

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



*Empowered lives.  
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**AUDIT**

**OF**

**UNDP CLUSTERING PROCESS**

**Report No. 1912**

**Issue Date: 1 June 2018**

## 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.

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.

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.

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).

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.

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.

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.



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