

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
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AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE SYRIAN ARAB REPUBLIC

Report No. 1918
Issue Date: 25 April 2018

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Report on the Audit of UNDP in the Syrian Arab Republic Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the Syrian Arab Republic (the Office) from 4 to 15 February 2018. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January to 31 December 2017. The Office recorded programme and management expenses of approximately \$79.5 million. The last audit of the Office was conducted by OAI in 2016.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory/some improvement needed**, which means “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.” This rating was mainly due to weaknesses in the organizational structure and control environment.

Key recommendations: Total = 8, high priority = 1

The nine recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1	High
Reliability and integrity of financial and operational information	3, 4	Medium
Effectiveness and efficiency of operations	2, 5	Medium
Safeguarding of assets	7	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	6, 8	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. The high (critical) priority recommendation is presented below:

Weakness in organizational structure and control environment (Issue 1)	The Office's organizational structure had not been finalized and submitted to the Regional Bureau for approval, and the structure of the field offices did not reflect the current status regarding the number of field areas and personnel. In addition, the Internal Control Framework was outdated and contained limited information, and did not establish staff roles and responsibilities, scope of delegations, authorities, and approval thresholds. The Office did not establish Standard Operating Procedures (SOPs) to define the business processes for guidance on the work flow between the different units in programme and operations. Furthermore, there was a lack of segregation of duties when approving transactions.
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Recommendation 1: The Office should improve its control environment by: (a) finalizing the organizational structure with clear reporting lines and terms of reference, and submitting it to the Regional Bureau for Arab States for approval; (b) updating the Internal Control Framework ensuring the proper segregation of duties of the first authority from the second authority when approving transactions; and (c) establishing SOPs on the business processes in the Office.

Implementation status of previous OAI audit recommendations: Report No. 1577, 10 May 2016.

Total recommendations: 4
Implemented: 3
Withdrawn: 1

Management comments and action plan

The UN Resident Coordinator and Resident Representative accepted all 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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Damascus, Syrian Arab Republic (the Country) had 41 national staff, 12 international staff, and 60 service contract holders. The Office had five field offices located in Rural Damascus, Homs, Hama, Aleppo and Tartous, and had field presence in five other Governorates. The Office faced significant internal and external challenges due to the security and political context as the Country was facing an armed conflict for the last six years. The Office's programme was focused on the restoration of basic and social services and infrastructure as well as sustainable livelihood, including economic recovery and social inclusion. Following the rapid growth and expansion of its programme, at the time of the audit, the Office was revising and aligning its structure and business processes.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Staff and premises security. Staff and premises security were found to be well managed.
- (b) ICT. Review of software and hardware management indicated that adequate controls were in place.

OAI made one recommendation ranked high (critical) priority and seven recommendations ranked medium (important) priority.

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

High priority recommendation:

- (a) Improve the control environment (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Continue enhancing monitoring and quality assurance activities (Recommendation 2).
- (b) Strengthen the procurement process (Recommendation 5).
- (c) Strengthen the implementation of Direct Project Costing (Recommendation 3).
- (d) Implement HACT by completing the macro-assessment (Recommendation 8).
- (e) Establish procedures to review and validate account codes (Recommendation 4).
- (f) Review all positions during the organizational structure review process (Recommendation 6).
- (g) Improve asset management (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Weakness in organizational structure and control environment

The 'Operational Guide of the Internal Control Framework' for UNDP outlines that each head of office has overall responsibility for establishing and maintaining adequate internal controls in his/her office, and for ensuring documentation of the office's internal control procedures. Likewise, the 'UNDP Programme and Operations

Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The control environment encompasses ethical values, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, human resources policies and practices, and efficiency, competence and integrity of personnel.

(a) Weaknesses in the Office's organizational structure

- The organizational structure had not been finalized and submitted to the Regional Bureau for Arab States for approval.
- The structure of the field offices did not reflect the current status, including the number of field areas and personnel. In addition, the organizational structure did not show that the area managers were reporting to the Field Management Unit.
- In June 2017, the Office created the Standing Committee for Internal Oversight (SCIO) with the purpose to review issues and complaints raised during the implementation of activities. The SCIO also provided advice and recommendations to field teams to ensure that project implementation was in line with UNDP rules, regulations, and planned targets. However, the SCIO did not have clear terms of reference to define the purpose, scope and limitations of its oversight activities.

The Office had initiated the review of its organizational structure in mid-2017 as a result of its rapid expansion and increasing delivery. The Office indicated that its new structure would be finalized in the first quarter of 2018.

(b) Weak Internal Control Framework and absence of Standard Operating Procedures (SOPs)

The current Internal Control Framework document contained limited information, replicating similar information as in the Atlas (enterprise resource planning system of UNDP) ARGUS profiles, without establishing staff roles and responsibilities, scope of delegations, authorities, and approval thresholds. Furthermore, the Internal Control Framework was last updated in August 2016 even though the structure of the Office and the ARGUS profiles had been updated since then.

In addition, the Office did not establish SOPs to define the business processes for guidance on the work flow between the different units in programme and operations. SOPs could help in distinguishing reporting lines and process owners.

(c) Lack of segregation of duties in approving transactions

The Internal Control Framework states that the standard Atlas user profiles have been designed to segregate duties. Staff members who have both a project manager and approving manager profile in Atlas must not approve a requisition and a purchase order on the same transaction.

During the review, OAI noted that two staff members approved the requisitions and the purchase orders on the same transactions in Atlas. This occurred in 18 transactions with a total amount of \$131,797. The Office commented that these purchase orders were approved inadvertently, as the system does not notify the approver of any conflict.

Subsequent to the audit, the Office prepared the document 'Rationale for Change', including the proposed organizational structure as the first step for the change management process that was under discussion and under review by the Regional Bureau for Arab States.

An organizational structure, Internal Control Framework and SOPs that are not well designed and updated could lead to low staff morale and lack of understanding of the processes, which may negatively affect the overall work environment and performance of the Office.

Priority	High (Critical)
Recommendation 1:	
The Office should improve its control environment by:	
<ul style="list-style-type: none"> (a) finalizing the organizational structure with clear reporting lines and terms of reference, and submitting it to the Regional Bureau for Arab States for approval; (b) updating the Internal Control Framework ensuring the proper segregation of duties of the first authority from the second authority when approving transactions; and (c) establishing SOPs on the business processes in the Office. 	
Management action plan:	
<p>(a) The document 'Rationale for Change' together with proposed organigram was submitted to Regional Bureau for Arab States on 30 March 2018. It is expected that Regional Bureau for Arab States' decisions on the proposed Realignment Plan will be made in April 2018. In the new organizational structure, the oversight function will be part of the new Programme Support and Oversight Unit that will be led by an Oversight Specialist with an audit background, reporting directly to the Country Director.</p> <p>(b) and (c) The Internal Control Framework and SOPs will be updated based on the new structure to be approved by the Regional Bureau for Arab States.</p>	
Estimated time of completion: August 2018	

B. Programme

1. Programme/project design and implementation

Issue 2 Weaknesses in monitoring and quality assurance processes

The Monitoring Policy states that the purpose of monitoring is to improve development effectiveness and efficiency through reviewing performance, and using evidence to adjust programming for optimal results. Good monitoring starts with good planning and clear identification of what a programme or project will strive to achieve with specified resources. At the project level, the 'UNDP Programme and Operations Policies and Procedures' have set the following monitoring tools: (i) Each project should be visited at least once a year by a representative of the Office, for results validation and reporting on progress in the preparation of annual reports. Field visits should be documented through brief and action-oriented reports, submitted within the week of the

return to the Office. (ii) An annual review exercise, driven by the Project Board and involving all stakeholders, should be organized to assess the extent to which progress is being made towards outputs.

Quality assurance assessments are required for all UNDP programmes and projects, regardless of their budget, size, location, duration, characteristics, context, or circumstances. Along with regular programme and project monitoring, quality assurance assessments ensure that at the design stage and at least annually during implementation and at closure there is a formal focus on key performance issues outlined across seven quality criteria, to ensure improved development effectiveness and greater accountability for results.

The Office managed a portfolio of 12 development projects, comprising 72 outputs. During the audit period, the programme delivery reached \$57.2 million. All projects were directly implemented by UNDP. OAI reviewed a sample of six projects comprised of 32 outputs and conducted site visits to two field offices.

(a) Inadequate programme/project monitoring

The project activities were implemented either directly by UNDP or by Community-Based Organizations through Micro Capital Grant Agreements (MCGAs). During 2017, there were 335 sub-projects implemented at the field offices.

The audit noted the following:

- None of the projects reviewed had a monitoring plan, and monitoring activities had been conducted without following any structured and integrated approach. This situation weakened the programmatic monitoring and supervision of field offices.
- The Office's site visits to field offices were limited and on an ad hoc basis. The Office explained that travelling to the field required previous authorization from the Government, and that some field visit requests were actually disapproved.
- There was no standardized monitoring template used across the field offices. Field office reports reviewed for Tartous, Homs and Hama showed that not all reports included a section on required actions, and none of the reports indicated the person(s) responsible, time-frame, or follow-up information regarding previous issues identified. Additionally, in the financial monitoring, there was no standard checklist used to confirm and document the approach and results of monitoring. According to the Office, it was in the process of developing a standardized monitoring template for field visits, for use by both staff and third-party monitoring agents.
- There was no follow-up system in place for completed sub-projects implemented by Community-Based Organizations, to ensure sustainability and the ability to address in a timely manner, any need for additional support to sub-projects.

OAI acknowledged that the Office had started strengthening its monitoring function since 2017. A dedicated M&E Officer was on board and the monitoring system included, since mid-2017, a community-based monitoring pool that helped the Office to increase its limited monitoring capacity in the field. In October 2017, the Office contracted a company for third-party monitoring support.

(b) Lack of quality assurance assessments

During the audit period, 10 projects were initiated and 3 projects were operationally closed. However, there were no records of quality assurance assessments either at the design or closure stage. Further, as of the

date of the audit, quality assurance assessments for 12 projects under implementation had yet to be conducted.

(c) Delays in project closure

The 'UNDP Programme and Operations Policies and Procedures' require projects to be operationally closed once activities have been implemented.

OAI noted the status of 10 projects that ended between 2004 and 2015 were still ongoing in Atlas. The Office indicated that the closure of these projects was in progress.

Weaknesses in project monitoring and inadequate quality assurance may prevent the Office from managing for mutually agreed results, and may impact future project interventions. By not closing projects in a timely manner, the Office risks unauthorized expenditures being charged against these projects.

Priority	Medium (Important)
Recommendation 2: The Office should continue enhancing its monitoring and quality assurance activities by: <ul style="list-style-type: none"> (a) developing strategic and integral monitoring plans that include planning of adequate site visits to field offices, and use of the standardized monitoring templates for field monitoring activities and providing training to field staff in their use; (b) following up on issues detected during monitoring visits by defining corrective actions, responsible person(s), time-frame and follow-up information, and implementing a follow-up monitoring system for completed sub-projects; and (c) conducting the required quality assurance assessment on project design, implementation and closure and expediting the closure of projects in a timely manner. 	
Management action plan: <ul style="list-style-type: none"> (a) An integral monitoring plan will be developed by the end of April 2018. A standardized monitoring template was already shared in March 2018 with staff to be used when conducting any mission and site visit. The template outlines main outcomes of the visit including key findings, recommendations, key counterparts in each location as well as needed follow-up actions to be taken. The Office will ensure the submission of timely reports by all staff upon arrival. (b) The Office will ensure that after every field visit a report is produced and issues detected will be addressed in the implementation of corrective actions. (c) Quality assurance assessments (design, ongoing, closure phases) were conducted in March 2018 for most projects, and the Office will also ensure completion of quality assurance assessments for all projects in a timely manner. The remaining legacy projects will be fully closed by September 2018. 	
Estimated completion date: September 2018	
OAI response: OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

C. Operations

1. Financial resources management

Issue 3 Challenges in implementation of Direct Project Costing

The 'UNDP Programme and Operations Policies and Procedures' state that direct project costs are levied for costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes). These costs are included in the project budget and charged directly to the project budget for the development activity and/or service. The guidelines indicate that, services that will result in direct project costs need to be disclosed transparently, agreed to by all concerned parties, and included in the project document and annual work plan.

In order to determine what are direct project costs, the guidelines provide options to use workload analyses, and universal price lists or the local price list for transactional cost recovery associated with Direct Project Costing.

The direct project costs in 2017 were \$2.6 million. The Office exceeded its target of \$1.6 million by 162 percent. The review of Direct Project Costing implementation disclosed the following:

- (a) There was no clear provision in donor agreements and annual work plans outlining the basis for recovery of direct project costs. Further, there were inconsistencies in defining the direct project costs among donor agreements; in some instances, they were presented as technical assistance and project management, while in other instances as staffing costs or project management costs.
- (b) There was no basis for calculation of direct project costs charged against projects throughout the year. The Office used neither a workload analyses nor the universal or local price lists. Instead, the Office charged all national staff salaries to projects as direct project costs without calculating the appropriate costs by projects.

The Office explained that conducting workload analyses to determine direct project costs for programme support activities and development effectiveness was challenging and complex.

Failure to appropriately implement Direct Project Costing may adversely impact the Office's relationship with donors as well as its ability to mobilize resources for future projects.

Priority	Medium (Important)
Recommendation 3:	
The Office should strengthen the implementation of Direct Project Costing by:	
<ul style="list-style-type: none"> (a) ensuring that all elements of Direct Project Costing are clearly defined and consistently identified in project documents and annual work plans, and agreed with all relevant parties; and (b) requesting the Regional Bureau for Arab States to provide additional guidance in determining a clear basis for Direct Project Costing calculation. 	

Management action plan:

The system of Direct Project Costing was in place for most projects and all donor agreements had budget provisions for this. The Office, after consultations with the Regional Bureau for Arab States in early 2018 and using draft guidelines from the Bureau, started applying a more standardized approach, charging overall 10 percent fixed percentages for new donor agreements. A special Atlas project was created for this.

Estimated completion date: May 2018

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Issue 4 Incorrect use of Chart of Accounts

The 'UNDP Programme and Operations Policies and Procedures' state that the Chart of Accounts plays a role in Atlas financial systems for control, budgeting and reporting. The individual values, which in combination, describe a specific financial activity, are referred to as a "chart field". All Atlas financial users should have a good understanding of chart fields and their purpose.

The correct use of Chart of Account codes was critical for accurate financial, management and donor reporting. As shown in the table below, the Office used incorrect Chart of Account codes for 61 transactions totaling \$10.9 million.

Nature of expenditure	Wrong account code used	Amount	No. of transactions
Grants to beneficiaries	71405 'Service Contract'	\$5,500,000	1
Micro Capital Grants	72605 'Grants'	\$4,624,000	47
Third party recruitment company	71405 'Service Contract'	\$624,000	2
Audit services	71405 'Service Contract'	\$136,000	1
Individual contracts	71405 'Service Contract'	\$36,000	10

The incorrect use of Chart of Account codes took place when raising requisitions in the Atlas system. There was no process in place to validate if the Chart of Account code used was accurate. The Office explained that the practice was to use account 71405 for staff hired on the third-party modality, in areas that were not cleared by the United Nations Department of Safety and Security (UNDSS), and for wages of workers, as the Office was not aware of the correct account number to use.

The incorrect use of account codes may lead to financial misrepresentations in the combined delivery report and distort the classification of the expenses incurred.

Priority Medium (Important)

Recommendation 4:

The Office should establish procedures to review and validate the account codes when issuing requisitions.

Management action plan:

The Office has started using the correct account number for Grant Agreement 76215 based on the instructions received from the Accounts Division in April 2017.

The Office follows up with the Accounts Division and HQ on the proper account number to be used.

Estimated completion date: June 2018

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Issue 5 Government Contributions to Local Office Cost (GLOC) not fully collected

The Standard Basic Assistance Agreement provides that the host Government is expected to contribute towards the local cost of Country Offices. The UNDP Executive Board “encouraged all host country governments to meet their obligations towards local office costs.”

As of December 2017, there were uncollected GLOC balances amounting to \$2.2 million. The Office explained that these GLOC balances were the result of foreign exchange rates, as the Government had been contributing the same amount in the local currency on a yearly basis. In January 2018, the Government requested details of the accumulated amount, in response to the follow-up letter sent by the Office at the end of 2017.

Failure to fully collect these contributions from the host Government may adversely impact the financial resources available to support local office costs.

Comment

As the Office had made attempts to recover the amounts due from the Government, OAI is not making a recommendation. OAI encourages the Office, with the support of the Regional Bureau, to continue following up closely with the Government regarding the collection of GLOC.

2. Procurement

Issue 6 Delays within procurement

The procurement process encompasses planning, requisition, sourcing, solicitation, evaluation of offers and the award of a contract. One of the considerations to guide UNDP’s interest is in the economy and efficiency in programme implementation, including in the procurement of goods, works and services. To ensure efficiency in the process, offices are encouraged to maintain a roster of qualified vendors to accommodate specific needs, for high value complex procurements. In addition, a Long Term Agreement can be established through a written agreement for specific goods or services at prescribed prices for a defined period.

Through the solicitation process, documents should clearly define the scope of work to be performed, location of work, goods to be supplied and services rendered, place of installation, schedule for delivery and minimum service requirements. All bids must be evaluated against the criteria stipulated in the solicitation documents, and the evaluation method and criteria must be established and clearly stated in the solicitation documents.

Through the analysis of procurement cases, delays were identified within the bid evaluation phase. The average evaluation time for cases reviewed with a cumulative value between \$50,000 and \$150,000 was 33 days, and 51 days for cases with a cumulative value above \$150,000.

Several reasons were identified for the delays within procurement, which included:

- There were 79 procurement cases submitted to the Contracts, Assets and Procurement Committee, and 38 cases submitted to the Regional Advisory Committee on Procurement in 2017; the high workload led to delays in the processing of cases.
- At the time of the audit, the programme units had not submitted their procurement plans for 2018. This created challenges in making strategic procurement planning decisions, such as combining similar orders, establishing lists of prequalified suppliers, and identification of goods and services for which Long Term Agreements could be established.
- In 5 out of the 25 procurement cases reviewed, there were delays in reviewing offers due to shortcomings within the original solicitation requirements, such as being too general in nature (e.g., requiring vendors to have relevant experience) or missing certain requirements (poor estimates for bill of quantities). In seven procurement cases reviewed, inconsistencies were identified in the evaluation of bids (e.g., lack of detailed technical evaluations, technical requirements not matching those of the winning bids, etc.)

Following the audit, the Office began taking actions to address these issues, including looking for opportunities to consolidate procurement cases, increase the use of Long Term Agreements, and develop prequalified supplier rosters. The Office held vendor workshops to provide training to vendors to improve bid submissions and more workshops were planned for 2018. The Office continued supporting the requesting units in improving technical specifications in the requisitions, as well as providing training to the evaluation team to improve the quality and documentation of the reviews. The Regional Advisory Committee on Procurement agreed to provide further training to the Procurement Unit following the audit mission to strengthen the highlighted areas.

Any delays within the procurement process will directly impact project implementation and the achievement of programme objectives.

Priority	Medium (Important)
Recommendation 5:	
The Office should strengthen the procurement process by:	
<ul style="list-style-type: none"> (a) improving strategic procurement planning through close coordination with the requesting units to assist in the development of prequalified supplier rosters and Long Term Agreements; and (b) requesting the Regional Advisory Committee on Procurement to provide additional guidance on strengthening the quality of solicitation requirements and the evaluation of bids. 	

Management action plan:

The Office is already implementing the audit recommendations to ensure no delays in project implementation:

- (a) The Office has started uploading the 2018 procurement plan on PROMPT and the continuous review and analysis of the procurement plan will be done throughout the year in coordination with the requesting units, for the development of vendor rosters for high value complex procurements and of Long Term Agreements, as needed.
- (b) The procurement team is in regular contact with the Regional Bureau for Arab States Procurement Specialist and the Regional Advisory Committee on Procurement Chairperson for additional guidance to strengthen the quality of the procurement processes.

Estimated completion date: September 2018

OAI response:

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

3. Human resources management

Issue 7 Use of improper contract modality for core functions

The service contract modality is intended to engage individuals for development projects or to conduct UNDP non-core support services that would normally be outsourced to an external company (e.g., custodial, security and information technology services). The service contract guidelines explicitly state that it is improper to use the service contract modality for hiring local office personnel to carry out core functions, i.e., functions that are of a continuing nature and are part of the central work of UNDP.

As per the current office structure, the Office engaged 26 individuals under the service contract modality to perform activities that were considered core office functions in operations and programme units. The Office explained that these individuals were hired on a temporary basis due to the increased workload and that this would be taken into consideration during the finalization process of the new office structure.

Allowing service contract holders to perform core functions may negatively impact the Office, as there are restrictions on the access to rights and authority levels that can be given to service contract holders. In addition, the reliance on service contract holders to perform core functions could result in an imbalance in terms of salary and benefits among the Office's personnel performing the same or similar tasks.

Priority	Medium (Important)
Recommendation 6:	
The Office should review all positions during the organizational structure review process and hire personnel under the correct contractual modality with due consideration of the nature of the post and the duties they perform.	
Management action plan:	
The positions performed by service contractors will be subject to review in the revised office structure. It is expected that half of them are performing projects functions and are fully funded by Direct Project Costing.	
Estimated completion date: September 2018	

4. ICT and general administrative management

Issue 8 Weaknesses in asset management

The 'UNDP Programme and Operations Policies and Procedures' state that when purchasing common premises assets that are cost shared with other agencies, a non-UNDP catalogue should be selected to ensure the assets are initially expensed. The Office will then request the Global Shared Services Center to manually record only the UNDP portion of the asset in the Asset Module. It also states that furniture and equipment purchased through funding code 68100 are UNDSS assets, but are managed by UNDP and should be recorded in the Asset Module using the specific category within the UNDP catalogue that enables UNDSS items to interface with the Asset Module as non-capitalized assets.

The review of asset management revealed the following shortcomings:

- There were assets belonging to UNDSS and common services valued at \$133,000 and \$260,000 respectively, recorded as UNDP assets in the Asset Module.
- Assets did not have tag numbers, although the tag numbers were already created in the UNDP Asset Module. Subsequent to the audit, the Office confirmed that all assets were tagged with the corresponding tag ID numbers. Therefore, OAI did not raise a recommendation in this respect.

The capitalization of assets that do not belong to UNDP may result in inaccurate asset information and asset overstatements in financial reports.

Priority	Medium (Important)
Recommendation 7:	
The Office should improve asset management by continuing coordination with the Global Shared Services Center for the correction of the items recorded in error as UNDP capital assets.	

Management action plan:

The case of assets recorded as UNDP assets has been submitted to the Global Shared Services Center and the Office is awaiting a response.

The cases of assets recorded as common services assets have been submitted to the Global Shared Services Center in April 2016 when the Memorandum of Understanding among all agencies was under process. These cases were closed by the Global Shared Services Center as the only supporting documents for these cases were the Operations Management Team minutes of meetings. It was agreed among all agencies that the endorsed minutes of meetings will be considered as guides for the common services implementation until the Memorandum of Understanding is signed.

Estimated completion date: June 2018

D. United Nations leadership and coordination

Issue 9 Inadequate implementation of Harmonized Approach to Cash Transfers

The 'Framework for Harmonized Approach to Cash Transfers' (HACT) requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of United Nations procedures create for its partners. Compliance is achieved when the following components have been completed: (a) macro-assessment of the public financial system; (b) micro-assessment of implementing partners; (c) assurance plan; and (d) spot checks. For projects directly implemented by UNDP, the office may need to select a responsible party, and before selecting the cash transfer modality the Office must consider the results of the micro-assessment of the responsible party.

At the time of the audit, the macro-assessment had not yet been completed, although it had been planned for 2017. Due to competing demands, the process was postponed until July 2018.

Although the Office had not been initially aware of the requirement to complete micro-assessments for responsible parties, it had already contacted the Bureau for guidance. The Office was also in the process of identifying a third party to complete the macro-assessment.

Unless all HACT requirements are fulfilled, the objectives of harmonizing practices among United Nations agencies may not be achieved.

Priority	Medium (Important)
Recommendation 8:	
The Office should fully implement HACT by completing the macro-assessment.	
Management action plan:	

The recent UN HACT Working Group decided on 26 March 2018 to reactivate the group by nominating a chair agency and coordinating efforts to contract an institution to do the macro-assessment. Three agencies (UNDP, UNICEF and UNFPA) agreed to pay their share.

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 not included in this report.