

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**BRAZIL**

**Report No. 1615**  
**Issue Date: 28 June 2016**

## Report on the Audit of UNDP Brazil Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Brazil (the Office) from 4 to 15 April 2016. 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, business continuity, 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 December 2015. The Office recorded programme and management expenditures of approximately \$159.8 million. The last audit of the Office was conducted by OAI in 2012.

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 weaknesses identified in the areas of in organizational structure, human resources, finance, and procurement.

**Key recommendations:** Total = **9**, high priority = **4**

The nine recommendations aim to ensure the following:

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

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:

Weaknesses in  
organizational structure  
and unclear roles and  
responsibilities  
(Issue 1)

The audit noted the following weaknesses: (a) there were unclear roles within the Office and the newly created Joint Operations Facility; (b) reporting lines in the Programme Unit followed a project-based rather than programme-based structure, which impacted efficiency; (c) there was insufficient operational support for programme implementation and the post of the Operations Manager remained vacant for over five years; (d) Office personnel working in the Programme Unit undertook similar functions under different contractual modalities, which caused a sense of imbalance; (e) finance and procurement lead roles were assigned to the same individual (intended as a temporary measure); (f) the Information, Communications and Technology Unit was found to be very large in relation to it being mainly focused on software development; (g) two units were managed as development projects, which was not aligned to their Terms of Reference and reporting lines; and (h) UNDP was represented by a service contractor at the United Nations House, instead of by a UNDP staff member.

**Recommendation 1:** The Office should undertake a review and update its organizational structure and the functions of all units in order to: (a) clarify roles, responsibilities and accountabilities, including the Joint Operations Facility requirements, and the Programme Unit; (b) ensure adequate operational support for programme activities; (c) match the Internal Control Framework with the revised organizational structure; (d) ensure that adequate segregation of duties is maintained and address any deviations from the 'UNDP Programme and Operations Policies and Procedures'; (e) review the resources assigned to the Information, Communications and Technology Unit, (f) address with the Government and the Bureau for Policy and Programme Support the financial and operating arrangements required to maintain the two units managed as development projects; and (g) address with the Government the financial and operating arrangements for the functioning of the United Nations House.

Inadequate  
management of service  
contract holders  
(Issue 7)

At the time of the audit, there were 228 service contract holders. Of the 228, 19 were engaged servicing one project implemented by the government counterpart. These personnel, located at the project premises, were hired under the UNDP service contract modality, yet the oversight exercised by the Office over them was minimal, as: the members of the selection committees were mainly government counterpart staff, or UNDP service contractors; performance evaluations were prepared by government project officials with an acknowledgement signature of an Office staff member; and the service contract holders were provided with the institutional email address of the implementing partner, which could have created confusion, since they were hired by UNDP.

In addition, the audit found that even though 1.5 days per month of annual leave were stated in the contracts, 1.8 days were granted instead according to the local practice; and two service contract holders were granted salary advances, contrary to UNDP regulations.

**Recommendation 6:** The Office should enhance the management of service contracts by: (a) completing the entire recruitment process including long and shortlisting of service contractors; (b) controlling the services provided and the contract preparation as well as contract extensions; (c) aligning the annual leave included in the contracts with the practice; and (d) limiting the use of the service contract modality to non-core services rendered.

Payments processed  
without invoices  
(Issue 8)

As per the Office current practices, the payments were effected based on documents that did not follow the legal procedures in the Country (e.g. fiscal invoices) or UNDP rules. Such payments were identified in the review of different samples amounted to \$698,000. Furthermore, the Office transferred funds to other Country Offices to implement project activities within the South-south Cooperation framework. The budgets of the activities undertaken were used as supporting documents to justify the cash transfer amounts but, in fact, no actual payments for goods or services occurred.

**Recommendation 7:** The Office should strengthen the disbursement process by approving payments that are duly supported with original invoices and proper supporting documentation.

Weaknesses in  
procurement  
management  
(Issue 9)

The Office was signing non-UNDP contracts for consultancy services provided to nationally implemented projects. Furthermore, individual project procurement plans were not prepared for 13 projects tested. The Office was also providing support services for the provision of goods for Global Environment Facility projects. However, the audit noted that the Office's representation in procurement committees varied from none in some cases, to minimal in others, without adhering to the requirement of UNDP having the majority of seats in procurement committees. Furthermore, the members of the local Contracts, Assets and Procurement Committee remained almost the same for the past three years. Lastly, the review of the procurement process of Project No. 88231 noted inconsistencies, including using direct contracting to engage the consultant experts in charge of drawing the Terms of Reference, who in turn were responsible for all procurement decisions.

**Recommendation 8:** The Office should revisit the whole procurement function vis-à-vis the establishment of the Joint Operations Facility in search of efficiency and effectiveness, while ensuring compliance with UNDP policies and procedures. In particular, the Office should: (a) discontinue the practice of hiring project personnel when full adherence to UNDP guidelines cannot not be attained – the Office should make government counterparts take full control over the procurement actions or adopt a Country Office Support mechanism, where the Office controls the recruitment and management in addition to signing the contracts in full adherence to UNDP Guidelines; (b) ensure adequate representation of UNDP in all procurement committees; (c) prepare and approve a comprehensive annual procurement plan based on individual project's procurement plans; (d) ensure member rotation with the local Contracts, Assets and Procurement Committee; and (e) address the gaps identified in the procurement of the particular project and capture lessons learned for similar future cases.

**Implementation status of previous OAI audit recommendations:** Report No. 1078, 18 January 2013.

Total recommendations: 7

Implemented: 7

**Management comments and action plan**

The Resident Representative accepted all nine recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate<sup>1</sup>.

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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<sup>1</sup> Contextual information provided by the Government of Brazil after the issuance date of this report has been included in the relevant sections of this report.