare a proposal to the Executive Group to revisit the design of the corporate clustering process. The Executive Group decision should be clearly communicated to the business units.
Lack of project management (Issue 2)	There was no adequate project management structure in place to design, plan and implement the corporate roll-out of clustering across UNDP. This included the lack of a dedicated project manager and team for the overall clustering project, as well as the lack of a process owner, and there was no budget and definition of project deliverables. In addition, there was no Project Board established, and no meetings took place.
	<u>Recommendation 2:</u> The Bureau for Management Services should establish a project management structure and follow well-established project management principles for its corporate clustering. The project set-up would benefit from following good practices from other agencies (e.g., funding needs to be provided, and cross-cutting team with members from different Bureaux).
Absence of end-to-end cross-functional analysis of business processes, and criteria for successful clustering not adequately defined (Issue 3)	From the outset, UNDP did not adopt a clear, comprehensive, cross-functional end-to-end plan, but instead designed separate streams for finance, human resources and procurement activities. These processes were presented as separate streams with little coordination or complementarity in their approach and objectives, and without building on the existing capacity at the GSSU. Furthermore, the GSSU developed key performance indicators (KPIs) to measure its performance in providing services under the Regional Bureau for Asia and the Pacific (RBAP) pilot. These KPIs were included in the Service Level Agreement (SLA) and were limited to tracking the delivery time for some processes. However, they were not developed so as to assess the utility of the services, like measuring the cost per transaction, cost savings, as well as tracking continuous improvements.
	<u>Recommendation 3:</u> The Bureau for Management Services should, as part of the proposal to the Executive Group, define clearly all the business processes in the clustered services.
Poorly defined role of Global Shared Services Unit (Issue 5)	For the RBAP financial clustering, the role of the GSSU was not defined, thus making it difficult to design effective and efficient business processes that would clearly delineate the role and work of the COs and those of the GSSU. For example, it was never defined whether the role of the GSSU would be simply administrative (i.e., where staff would simply enter transactions following approval at the CO level or whether the GSSU role would be to perform the entire procure-to-pay or other process, with a level of approval authority at the GSSU level and minimal involvement from the COs). The use of the GSSU by COs was not mandatory, and most Atlas profiles/rights remained with CO staff, even when transactions had been transferred, creating duplication of work and inefficiencies for the organization.

	Recommendation 6: The Bureau for Management Services should, in its submission to the Executive Group, define the role of the GSSU and ensure that it has the right capacity to support the corporate clustering.
Lapses in the business process re-engineering (Issue 9)	A review of the standard operating procedures (SOPs) for bank reconciliation, procure-to-pay, payroll, deposit creation and application, and bank transfers, as well as walkthroughs with the relevant team leaders during the audit, showed a significant number of process inefficiencies arising from overlaps or outright duplications of actions by the COs and the GSSU. Most duplications had to do with various checks and control points along the process. For seven processes, supporting documentation had to be gathered, reviewed, and scanned by the CO before making a payment request via the Oracle CX platform.
	Recommendation 10: The Bureau for Management Services should undertake a thorough review of current SOPs across all areas of financial clustering and relevant business processes to streamline the process and remove unnecessary overlaps and duplications. Additionally, areas such as external access to Atlas and the use of E-invoicing should be explored further.

Management comments and action plan

The Assistant Administrator and Director of the Bureau for Management Services accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the UNDP clustering process

Accelerating UNDP Country Office (CO) operations and delivery have been among the key objectives of UNDP senior management. To achieve this goal, various strategies have been put in place, including through attempts to cluster key operational functions and services. The UNDP clustering approach was single-agency based and multidimensional. In some instances, it included the provision of services to COs from other COs (horizontal clustering). There was also the provision of services to COs from Regional Hubs (vertical clustering), and finally there was the provision of finance and human resources services from the Global Shared Services Unit (GSSU) (internal outsourcing). Certain procurement functions have also been provided to COs through teams in Copenhagen and Kuala Lumpur.

At the Executive Group retreat in January 2013, the Executive Group discussed clustering CO back office functions as part of the Country Office Business Model Project, based on the results of a case study in Papua New Guinea. The Executive Group confirmed that clustering, together with other proposed measures, offered significant potential benefits in terms of increased agility, improved performance, effectiveness and efficiency, and discussed the clustering of finance, human resources and procurement services for several COs.

The need for clustering was reemphasized in the 'UNDP Strategic Plan 2014-2017' where UNDP committed to transform the institutional backbone of UNDP and allow the organization to leverage its resources in the most effective and cost-efficient way.

Clustering emerged again in late 2017 as part of the United Nations system reform, where the Secretary-General committed to the establishment of common back offices for all United Nations country teams by 2022. That meant that all location-dependent services would be consolidated at the country level. While the United Nations focus would remain on the business operations on the ground, a redesign of Headquarters structures may have been required. As part of that effort, the United Nations was exploring various options, including the possible consolidation of location-independent business operations into six to seven networks of shared services centres. The networks would be managed by the larger entities in the system to take advantage of their scale and geographical coverage and would offer services to other entities in the system.

UNDP senior management embraced this new reality, and, as part of the 'UNDP Strategic Plan 2018-2021', committed to transforming the organization into becoming the backbone of the United Nations Development System with the aim to improve operational service arrangements for the United Nations system. UNDP's aim was to strengthen its client orientation and to offer other agencies better operational support on request, either towards implementing programmes in countries where donors are not present, or to reduce the need for other agencies to have operational capacities on the ground.

The Global Shared Services Unit

The shared services concept has been around for more than 25 years and has significantly increased since its inception. More than 75 percent of the Fortune 500 organizations have implemented shared services in some form. Organizations initially leveraged shared services for transactional, checklist-based finance activities to support a single country or business unit. As they began to see success with centralizing transactions processing, the more progressive organizations continued to push the envelope by expanding to regional operating centres, and eventually into global business services models. However, the evolution has not been limited to a geographic footprint. Organizations have and will continue to migrate additional functions and processes into the shared services environment in order to maximize the associated benefits. Higher value, judgment-based finance activities have become commonplace in shared services centres. Other back office functions including human resources, information technology, and procurement have become more common as organizations gain confidence in their existing shared services centre models.

UNDP established the GSSU in 2003 to provide human resources and financial services to UNDP and other United Nations agencies globally. The GSSU human resources section in Copenhagen provides human resources administrative services to UNDP and United Nations partner agencies for international staff members recruited on fixed-term appointments and temporary appointments (excluding Junior Professionals), as well as General Service staff based in New York. It also provides payroll and related services to more than 35,000 personnel (staff, service contractors, United Nations Volunteers) of UNDP and United Nations partner agencies, in approximately 170 locations. In late 2017, the Joint Human Resources Facility for Job Classification and Reference Checking was launched in Bonn, Germany.

The GSSU Global Financial Services in Kuala Lumpur provides global financial shared transaction services, analytics and associated training services to UNDP units, including bank reconciliations, contribution management, accounting for property, plant, equipment, and intangible assets, review of CO asset certification submissions, cash and investment accounting, payment services, including accounts payable, travel claims and travel payments, position management, and accounting for payroll/post-payroll of international and New York-based local UNDP staff and other agencies' staff.

A Procurement Unit in Copenhagen concentrates on complex procurement capacity-building and training and specialized advisory and business partnering to elections, health, crisis response and energy and environment. A procurement group in Kuala Lumpur, which is part of the UNDP Office of Sourcing and Operations and is independent of both the CO and the GSSU, provides non-specialized procurement services and conducts procurement for delivery of all goods and services upon request from COs.

Audit objective

The objective of the audit was to assess UNDP's progress in implementing the corporate clustering process, including whether it had set clear objectives, whether it was managing the process effectively, and whether the objectives of the clustering process were being achieved. The audit also assessed whether the conditions were in place for upscaling the clustering process.

Specifically, the audit addressed the following questions and sub-questions:

1. Was the corporate clustering process designed with a clear business case, objectives, budget, and governance mechanisms?
   (a) Were clear objectives identified, including a feasibility study and a business case?
   (b) Was there a clear plan for implementing UNDP corporate clustering, including the establishment of milestones and key performance indicators (KPIs)?
   (c) Was the role of GSSU properly defined to adequately support the corporate clustering process?
   (d) Did UNDP establish effective governance and oversight mechanisms including system tools to monitor the clustering process, and is monitoring taking place as planned?

2. Has the clustering process to date achieved the expected results, particularly regarding the Regional Bureau for Asia and the Pacific (RBAP) financial clustering?
   (a) Have efficiency gains been achieved in the COs where operations have already been clustered?
   (b) Have operational risks been reduced as a result of the clustering process?
   (c) Have business processes been improved as a result of the clustering process?

Audit criteria

To form a conclusion against the audit objectives, the following high-level criteria were adopted:

1. The 'UNDP Strategic Plan 2014-2017' stipulates that UNDP's approach to institutional change will be reflected in an organization that visibly and measurably supports countries to achieve their development goals, and with improved effectiveness demonstrated in COs will become both more diverse and more efficient, pursuing options for clustering back office functions in service hubs, in order to free up additional resources for programming. With their Regional Bureau, each CO will have a shared view of the critical functions and capacities it needs to implement programmes effectively and a sustainable and cost-effective plan in place for doing so. It adds that UNDP's universal presence is a key comparative strength but needs to be recalibrated to allow the organization to respond better and more flexibly to changing country needs. This will mean tailoring UNDP's presence to the specific needs and priorities of a country and achieving efficiencies by clustering functions and services. Analysis of the critical functions and purpose in different contexts will, thus, drive a systematic and coherent view of the different UNDP presences required in 2014 and beyond.
2. The UNDP Corporate Accountability Framework (CAF) states that the Bureau Directors should be explicit on the expectations and functional responsibility with their leadership teams, to fulfil the Bureau's accountabilities as specified in the CAF.
3. The Internal Control Framework sets out that the head of office has overall responsibility for establishing and maintaining adequate internal controls in their offices, and for ensuring that the office's internal control procedures are documented.
4. The UNDP Annual Business Plans for 2016 and 2017 refer to the following goals: Advance the implementation of clustering options to enhance cost-effectiveness: (i) continue to roll out the financial clustering pilot, with an initial target of 39 COs, ensuring regular monitoring and reporting of risks, implementation costs, benefits and cost savings, finalize human resources and procurement clustering business cases, and pilot implementation in up to 20 COs; (ii) develop proposals for the expansion of operations clustering in other regions and at Headquarters; and further simplify business processes through standardization, particularly in the Global Shared Services Centres and improve quality of service at a contained cost.
5. The GA Resolution No. 67/226 (2012), on Quadrennial Comprehensive Policy Review of operational activities for development of the United Nations system, requested the United Nations development system funds and programmes to further pursue higher-quality, more effective and cost-efficient support services in all programme countries by reducing the duplication of functions, and administrative and transaction costs, through the consolidation of support services at the country level. The review also requested the funds and programmes to submit a joint plan in this regard to their executive boards at their first regular sessions in 2014.
6. The 'UNDP Structural and Cost Effectiveness Review', including its recommendation on clustering.
7. The Executive Group Submission (July 2013) endorsing the following: Regional approach for clustering of human resources and procurement services; Global approach for clustering of financial services at the GSSU in Kuala Lumpur; savings accrued through clustering to be invested back into the COs to strengthen critically important functions; and the establishment of a Project Board to oversee the initiative, including approval of the geographical locations for clustering hubs based on cost saving and efficiency criteria, and the corporate charging model for all clustered hubs.
8. The e-submission on 'UNDP CO Operations Clustering' dated August 2017, by the Organizational Performance Group.

9. The Integrated Work Plans of the Bureau for Management Services for 2015, 2016 and 2017 (also including the Integrated Work Plans for its business units).
10. The 'UNDP Programme and Operations Policies and Procedures' was used as specific audit criterion where relevant.
11. When relevant, external references were used to compare UNDP's clustering process with other United Nations agencies (including UNICEF and WHO) – similar processes that have been successfully established.

II. Audit results

In addressing the first audit question and sub-questions, the audit disclosed that the corporate UNDP-wide clustering process was never fully implemented, and that it remained localized in one region and for only a limited number of financial services.

Regarding the second audit question and sub-questions, the initial results of clustering in the RBAP region were promising, but there was room for improvement in the areas of efficiency gains and business process reengineering.

OAI made five recommendations ranked high (critical) priority and five recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the relevant Bureaux and are not included in this report.

High priority recommendations ranked according to significance:
- (a) In coordination with the Executive Group, prepare a proposal to the Executive Group to revisit the design of the corporate clustering process (Recommendation 1).
- (b) Establish a project management structure and follow well-established project management principles for corporate clustering (Recommendation 2).
- (c) As part of the proposal to the Executive Group, define clearly all the business processes in the clustered services (Recommendation 3).
- (d) Define the role of the GSSU and ensure that it has the right capacity to support the corporate clustering (Recommendation 6).
- (e) Undertake a thorough review of current SOPs and relevant business processes across all areas of financial clustering, to streamline the process and remove unnecessary overlaps and duplications (Recommendation 10).

Medium priority recommendations, arranged according to significance:
- (a) Develop a comprehensive list of KPIs, baselines and targets for tracking continuous process improvement and client satisfaction (Recommendation 4).
- (b) Articulate and communicate the costing approach and methodology to be used for the provision of clustered services (Recommendation 5).
- (c) Update the 'Operational Guide of the Internal Control Framework for UNDP' with the list of all services provided by the GSSU, including a clear division of roles and responsibilities (Recommendation 7).
- (d) Address the identified weaknesses in the submission and processing of requests, integration with other systems, and reporting (Recommendation 8).
- (e) Update time-motion study to identify how to improve staff utilization (Recommendation 9).

The detailed assessment is presented below, per audit question.

Question 1. Was the corporate clustering process designed with a clear business case, objectives, budget, and governance mechanisms?

(a) Were clear objectives identified, including a feasibility study and a business case?
(b) Was there a clear plan for implementing UNDP corporate clustering, including the establishment of milestones and KPIs?
(c) Was the role of GSSU properly defined to adequately support the corporate clustering process?
(d) Did UNDP establish effective governance and oversight mechanisms including system tools to monitor the clustering process, and is monitoring taking place as planned?

Issue 1 Lack of implementation of the Executive Group's decision on corporate clustering

In July 2013, the UNDP Executive Group endorsed the regional clustering approach for human resources and procurement services and the global approach for financial services at the GSSU in Kuala Lumpur. It further confirmed that any savings accrued through clustering would be invested back into the COs to strengthen critically important functions and noted that cost effectiveness must be the driver of the process, including examining functions currently performed at Headquarters that could be moved to the regional level, as part of the structural review. Three additional benefits expected to materialize from clustering of services were:

a. enhanced quality and consistency of the services;
b. better scalability and responsiveness to new business opportunities; and
c. reinforced compliance and oversight.

Corporate clustering was supposed to commence in the Regional Bureau for Arab States (RBAS) in UNDP Jordan, Iraq, as well as the Regional Programme in Amman; RBAP in UNDP Papua New Guinea, the Regional Bureau for Africa (RBA) in UNDP Lesotho, and Swaziland; and the Regional Bureau for Latin America and the Caribbean (RBLAC) in UNDP Panama, Jamaica, Trinidad and Tobago, Suriname and Venezuela. A Project Board was proposed to oversee implementation of the initiative, including the location of regional clustering hubs and the costing model for services provided by the GSSU.

Various meetings took place during the last quarter of 2013 between the Bureau for Management Services (then Bureau of Management) and the Regional Bureaux. A draft list of services to be offered to COs by the regional and global service hubs for procurement, human resources and finance was prepared, delineating the location of the function/service, division of responsibilities among those involved, as well as the accountability. Standard operating procedures (SOPs) were planned to be drafted and a costing model was developed. However, the process came to a halt in early 2014, without a formal decision.

At the same time, Regional Bureaux instructed COs to prepare financial sustainability and effectiveness plans, which needed to factor in the organization's proposed efforts to cluster select services related to finance, procurement, and human resources. These plans included cutting various posts. Though COs prepared plans and abolished positions in some instances, there was no follow-up by the organization. As an example, seven COs in RBLAC reduced their finance units' capacities. However, this was not followed by an organization-wide service model offering to substitute that reduced capacity with centralized services.

In 2017, the Bureau for Management Services prepared an updated corporate clustering proposal for financial, human resources and procurement services for the Organizational Performance Group meeting of August 2017;

however, the agenda item was not discussed by the Organizational Performance Group and no decision was taken.

In contrast, other United Nations agencies were successful in implementing similar processes. In UNICEF, when the clustering process started, there was clear executive decision-making and the Executive Director was fully involved and invested in the process. The UNICEF Executive Director set the vision for the project but otherwise the project team had free rein in designing new processes. In WHO, the process was rolled out region by region. Senior management in offices were told that they needed to give up a number of transactional services. Then, at an agreed date, WHO's Global Service Centre took over the processing of the transactions. Though it faced teething problems in the first months, the system eventually stabilized and the Global Service Centre started processing transactions better, faster and cheaper.

The audit team noted that there was no corporate direction on how and when the clustering process was expected to take place, or even when the pilot phase would end and what the next steps would be. Bureaux and COs were given the choice to opt in or opt out of the process, which created less incentives towards implementing the clustering process. Further, no quantifiable goals were defined, and no baselines and targets were set. Thus, there was no or very limited acceptance from the Regional Bureaux, with the exception of RBAP. Some Regional Bureaux indicated that the corporate clustering would affect jobs at their locations, or that it would not improve the business process, which further limited the roll-out of clustering. Regarding staff positions, UNICEF was cognizant of this challenge and adopted a different approach. At the CO level, when processes had been clustered, remaining capacity was diverted to support HACT assessments and programme/project management roles. UNICEF also took advantage of natural attrition (i.e., not replacing affected staff who resigned or retired).

Some Regional Bureaux also suggested that the clustering should take place at a regional level to account for time zone and language issues.[1] Even though Kuala Lumpur had been properly selected as a site for the GSSU, and the Government of Malaysia had allocated office space required for the GSSU that could accommodate up to 300 staff as well as fast internet access, the audit team noted the very low occupancy of the GSSU premises. At the time of the audit fieldwork, the Government, via a *Note Verbale* handed over additional office space, indicating that it had fulfilled its part of the agreement concerning the establishment of the GSSU, and requesting UNDP to provide updates on the expansion plan.

The audit team also noted that although the GSSU was providing bank reconciliation services to five COs in Latin America,[2] no Service Level Agreement (SLA) existed between the two units.

The incomplete implementation of the clustering process was due to the lack of corporate buy-in from all Bureaux, coupled with the lack of a comprehensive business case and lack of follow-up by UNDP senior management.

[1] For example, the Regional Bureau for Africa piloted a localized clustering process in January 2018 to support some Country Offices in West and Central Africa.
[2] Country Offices: Venezuela, Ecuador, Honduras, El Salvador, Belize.

Priority	High (Critical)
Recommendation 1: In coordination with the Executive Group, the Bureau for Management Services should prepare a proposal to the Executive Group to revisit the design of the corporate clustering process. The Executive Group decision should be clearly communicated to the business units.	
Management action plan: A proposal to the Executive Group will be provided to revisit the design of the corporate clustering process. **Estimated completion date:** October 2018	

Issue 2 Lack of project management

Established project management methodologies such as PRINCE 2 outline the basic steps in successfully managing a project. They set out key principles that an organization should follow when planning and implementing a project. PRINCE 2 principles include, but are not limited to the following:

- Projects must have business justification.
- Roles and responsibilities are clearly defined, including project manager, owner, and dedicated team.
- Work is adequately budgeted and planned in stages, with clear deliverables.
- A Project Board is responsible to corporate for the overall direction and management of the project and has responsibility and authority for the project within the remit (the Project Mandate) set by corporate or programme management. The Project Board is the project's 'voice' to the outside world and is responsible for any publicity or other dissemination of information about the project.

The audit team noted that there was no project management approach to design, plan and implement the corporate roll-out of clustering across UNDP. This included the lack of a dedicated project manager and team for the overall clustering project, the lack of a process owner and established budget, and there was no definition of project deliverables. For the overall corporate clustering, no Project Board was established, and no meetings took place. For the RBAP financial clustering pilot, a governance Project Board was established between GSSU and RBAP; however, the Project Board only met once in 2017 and once in March 2018.

By comparison, in UNICEF, a dedicated project management team was set up with staff and external consultants that were involved with the project on a full-time basis and not alongside existing duties. The Project Manager was at the D1 level supported by P5 and P4 level staff that led the human resources, finance, and facilities streams. Under the P4 staff, there were teams of global process representatives that were supported by external consultants. On a day-to-day basis, these representatives made decisions on processes and only consulted, for example, the Controller, when there were major changes to be made to processes. A separate IT team was established that looked at automating and streamlining business processes. Each team was supported by external consultants.

This situation was due to the lack of a project management approach regarding clustering, which negatively impacted the implementation of the clustering process in the organization.

Priority	High (Critical)
Recommendation 2: The Bureau for Management Services should establish a project management structure and follow well-established project management principles for its corporate clustering. The project set-up would benefit from following good practices from other agencies (e.g., funding needs to be provided, and cross-cutting team with members from different Bureaux).	
Management action plan: The Bureau is in agreement with the recommendation. Following the experience from the previous clustering efforts, appropriate representation in the project team and project governance from EXO, the clients and other key Bureaux will be ensured. The implementation of this recommendation will be contingent on the approval of the design and overall strategy by the Executive Group. **Estimated completion date:** June 2019	

Issue 3 Absence of end-to-end cross-functional analysis of business processes, and criteria for successful clustering not adequately defined

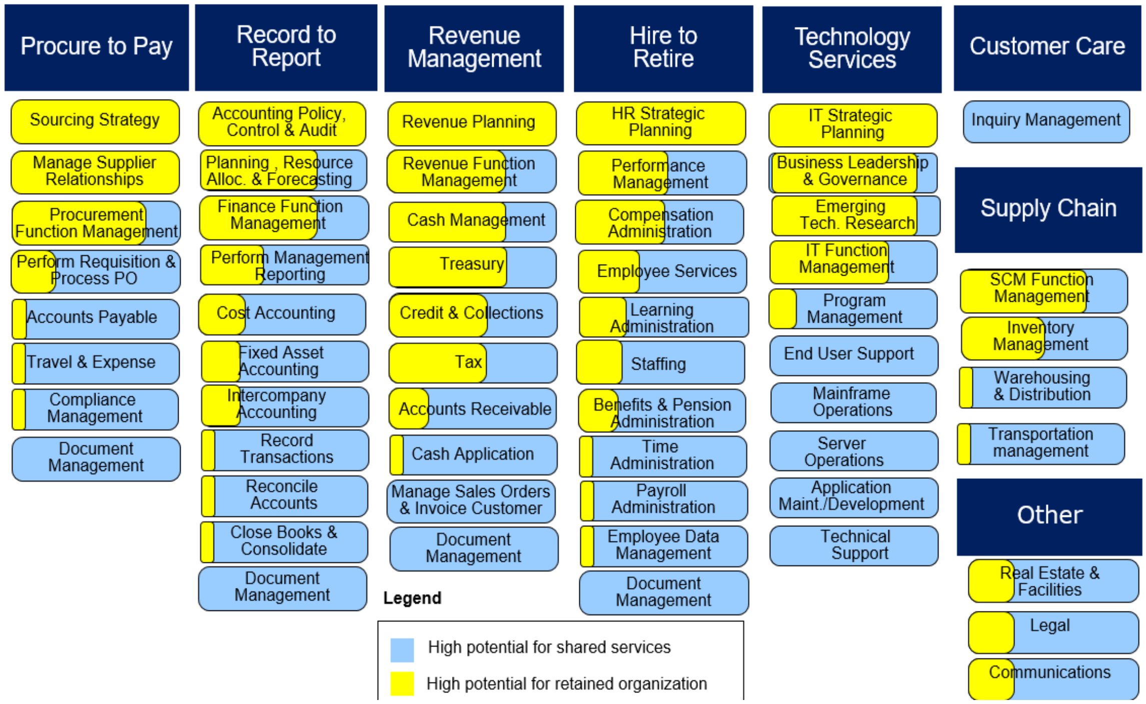
Prior to clustering, organizations are required to define which services are candidates for shared services and assess the information and data to determine which services should be shared. This process starts with reviewing the entire functional area from start to finish, identifying redundant or overlapping functions that can be centralized, consolidated, or instead become candidates for shared services, identifying process owners, and determining KPIs and benchmarking them against internal and external standards.

(a) Lack of end-to-end clustering process

One of the fundamental drivers of value in shared services is the ability to control more parts of a process. Given only a particular task to perform, performance will be limited by the quality of inputs and their subsequent handling. As a result, one of the ongoing objectives of more mature shared services is more control of a process end-to-end. Benefits derive from the integration of a process and the ability to identify and address inefficiencies across different tasks, including at the handover stage. In general, any organization moving into clustering focuses on four main streams: (a) procure-to-pay, (b) hire-to-retire, (c) record-to-report, and (d) order-to-cash (not applicable in the case of UNDP).

From the outset, UNDP did not adopt a clear, comprehensive, cross-functional end-to-end plan of the business processes, but instead designed separate streams for finance, human resources and procurement, and there were limited links among them. This was evidenced by the documents prepared for the Executive Group in 2013 and for those submitted in August 2017 to the Organizational Performance Group meeting. These processes were for the most part presented as separate streams (finance, procurement, human resources) with little coordination or complementarity in their approach and objectives, and without building on the existing capacity at the GSSU.

A 2014 Accenture Report prepared as part of the Bureau for Management Services restructuring identified services that had the potential for clustering and those that needed to remain in COs (see below). The clustering was seen as an end-to-end process.



Other United Nations agencies share clustered services across a range of operational areas. The WHO Global Service Centre provides administrative services to all staff and all WHO offices worldwide, in respect of human resources, payroll, procurement, accounts payable and support of specific corporate IT applications. The UNICEF Global Shared Services Centre centralizes and manages the processing of most transactions previously carried out by UNICEF offices around the world. The Global Shared Services Centre provides services to UNICEF offices worldwide in the areas of finance, human resources administration, IT support, and procurement.

(b) KPIs and baselines not properly defined

The GSSU developed KPIs to measure its performance in providing services under the RBAP pilot. These KPIs were included in the SLA signed with RBAP and were limited to tracking the delivery time for some processes (e.g., one working day to create and approve vendors, two working days to create and approve vouchers, etc.)

Though indicators were geared towards measuring customer satisfaction, there was less focus on assessing the utility of the services, such as measuring the cost per transaction, cost savings, as well as on tracking continuous improvements.

In addition, the benchmarking report produced by the *Shared Services & Outsourcing Network* (*SSON*)[3] provided various metrics to track the most 'admired' shared services such as attrition (5 metrics), payroll (7 metrics), procure-to-pay (18 metrics), record-to-report (9 metrics), general finance (4 metrics) and treasury (7 metrics). The review noted that only a limited number of such KPIs were established in the GSSU.

[3] The *Shared Services & Outsourcing Network (SSON)* is the largest and most established community of global shared services and outsourcing professionals.

Priority	High (Critical)
Recommendation 3: The Bureau for Management Services should, as part of the proposal to the Executive Group, define clearly all the business processes in the clustered services.	
Management action plan: The Bureau for Management Services is in agreement with the recommendation. The Bureau will propose the principles and criteria for the assessment of the clustered services as part of the proposal to the Executive Group. **Estimated completion date:** October 2018	

Priority	Medium (Important))
Recommendation 4: The Bureau for Management Services should develop a comprehensive list of KPIs, baselines and targets for tracking continuous process improvement and client satisfaction. These should be monitored on an ongoing basis and reported to clients.	
Management action plan: The revised set of KPIs will be developed for the services delivered by GSSU, including for the RBAP clustering pilot. For any additional clustering efforts, the Bureau for Management Services will include baselines and targets for tracking continuous improvement and client satisfaction as part of the analysis and design phase of the project. **Estimated completion date:** December 2018	

Issue 4 Absence of clear costing methodology for services provided to COs

In general, various methods exist for charging the cost of services provided by shared services centres, including:

- cost-plus approach with full time equivalent (FTE)-based allocation;
- cost-plus approach with transaction-based allocation key; and
- fixed-price charging based on historical cost before the move to shared services centre.

Most organizations use the cost-plus approach, which is based on effort (staff number- or transaction number-based). In a study by PWC[4] on shared services, 50 percent of the participants indicated that they were charging

[4] PWC Shared Services: Multiplying Success, July 2016 (page 53)

according to FTE staff positions, and this cost was easy to determine. Another 37 percent chose a transaction-based allocation key to charge their cost.

UNDP had developed a draft cost recovery proposal ('UNDP CO Business Modelling: Summary of Cost Recovery Mechanism') in 2013; however, this was not put in place. Instead, it was agreed that, as part of the RBAP pilot, COs would not be charged for services provided by the GSSU under the pilot in 2017. For 2018 onwards, CO feedback suggested that there was lack of clarity about whether there would be charges and, if so, at what level these would be. There had been no communication to COs on what the costing methodology for clustered finance services would be.

The absence of a costing methodology was mainly a consequence of the clustering process not being implemented as agreed with the Executive Group. If not addressed during the revamping of the process, this will lead to offices being uncertain as to how to budget for the transactions processed by the GSSU, and could push offices to continue processing their own transactions, which will negatively impact the corporate clustering process.

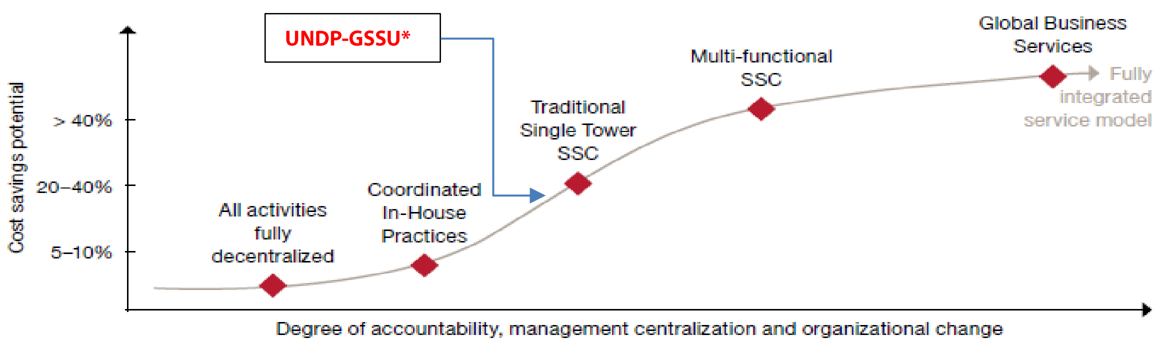
Priority	Medium (Important)
Recommendation 5: As part of the overall project planning for the next steps of the clustering process, the Bureau for Management Services should clearly articulate and communicate the costing approach and methodology to be used for the provision of clustered services.	
Management action plan: The Bureau for Management Services is in agreement with the recommendation. The clustering costing methodology will be included in the project design and communicated to the stakeholders. **Estimated completion date:** June 2019	

Issue 5 Poorly defined role of Global Shared Services Unit

The GSSU was established in 2003 to provide human resources and financial services support to UNDP and other United Nations agencies. The GSSU in Copenhagen hosts the Staff Administrative Services (SAS) team. It comprises two units: Benefits and Entitlements Services (BES) and Global Payroll Services (GPS). The GSSU in Kuala Lumpur provides global financial shared transaction, analytics and associated training services to UNDP units, and non-specialized procurement services and conducts procurement for delivery of all goods and services upon request from COs.

From a governance point of view, the role and scope of the GSSU in providing integrated solutions for all clustered streams was not defined and was not envisaged. For the RBAP financial clustering, the role of the GSSU was not defined, making it difficult to design effective and efficient business processes that would clearly delineate the role and work of the COs and those of GSSU. For example, it was never defined whether the role of the GSSU would be simply administrative, where the GSSU would simply enter transactions into Atlas/make payments, etc., following approval at the CO level, or whether the GSSU would perform the entire procure-to-pay or other process, with a level of approval authority at the GSSU level and minimal involvement from the COs. The use of the GSSU services by COs was not mandatory, and most Atlas profiles/rights remained with CO staff, even when transactions had been transferred to GSSU, creating duplication and inefficiencies for the organization.

A comparative review of United Nations Global Shared Services Centres (WHO, FAO, UNHCR, and UNICEF) conducted by the GSSU in August 2017 concluded that all services centres were established to provide global (instead of regional) financial, procurement, payroll, and human resources administrative services. All services centres had process ownership functions, and policy ownership was segregated from process ownership. For example, the WHO Global Service Centre provided administrative services to all staff and all WHO offices worldwide in respect of human resources, payroll, procurement, accounts payable and support of specific corporate IT applications. OAI's discussion with WHO showed that its shared services centre had a mandate to process transactions and no one else had that authority. It was responsible for running the payroll or making payments, and therefore COs had no choice but to use the Global Service Centre. Also, it had a mandate for staff entitlements: on-boarding, education grant, rental subsidy, etc., were all administered by the Global Service Centre. The Global Service Centre was the only entity authorized to use the enterprise resource planning system. By comparison to successful models, the UNDP GSSU still had opportunities for integrating more functions and further reducing costs, as illustrated below:



Source: PWC Shared Services: Multiplying Success, July 2016
**OAI assessment*

Not clearly defining the GSSU role in the clustering process resulted in inefficient business processes as well as confusion about the inputs and resources required at the CO level (refer to issue 9).

Priority	High (Critical)
Recommendation 6: The Bureau for Management Services should, in its submission to the Executive Group, define the role of the GSSU and ensure that it has the right capacity to support the corporate clustering.	
Management action plan: The Bureau agrees with the recommendation. Appropriate resourcing, capacity and delegation of authority of GSSU will depend on the approved clustering design going forward. **Estimated completion date:** June 2019	

Issue 6 Incomplete Operational Guide of the Internal Control Framework for GSSU

The 'Operational Guide of the Internal Control Framework for UNDP' (the Guide), supplements the Internal Control Framework by adapting 'UNDP Programme and Operations Policies and Procedures' to the specific internal control environment of UNDP offices. The Guide focuses on the role of the head of office in appointing the various approving managers, and other activities taking place in UNDP offices.

With respect to the GSSU, the Guide contains guidance on manager roles and responsibilities related to the functions they perform on behalf of the heads of offices, and the importance of SLAs in defining the respective responsibilities between the heads of offices and the GSSU for provided services. The Guide indicates that a list of 15 business process services can be provided by the GSSU, including bank to book (B2B) reconciliation and cash management. However, in terms of division of roles and responsibilities between the CO and the GSSU, there was no detailed guidance for core business processes, such as voucher processing, pay cycle, bank reconciliation, payroll, and vendor management. The only detailed guidance provided was on the revenue management business process.

The lack of guidance for the provision of these services to COs may negatively impact the consistency of services and the accountability for processing transactions.

Priority	Medium (Important)
Recommendation 7: The Bureau for Management Services should update the 'Operational Guide of the Internal Control Framework for UNDP' with the list of all services provided by the GSSU, including a clear division of roles and responsibilities.	
Management action plan: The Bureau for Management Services agrees with the recommendation. The full list of services can be included in the Internal Control Framework following the completion of the redesign and roll-out strategy. **Estimated completion date:** June 2019	

Issue 7 Inadequate ICT tools

Guidance from the Information Systems Audit and Control Association (ISACA) states that systems should be developed with robust application controls, which ensure that (i) input data is accurate, complete, authorized and correct; (ii) data is processed as intended in an acceptable time period; (iii) data stored is accurate and complete; (iv) outputs are accurate and complete; and (v) a record is maintained to track data from input to storage and eventual output.

Due to the absence of a comprehensive project plan for the clustering process (refer to issue 2), including appropriate ICT funding, the ICT tools and systems were not fit-for-purpose and did not address client (CO) as well as user (GSSU) needs and requirements, based on the experience of the RBAP pilot. Various improvements specific to the Oracle CX system were identified during the audit and during discussions with both CO and GSSU staff. Some examples of critical inefficiencies noted are listed below:

(a) Submission of requests

- Individuals with non-UNDP email addresses were not able to submit requests through the system. As a result, other parties such as government entities or staff from United Nations agencies that UNDP provides services to were unable to submit requests.
- The system did not have input validation controls to ensure that after a project ID was entered in the system, the correct chart of accounts was automatically populated.
- The system did not support human resources transactions.
- Requests submitted in the system could not be copied to peers or supervisors so that they were aware that a request had been submitted.
- Request creators could not close cases and view details after submitting them.
- The system did not have optical character recognition (OCR) to read documentation submitted in support of requests (e.g., from COs, United Nations Volunteers or United Nations agencies).
- There was no template for deposit creation and application to use for each request.
- COs could not link submitted requests, which would facilitate tracking and monitoring of cases.
- The system did not require full descriptions to be captured for vendor name and account code description when creating new vendors.
- The system did not have a workflow system, which would allow requests to be routed to the second authority approver in the CO and prior to transmission to GSSU.

(b) Processing of requests

The system automatically closed cases pending for 10 days with the result that information on open cases from the Oracle CX was understated and potentially misleading.

(c) Integration with other systems

The Oracle CX system was not integrated with Atlas and other systems such as UMOJA, which would simplify the processing of requests from the United Nations agencies and UNDP COs.

(d) Reporting

Oracle CX reporting can be improved indicatively in the following areas: (i) reporting against SLAs for all transactions processed by GSSU showing the percentage of transactions that meet the SLA; (ii) reporting by team and individual staff performance at a point in time or for a period of time including trend analysis over time; (iii) report production showing current case load by type for teams/staff, or reports showing unassigned cases by type; and (iv) communication of changes to the Oracle CX system.

According to the Office of Information Management and Technology, there had been a high number of requests for customization and automation of systems for GSSU but the end point was not clear, as the Office of Information Management and Technology was not involved early enough in the discussions on clustering, which was challenging as the Atlas architecture supported a decentralized business process whereas clustering centralizes business processes.

Failure to address the above-mentioned issues will negatively impact the process efficiency and will increase the workload at the CO level.

Priority	Medium (Important)
Recommendation 8: The Bureau for Management Services should address the identified weaknesses in the submission and processing of requests, integration with other systems, and reporting.	
Management action plan: The Bureau for Management Services will review the proposed improvements and implement the integration with Atlas. On the long term, the Bureau will conduct a study to assess the tools available for these types of services. **Estimated completion date:** December 2018 (for Oracle CX enhancements only)	

Question 2. Has the clustering process to date achieved the expected results, particularly regarding the RBAP financial clustering?

(a) Have efficiency gains been achieved in the COs where operations have already been clustered?
(b) Have operational risks been reduced as a result of the clustering process?
(c) Have business processes been improved as a result of the clustering process?

Since the corporate clustering was not implemented, except for the RBAP financial clustering, expected results were not achieved. In addition, the audit team could not identify any efficiency gains and cost savings at the corporate level.

Regarding the RBAP financial clustering, this was still under implementation at the time of the audit, as it was only completed in March 2018. OAI aimed to identify whether the RBAP financial clustering pilot resulted in: (i) efficiency gains; (ii) business processes improvements; and (iii) reduction in operational risks.

The RBAP financial clustering pilot started with five COs (Bhutan, Cambodia, Malaysia, Maldives, and Samoa, and only B2B in Afghanistan). RBAP expanded the pilot to all COs and to the Bangkok Regional Hub starting November 2016. A Governance Board was set up to oversee the implementation of this pilot and provide guidance, where needed, to ensure a successful roll-out across the region. The cost of the transition of finance activities was charged to the Bureau for Management Services central budget. As of March 2018, clustering of financial services had been rolled out to all RBAP COs (25 offices).

To implement the financial clustering, RBAP, the Bureau for Management Services, the Office of Financial Resources Management, and GSSU collaborated on various initiatives, as follows:

1. Signing of SLA: An SLA defining the services and relationship between the shared services centre and RBAP was signed in May 2017.
2. GSSU designed a Power BI dashboard to monitor progress against KPIs. The dashboard also offered insights into some of the issues noted during the period under review to allow analysis and learning from both parties.

3. Engagement/onboarding missions: A preparation mission was conducted for every CO before it joined the clustering pilot. Most of the COs interviewed during the audit were satisfied with the way these missions were carried out as they helped them clarify the role of GSSU and the preparatory work that needed to be done by the CO.
4. GSSU developed various SOPs to support the business processes being clustered. In most cases, SOPs were developed while clustering was already taking place, which was assessed by the Bureau for Management Services Directorate as positive as it allowed incorporating lessons learned.
5. Identification of Global Process Owners: Most of the financial processes that were clustered in GSSU had a Global Process Owner. In December 2017, the Global Process Owner for the accounts payable (AP) process was involved in an extensive review of the various challenges related to payment processing by the GSSU.

The audit concluded that, although some positive results were noted as part of the RBAP pilot, there was still room for improvement going forward.

(a) Efficiency gains achieved

Efficiency gains can either be incurred through reduction in the time to process transactions or through staff cost reduction.

OAI gathered feedback from RBAP and RBLAC COs[5] that received finance clustering services from GSSU under the pilot. A total of 11 COs and the Regional Hub in Bangkok provided responses in RBAP and a total of five COs in RBLAC. Overall, out of the 16 respondents, all were generally content with the timeliness of the services provided, rating it as good or fair. Examples were provided in feedback received via the questionnaire or calls with COs citing individual cases that took a long time to get resolved, especially where there was a lot of back-and-forth between the CO and the GSSU; however, most COs expected that these instances would be less common if the process was further streamlined and as both CO and GSSU personnel become more familiar with processes and requirements.

Over the past 18 months, the AP voucher processing (creation and approval) moved gradually to GSSU.

An OAI analysis showed that the voucher/payment process had been implemented in different ways. In some offices, the process of creating and approving vouchers had been fully transferred to the GSSU whereas in other offices, only the creation of the voucher had moved to the GSSU and approval remained with the COs. A mix of the two above approaches was observed in a third set of COs. In addition, the clustering of the AP payment process had triggered complaints from COs and the GSSU. Back in June 2017, OAI held discussions with 11 COs as part of the RBAP Audit[6] and gathered feedback on their experience with clustering. All 11 COs complained that the payment process was cumbersome and inefficient. The offices were displeased with the scanning process and the inefficiencies of the Oracle CX platform that required entering the same information several times (refer to issue 7).

When comparing RBAP to other Regional Bureaux, the AP voucher approval and payment process in RBAP had improved and, by the end of March 2018, the RBAP region was performing better than the two other regions used for comparative purposes.

[5] Five offices in RBLAC had been using the bank reconciliation service offered by the GSSU.
[6] Audit of UNDP RBAP, Report No. 1840, issued on 3 August 2017

	RBAP	RBA	RBLAC	RBAP	RBA	RBLAC
	December 2017			March 2018		
Avg Days for Approval	1.78	1.87	2.14	1.28	2.03	2.05
Avg Days for Payment	3.18	3.03	3.32	2.37	2.65	2.82
Avg Days for Reconciliation	10.20	14.91	14.76	6.71	8.74	8.07

AP voucher processing times: Comparison between RBAP, RBA, and RBLAC (December 2017, and March 2018)

With that being said, additional time saving and efficiency can be gained (refer to issue 9).

Issue 8 Number of transactions per GSSU staff can be increased

The audit team compared the number of vouchers created and approved by GSSU and those by COs in the RBAP region. Prior to clustering, on average, 331 staff were creating vouchers. With clustering, only 22 staff on average were creating vouchers for the entire region. The number of vouchers per staff, after the clustering changed on average from 24 vouchers per staff in COs to an average of 258 vouchers per staff in the GSSU:

Voucher creation					
		Jan	**Feb**	**Mar**	**Average**
COs (2016)	Vouchers	5,751	8,619	10,039	
	Staff	310	340	343	**331**
	Vouchers/staff	**19**	**25**	**29**	**24**
GSSU (2018)	Vouchers	4,070	6,407	6,501	
	Staff	22	23	21	**22**
	Vouchers/staff	**185**	**279**	**310**	**258**

Voucher creation per staff

The same trend was observed with voucher approval. The average voucher approval changed from 35 vouchers per month per office approving manager, to 245 vouchers approved per month per GSSU approving manager:

Voucher approval					
		Jan	**Feb**	**Mar**	**Average**
COs (2016)	Vouchers	4,781	6,921	8,292	
	Staff	161	186	212	186
	Vouchers/staff	**30**	**37**	**39**	**35**
GSSU (2018)	Vouchers	3,658	5,199	5,413	
	Staff	21	20	18	20
	Vouchers/staff	**174**	**260**	**301**	**245**

Voucher approval per staff

In terms of GSSU staff efficiency, the average number of vouchers per staff over the entire clustering process was 202 vouchers per month (creation, in last six months) and 162 vouchers per month (approval, in last six months), below the best-in-class average of 3,000-4,000 transactions/month:

Transaction	Period	Average of averages per month (# of vouchers)
Voucher creation	1 Feb 17 to 31 Jan 18 (12 months)	155
Voucher creation	1 Aug 17 to 31 Jan 18 (6 months)	**202**
Voucher approval	1 Feb 17 to 31 Jan 18 (12 months)	134
Voucher approval	1 Aug 17 to 31 Jan 18 (6 months)	**162**

Average number of vouchers processed at GSSU (Source: Atlas data)

Based on the data provided above, the audit assessed that with further specialization and process improvement, there could be potential for more vouchers to be processed by GSSU staff. However, there was no updated internal review of time-motion and staff capacity, to identify the optimum levels of staff utilization.

The lack of a study on staff capacity to handle transactions may lead to underutilization of staff and delays in the implementation of the financial clustering.

Priority	Medium (Important)
Recommendation 9: With the completion of the financial clustering in the Regional Bureau for Asia and the Pacific, the Bureau for Management Services should update its time-motion study to identify how it can improve staff utilization.	
Management action plan: Accepted. The Bureau for Management Services will review the business processes and staff utilization for the Regional Bureau for Asia and the Pacific financial clustering services. **Estimated completion date:** December 2018	

(b) Operational risk reduction

Most COs agreed that the bank reconciliation process was better and gave managers more assurance on the payment process. This was due to the Internal Control Framework, which required adequate segregation of duties over the bank reconciliation function. The audit disclosed that the B2B reconciliation had improved, moving from a B2B balance variance of $2,692 in the fourth quarter of 2016, to a $1,283 variance in the fourth quarter of 2017.

The audit team tested vendor creation and management, which was another service that was provided by the GSSU starting May 2016, and noted that duplicate vendors were being created even when the process had moved to the GSSU. The SOP designed by the GSSU for vendor creation and approval included two controls to avoid creating duplicate vendors; however, these controls had not been effective in addressing the duplicate vendor issue.

OAI considered that risk reduction opportunities existed, and would be addressed through the business processes re-engineering (refer to recommendation 10).

(c) Business process re-engineering

Issue 9 <u>Lapses in business process re-engineering</u>

Business process re-engineering involves redesigning and streamlining how an activity is performed with the intent of achieving quantum improvements in performance.

A review of established SOPs for bank reconciliation, procure-to-pay, payroll, deposit creation and application, deal management and bank transfers as well as walkthroughs with the relevant team leads during the audit showed a significant number of process inefficiencies arising from overlaps or outright duplications of actions by the COs and the GSSU. Most duplications had to do with various checks and control points along the process. For several processes, supporting documentation had to be gathered, reviewed, and scanned by the CO before making a payment request via the Oracle CX platform (refer to issue 7).

Below are some examples of duplications, inefficiencies, and/or opportunities for improvement:

- Vendor creation: Prior to submitting a request to GSSU, COs were required to verify supporting documents to ensure that the vendor did not exist in Atlas. The GSSU was also responsible for reviewing supporting documents for completeness, checking Atlas vendors to avoid creating a duplicate vendor, and validating that documentation was complete and then verifying it again.
- Pay cycle: One step was added in the process whereby the GSSU confirmed the payments to be made with the CO. This step was added to allow COs to manage their cash flow. This was, however, a redundant step that led to poor forecasting of cash needs for COs and should have been removed. Another issue noted was the cheque numbering, whereby GSSU wrote, on a daily basis, to all COs to determine the last cheque number to include it in the pay cycle. This process further complicated and delayed the process. During the RBAP Summit of December 2017 and based on COs' feedback, the main cause for inefficient processing was last-minute requests from agency staff and government participants. GSSU also advised that project authorities together with CO senior management, would have to establish standard procedures making payments to government participants and clarify to partners that last-minute requests cannot be processed by UNDP.
- Voucher processing: COs were required to raise the requisition and the purchase order, receive the goods, receive the invoice, sign off on the invoice, forward it to the CO focal point, and scan and email it to the GSSU. The GSSU was required to then check the supporting documentation, create the AP voucher, approve the voucher, perform the budget check, and schedule the pay cycle and then send the information to the CO so that it could print the cheques from Atlas or continue with the electronic funds transfer (EFT).
- Payroll: OAI noted that for payroll calculations, offices were required to fill in spreadsheets for human resources changes and this was time consuming. During the RBAP Summit in December 2017 between GSSU and COs, managers confirmed that this way of submitting human resources changes was adding more time as compared to the pre-clustering process when the COs entered the changes directly in Atlas.
- Bank reconciliation: OAI identified a downward trend in the number of days taken to reconcile items overall; however, bank reconciliation took between 6 and 13 days on average. This was due to various issues, like absence of online banking statements, payments by cheques or payroll processing for service contracts, which further constrained the work of the GSSU. During the RBAP Summit of December 2017, it was indicated that some COs, despite the option to transfer funds through EFT, were still using cheques as the prevailing payment method. COs were advised to explore alternative payment methods, such as mobile money for bulk Daily Subsistence Allowance payments. COs were advised to optimize the use of EFT facilities and reduce the number of payments through bank cheques. Where EFT facilities were not yet available, it was recommended that cheques be issued using cheque-writing software and not manually written. The Bureau for Management Services explained that some of the reasons for UNDP not moving fully towards EFT payments across the organization was the fact that some COs may have still needed to issue cheques and also there was a high cost associated with setting up bank interfaces.
- External access to Atlas: External access to Atlas had not been fully explored and utilized as part of the clustering process. This functionality was mainly in use in three COs in all of UNDP (Brazil, Lebanon and Paraguay). This functionality was assessed as very useful by these offices, as it moved

the entry of data to the implementing partners and reduced the CO workload. It helped partners request and process vouchers and requisitions directly without requiring additional UNDP staff and other programme staff to do so on their behalf. Approvals still needed to be made by UNDP staff to ensure an effective Internal Control Framework.

- E-invoicing: UNDP managed its vendors in a very decentralized way and this created challenges in terms of tracking and paying invoices. UNDP should consider electronic invoicing, which can reduce administrative burden. The system eliminates inefficient paper-handling processes and reduces late payment penalties.

Weak business processes and inefficient work flows may negatively impact the financial clustering process and may create unnecessary overlaps and duplications.

Priority	High (Critical)
Recommendation 10: The Bureau for Management Services should undertake a thorough review of current SOPs and relevant business processes across all areas of financial clustering to streamline the process and to remove unnecessary overlaps and duplications. Additionally, areas such as external access to Atlas and the use of E-invoicing should be explored further.	
Management action plan: Accepted. The Bureau for Management Services has already started the review of SOPs of the Regional Bureau for Asia and the Pacific clustering pilot scope. **Estimated completion date:** December 2018	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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 <u>not included in this report</u>.