

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP COUNTRY OFFICE

IN

PERU

Report No. 1914
Issue Date: 27 April 2018

Report on the Audit of UNDP Peru Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Peru (the Office) from 12 to 23 March 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 2016 to 31 December 2017. The Office recorded programme and management expenses of approximately \$120 million. The last audit of the Office was conducted by OAI in 2015.

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.” The rating was due to risks from contractual issues not addressed and weaknesses in the E-banking web application payment process.

Key recommendations: Total = 6, high priority = 2

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2	Medium
Effectiveness and efficiency of operations	4	High
Compliance with legislative mandates, regulations and rules, policies and procedures	1	High
	3, 5, 6	Medium

For high (critical) priority recommendation, 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 recommendations are presented below:

Risks from contractual
issues not addressed
(Issue 1)

National legislation prevents international cooperation agencies from managing public funds, unless they adhere to local regulations. As a result, when negotiating project documents, the Office was being requested by government counterparts to incorporate contractual clauses aligned to the framework of national legislation, as opposed to international privileges and immunities accorded to UNDP based on international agreements. Consequently, the Office's ability to sign new project documents that involve government cost sharing resources had been impaired with a negative impact on delivery rates over the past two years. In addition, for the signing of new projects with a component of government cost sharing, the respective ministry required the sign-off of a checklist with clauses that contravened the Office's legal status in the Country. At the time of the audit fieldwork, the Office was facing similar challenges in the negotiations with local authorities to support the organization of the Pan-American Games in 2019, with a project budget of \$120 million to be implemented in 2018 and 2019.

Furthermore, the Office had modified the standard Letter of Agreement template to provide Country Office Support to nationally implemented projects without obtaining prior clearance from the Legal Office. The changes in the text implied adding terms and conditions and deleting others, which may entail reputational and legal risks for the Office.

Recommendation:

The Office should address the legal issues noted with the support of the Regional Bureau for Latin America and the Caribbean by: (a) ensuring that the privileges and immunities of UNDP as well as UNDP's rules and regulations are acknowledged in the Country; (b) considering a combined support mission to the Country with members of the UNDP Bureaux for Management Services, External Relations and Advocacy, to address the issues at the highest level possible; and, (c) ensuring that Country Office support to national implementation is provided through the standard Letters of Agreement cleared by the Legal Office.

Weaknesses in the use
of E-banking web
application (Issue 4)

During the audit period the Office processed 31,276 payments amounting to \$100 million. The payments to the bank were made through the E-banking web application or by issuing letters addressed to the bank instructing payments to be effected. The audit identified weaknesses, related to lengthy pay-cycles run by the Office due to urgent requests, and lapses of controls in the processing of the pay-cycle through the E-banking web application that allowed manual entries and duplication of data. In addition, the agreement with the local bank for using the web banking services was signed in the year 2000 and had not been cleared by the Legal Office, and internal procedures for using E-banking web application were pending approval by UNDP Treasury since August 2016. Urgent or high value payments (above \$60,000) were authorized to be processed through letters addressed to the bank instructing the payment of a supplier.

Recommendation:

The Office should improve the payment process and comply with UNDP Treasury requirements by: (a) re-assessing the possibility of changing the local bank to process payments through E-Banking directly from Atlas; (b) requesting approval of the bank agreement by the Legal Office and of the payment process procedure by Treasury; and (c) refraining from using or limiting the number of letters issued to the bank when requesting for payments.

Implementation status of previous OAI audit recommendations: Report No. 1482, 9 September 2015.

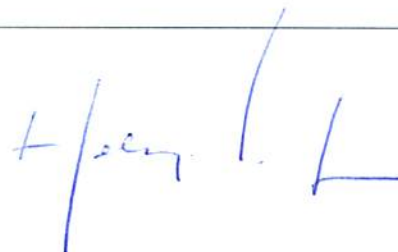
Total recommendations: 4

Implemented: 4

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.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is enclosed in a rectangular box.

Helge S. Osttveiten
Director
Office of Audit and Investigations