UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

HONDURAS

Report No. 1543

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Report on the Audit of UNDP Honduras
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Honduras (the Office) from 16 to 30 September 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 31 July 2015. The Office recorded programme and management expenditures of approximately $27.8 million during the period covered by the audit. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to concerns regarding the financial sustainability of the Office and weaknesses in controls over processing payments.

Key recommendations: Total = **9**, high priority = **2**

The nine recommendations aim to ensure the following objectives:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3, 4	Medium
	5	High
Reliability and integrity of financial and operational information	8	High
	9	Medium
Effectiveness and efficiency of operations	6, 7	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	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:

Office's financial sustainability at risk (Issue 5)	The financial sustainability of the Office had been a concern for senior management, both at the Office and at the Regional Bureau level, as the months of reserves decreased from 54 months in January 2015 to 24 months as of September 2015. The decrease in reserves was due to a combination of factors: (a) an increase in operational costs; (b) low expenditure against annual budgets which entailed low cost recovery; (c) insufficient cost recovery; (d) and long-outstanding Government Contributions to Local Office Costs (GLOC) of $2 million. Recommendation: The Office should enhance its financial sustainability by: (a) establishing a cost reduction/contention strategy to alleviate the pressure of insufficient resources; (b) reviewing the project results and related targets for the year, and adjusting them to more realistic figures; (c) devising a strategy to recover outstanding GLOC in cash or in-kind and continue to pursue negotiations with the Government; (d) reviewing the cost recovery charges for project activities; and (e) developing a resource and partnership mobilization strategy.
Weaknesses in controls over processing payments (Issue 8)	The paycycle of the Office was processed through two different systems, Atlas (enterprise resource planning system of UNDP) and a local database. The processing of payments using Atlas generated a text file that contained information which was not compatible with the e-banking platform due to a technical glitch that the Office had not been able to fix with the bank for several years. As a result, a new text file had to be produced using the local database that always required manual modifications before uploading it into the e-banking platform. This process increased the risk of irregularities and inconsistencies in the payments made by the Office. Access to records utilized for payments as well as security around the use of software and hardware were also found to be deficient, including the way the monthly bank reconciliation was prepared. Recommendation: The Office should strengthen the internal controls over payments and minimize business risks by: (a) liaising with the bank to request that payments be taken directly from the Atlas system, or producing an encrypted file from Atlas for uploading to the e-banking platform automatically; (b) discontinuing the use of the local database; (c) reviewing access to storage folders and the e-banking platform for processing payments in line with the delegation of authority; (d) establishing an adequate segregation of functions to ensure checks and balances in the e-banking platform for the processing of payments by requiring that at least two Office staff members authorize payments; and (e) improving the preparation of the monthly bank reconciliation.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

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

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