UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

SURINAME

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Report on the Audit of UNDP Suriname
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Suriname (the Office) from 10 to 14 October 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 2015 to 31 August 2016. The Office recorded programme and management expenditures of approximately $3.5 million. 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 the following: lack of adherence to corporate guidelines for nationally implemented projects; weaknesses in the monitoring, risk management and reporting activities of programme and projects; weaknesses in payment processes; and insufficient cost recovery and resource mobilization strategy.

Key recommendations: Total = **8**, high priority = **4**

The eight recommendations aim to ensure the following:

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

Lack of adherence to corporate guidelines for nationally implemented projects (Issue 4)

OAI identified the following discrepancies in the application of the corporate guidelines for nationally implemented projects:

- The Office was providing support to national implementation without the required standard Letter of Agreement where accountabilities are clarified and the list of services along with associated costs are specified. As a consequence, unclear roles and accountabilities between the Office and the implementing partners were noted, and the audit exercise of the nationally implemented projects was impacted since all of the expenses were reported as if they were incurred by the implementing partners, which resulted in external auditors also covering the Office's expenses when auditing the partners, thus contravening the single audit principle.
- As part of the support to national implementation, the Office carried out most of the procurement except for the signature of the awarded contract; this contravened the national implementation procurement guidelines. In one case, part of the procurement process (sourcing of vendors, participation of UNDP in the Evaluation Committee) was conducted by the Office and part of the process by the implementing partner (drafting Terms of Reference, evaluation and signing of the contract). During the period covered by the audit, the Office undertook procurement action for $892,000. Out of this amount, approximately $580,000 corresponded to nationally implemented projects.

  The audit also identified contracts signed between the projects and the contractors that did not follow any of the standard templates to be used by the implementing partners; despite the fact that contracts established that the individual contractor was not linked to UNDP, these contracts established UNDP as responsible for the payment of salaries, thus creating a risk of liabilities for UNDP (legal, financial, etc.).
- The UNDP logo was used in project contracts, even though the contracts were signed by the national partner.

<u>Recommendation:</u> The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required by: (a) refraining from using non-standard contracts and ensuring that implementing partners have a salary scale comparable to UNDP's or use UNDP's service contract salary scale as a reference when hiring project personnel; and (b) discontinuing the use of the UNDP logo in project documentation.

Weaknesses in monitoring, risk management and reporting activities of programme and projects (Issue 1)

The review of four ongoing projects that comprised 14 outputs (representing 60 percent of total programme delivery for the review period) noted the following:

- Even though two out of four project documents contained a monitoring framework detailing monitoring activities to be carried out during the life cycle of each project, these were not carried out as stipulated in the project documents. In addition, the Office did not update the risk assessments

carried out when formulating the projects, and they were also not recorded in Atlas (enterprise resource planning system of UNDP) as required. Furthermore, projects under the governance portfolio lacked standard annual work plans leaving project implementation to the agreed results with implementing partners without results-based information, such as SMART indicators, baselines and targets for each output.

- The Office recorded the lowest score across UNDP in the 2015 Results Oriented Annual Report (ROAR) evaluation due to weaknesses in programme monitoring and results reporting. Even though for 2016 the Corporate Planning Tool reflected that 11 out of 12 results were indicated as likely to be achieved. However, given the insufficient project monitoring at the time of the audit, it was uncertain whether the Office would achieve its planned programmatic results for 2016.
- The monitoring function was assigned to Programme Officers who in their oversight roles did not ensure adequate evidence and supporting documentation reflected in the Quality module of the Corporate Planning System.

Recommendation: The Office should strengthen monitoring, risk management and reporting activities by: (a) carrying out the activities described in the project monitoring frameworks; (b) performing project risk assessments as stipulated in the project documents and recording them in Atlas; (c) gathering the evidence of programme monitoring and improving the ROAR exercise; and (d) ensuring that the monitoring information of projects is entered in the Quality module of the Corporate Planning System.

Weaknesses in payment process (Issue 7)

There were inefficiencies and lack of controls in the payment process identified during the audit as described below:

- The paycycle process was initiated by selecting all approved vouchers in Atlas to be included in the paycycle without verifying the supporting documentation of those vouchers. It was assumed that if a voucher was approved for payment, the related invoice was in the Office.
- For payments completed through bank transfers, the online banking application was not used because UNDP Treasury had not approved the Office's request due to additional information needed before approval and weak segregation of duties. The Office was instead using a separate software, with risks of duplication of activities and data integrity breaches. There were no controls established between Atlas and the software used for payments to validate that payment information transmitted to the bank was in line with Atlas.
- In six instances, payments amounting to $200,000 were processed without a physical invoice.

Recommendation: The Office should review the payment process and incorporate controls to reduce the risks of misuse of funds and effect payments based on appropriate legal documents.

Insufficient cost recovery and resource mobilization strategy lacking action plan (Issue 2)	The Office faced challenges, which included: (a) increased operational costs; (b) reduced inflow of core resources; and (c) untimely collection of Government Contributions to Local Office Costs. The financial situation was further impacted by the low projects expenditure as of 30 September 2016, which was below 40 percent when compared with the $2.1 million target for 2016. Regarding its extrabudgetary reserves, a deficit of $154,599 for 2015 and a projected deficit of $178,800 for 2016 were reported in Atlas. In addition, Government Contributions to Local Office Costs of $1.8 million remained uncollected since 2010. Even though the Office increased its portfolio of projects, a required Resource Mobilization Strategy was not available even though the deadline set by the Regional Bureau was set to 30 September 2016. Instead, the version shared with OAI was still in draft form. The draft version lacked the required action plan as described in the new Resource Mobilization Toolkit showing resources needed, potential donors, and measurable objectives, the most important being to ensure Office sustainability. Recommendation: The Office should improve its financial sustainability with the guidance of UNDP Headquarters by: (a) reviewing the cost recovery charges for project activities and applying Direct Project Costing; (b) establishing a strategy to recover outstanding Government Contributions to Local Office Costs; and (c) finalizing the Resource Mobilization Strategy and its related Action Plan considering the required elements described in the new Resource Mobilization Toolkit introduced by the Bureau for External Relations and Advocacy.

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 have 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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