UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

BRAZIL

Report No. 1078

Issue Date: 18 January 2013

ACRONYMS

ACP	Advisory Committee on Procurement
CPAP	Country Programme Action Plan
FTA	Fixed Term Appointment
FTP	Fast Track Procedures
HACT	Harmonized Approach to Cash Transfers
IC	Individual Contract
ICT	Information and Communication Technology
NIM	National Implementation Modality
PAC	Project Appraisal Committee
POPP	UNDP Programme and Operations Policies and Procedures
RACP	Regional Advisory Committee on Procurement
TA	Temporary Appointment
UNDAF	United Nations Development Assistance Framework

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Report on the audit of UNDP Brazil
Executive Summary

From 24 September to 5 October 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Brazil (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $164 million. The last audit of the Office was conducted by the United Nations Board of Auditors in 2008.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity". Ratings per audit area and sub-areas are summarized below.

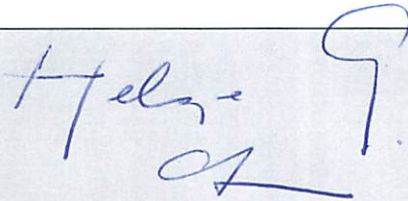| Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				■
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
2. United Nations system coordination				■
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – "One UN"	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
3. Programme activities			■	
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Partially Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				■
4.1 Human resources	Satisfactory			
4.2 Finance	Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and Security	Satisfactory			
4.7 Asset management	Satisfactory			

Key issues and recommendations

The audit raised seven issues and resulted in seven recommendations, all ranked medium (important) priority, which means "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address: (a) the

lack of a resource mobilization strategy; (b) project documents with non-standard legal clauses; (c) improper conversion of Temporary Appointments (TA) to Fixed Term Appointments (FTA); and (d) weaknesses in submission of procurement processes to the Regional Advisory Committee on Procurement (RACP) / Advisory Committee on Procurement (ACP).

Management's comments and action plan

The Resident Representative accepted all the recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 24 September to 5 October 2012, OAI conducted an audit of UNDP Brazil. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI's audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management and control processes.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 June 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $164 million. The last audit of the Office was conducted by the United Nations Board of Auditors in 2008.

II.   About the Office

The Office, located in Brasilia, Brazil (the Country) had 62 staff members, 126 service contract holders and three United Nations volunteers. At the time of the audit, the Office was preparing to move to new premises built by UNDP on land provided by the Government.

The Office was among the top five country offices globally in 2011 in terms of programme delivery and second in the Latin America and Caribbean region. The project portfolio was mainly funded by Government resources. However, following changes in the national legislation leading to a complex legal framework that limited the scope of international cooperation in the Country, resources received from the Government were less than in previous years.

Development priority areas for the new programmatic cycle (2012-2015) are the Millennium Development Goals, green economy and decent jobs within the context of poverty eradication and sustainable development, citizen security, and south-south cooperation. At the time of the audit, the Government's signature on the United Nations Development Assistance Framework (UNDAF) and the Country Programme Action Plan (CPAP) for UNDP was still pending, but on 4 December 2012, the Government approved the latest version of the UNDAF.

The Office successfully managed and implemented preparations for the United Nations Conference on Sustainable Development (Rio+20), providing technical and logistical support to the country's National Organization Commission. This was the largest project of the Office in 2012, with total expenses of approximately $35 million.

III.   Detailed assessment

1. Governance and strategic management	Satisfactory

1.1 Organizational structure and delegations of authority	Satisfactory

The Office's organizational structure was changed during the last couple of years mainly to respond to the fact that the Office increased the number of projects under Direct Implementation Modality (DIM) to have enough personnel to carry out the required activities.

At the time of the audit, the Office had enough staff members to comply with the Internal Control Framework requirements and to perform the required tasks of both programme and operations, despite the fact that: (a) the Operations Manager position was vacant and not filled due to financial constraints; and (b) as part of the support by the Office to the Rio +20 conference, some Procurement Unit resources were shifted to attend to related projects, inclusive of relocating procurement staff members to Rio de Janeiro. OAI reviewed the delegation of authority and its alignment with UNDP regulations and rules and found them to be adequate.

No reportable issues were identified.

1.2 Leadership, ethics and values	Satisfactory

OAI reviewed compliance with the financial disclosure policy, the policy regarding reporting of outside activities as well as the completion of the mandatory ethics training. Furthermore, interaction of senior management with staff members was discussed with all parties involved.

No reportable issues were identified.

1.3 Risk management, planning, monitoring and reporting	Satisfactory

Based on OAI's discussion with senior management and programme staff members, as well as a review of relevant information entered into corporate tools, the risk management, planning, monitoring and reporting practices in the Office were found to be adequate although not fully in line with corporate requirements (refer to Issue 3).

No other reportable issues were identified.

1.4 Financial sustainability	Satisfactory

OAI reviewed the programme delivery rate and cost recovery policy compliance. The extrabudgetary reserve at the time of the audit was equivalent to eight months, which was below the corporate defined minimum threshold of 12 months. The Office was aware of this situation and was working in coordination with the Regional Bureau for Latin America and the Caribbean on a sustainability plan to improve the financial situation by the end of 2013 to have at least 12 months of reserve, which is why OAI did not raise an audit issue.

The low extrabudgetary reserve was partly due to additional expenses incurred by the Office in connection with the construction of the new office building. Based on Office projections, this would have a positive effect on Office finances in the long run due to an expected reduction in future operating costs since the cost of maintaining the building is estimated to be lower than the current rent paid by the Office.

No other reportable issues were identified.

2. United Nations system coordination	Satisfactory

The United Nations Country Team included ECLAC, FAO, HABITAT-ROLAC, IBRD, ILO, IMF, IOM, ITU, OHCHR, PAHO/WHO, UN WOMEN, UNAIDS, UNDP, UNEP, UNESCO, UNFPA, UNHCR, UNIC, UNICEF, UNIDO, UNODC and WFP.

OAI met with the Resident Coordinator, who mentioned that the development context in the Country had changed over the last couple of years, introducing new challenges as well as opportunities for the role of the United Nations in the Country. Furthermore, it was mentioned that important progress in the Millennium Development Goals was achieved.

2.1 Development activities	Satisfactory

The Common Country Assessment and the UNDAF for the period 2012-2015 was prepared with broad participation from government counterparts, United Nations agencies and other stakeholders. At the time of the audit, the Government's signature on the UNDAF was still pending, but on 4 December 2012, the Office received a letter from the Government informing them that the Government had approved the latest version.

OAI reviewed the UNDAF 2012-2015 and found it to be well aligned to national development priorities. This was also confirmed by government counterparts who informed OAI of the broad participatory process for UNDAF preparation.

No reportable issues were identified.

2.2 Resident Coordinator Office	Satisfactory

The Resident Coordinator Office was comprised of one national officer who worked closely with the Resident Coordinator, one United Nations volunteer and one Individual Contractor who was in charge of monitoring the Millennium Development Goals joint programmes. OAI reviewed the minutes of United Nations Country Team and thematic group meetings, the Resident Coordinator Office work plan for 2011 and 2012 and the existing joint programmes.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"	Not Applicable

Since the Country was not a pilot for One UN or a Delivering as One self-starter, this area was not applicable to this audit.

2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory

According to UNDP's balanced scorecard, the Office had completed all four steps to be fully compliant with the Harmonized Approach to Cash Transfers (HACT) modality, but was not using it. OAI interviewed the agencies involved in HACT implementation and found that only UNICEF was using HACT, but only when working with non-governmental organizations/civil society organizations. HACT modality should be implemented by all participating agencies at the same time.

Office management explained that the limited number of common implementing partners among the three HACT implementing agencies would not justify the significant efforts needed to fully implement HACT. However, as reported by the Resident Coordinator full HACT implementation is scheduled for 2013, which is why OAI did not raise an issue.

Nevertheless, given the limited progress in implementation of HACT, this area was rated as "partially satisfactory".

3. Programme activities	Partially Satisfactory

3.1 Programme management	Satisfactory

OAI reviewed the Country Programme Document for 2012-2015 which was approved by the Executive Board of UNDP during its second regular session of 2011 and found it to be aligned with the UNDAF 2012-2015 which in turn was aligned to national development priorities. OAI also reviewed the draft version of the CPAP 2012-2015, which was pending government signature and still under negotiation, specifically regarding the security clauses. OAI did not raise an issue since the Office was negotiating with the Government to have the CPAP signed. Nevertheless, OAI discussed with the Office that not having the CPAP signed may expose the Office and its projects to risks.

No other reportable issues were identified.

3.2 Partnerships and resource mobilization	Partially Satisfactory

OAI met with government counterparts, implementing partners and donors. All parties expressed their appreciation of the Office as a development partner.

The Office was in compliance with the International Public Sector Accounting Standards requirement to upload all locally approved contribution agreements to the centrally managed Document Management System.

OAI noted that the Office had used several non-standard agreements, which according to the Office were all cleared, although not in writing, by the Bureau for External Relations and Advocacy. Given that all agreements had been processed directly by the Bureau for External Relations and Advocacy in the Document Management System used for revenue management, OAI did not raise an audit issue. One of the agreements included a non-standard audit clause which had not been cleared by OAI. No audit issue was raised since the contribution agreement had already expired, but this finding was discussed with the Office management, that all non-standard audit clauses must be cleared by OAI.

Only one medium priority issue was identified, but due to its relevance toward funding, this area was rated as "partially satisfactory".

Issue 1   Lack of a resource mobilization strategy

The financial sustainability of country offices depends on their ability to mobilize resources and develop partnerships. The UNDP Programme and Operations Policies and Procedures (POPP) require offices to establish effective partnerships and a resource mobilization strategy, as well as a corresponding action plan.

At the time of the audit, the Office was in the process of finalizing the CPAP 2012-2015 which included a mapping of all possible funding sources. Nevertheless, this was not translated into a resource mobilization strategy and corresponding action plan. Furthermore, following changes in the national legislation leading to a

complex legal framework that limited the scope of international cooperation in the country, resources received from the Government were less than in previous years and, thereby increasing the importance of having a resource mobilization strategy.

The Office management explained that the Office did not have a formal resource mobilization strategy in the format as described in the Resource Mobilization Toolkit, but that it had all the components needed to create a resource mobilization strategy; specifically:

- a corporate Partnership Agreement signed by the UNDP Administrator and Brazilian Minister of Foreign Affairs in 2010;
- a new country programme agreed with the Brazilian Government for the period 2012-2015;
- high demand for technical cooperation projects as demonstrated by the number of new signed projects and the current pipeline;
- new partnerships with a number of state and private sector companies;
- a strategy to diversify the project portfolio based on UNDP knowledge products, such as the *Sistema de Gestión para la Gobernabilidad* (SIGOB), local development and citizen security knowledge kits, and metropolitan and municipal human development reports; and
- a solid strategy and portfolio of South-South cooperation.

The lack of a resource mobilization strategy and corresponding action plan might jeopardize the Office's ability to sustain long-term operations, thus compromising development results. Furthermore, there is a risk that insufficient financial resources may adversely affect the programme objectives.

Priority	Medium (Important)

Recommendation 1:
The Office should prepare a resource mobilization strategy in line with the Resource Mobilization Toolkit that includes specific goals and a timeframe, as well as a systematic evaluation of results. The resource mobilization strategy should consider the new development environment following changes in national legislation and take into account the Office's actual operating costs.

Management comments and action plan: ___√___ Agreed ____Disagreed

Additional information provided by the Office had been reflected in the audit observation.

The Office will translate and enhance its current instruments into a formal resource mobilization strategy in accordance with the guidelines of the Resource Mobilization Toolkit.

The Office wants to highlight that, as also noted on page two of this report, the Office is among the top five globally in 2011 in terms of programme delivery and second in the Latin America and the Caribbean region, demonstrating its capacity to mobilize resources.

3.3 Project management   Partially Satisfactory

At the time of the audit, the Office was implementing 126 development projects. OAI reviewed 15 of them, of which 12 were under National Implementation Modality (NIM) and three under DIM. In addition, OAI reviewed one joint programme. The value of the total number of projects reviewed represented more than 63 percent of the total delivery for 2011 and 63 percent of the total delivery for the first half of 2012. The projects were reviewed with respect to their document structure, appraisal, approval, monitoring and evaluation, annual reporting, lessons learned log and donor reporting.

OAI discussed with the Office management the large number of projects being implemented. The Office management informed OAI that as part of the preparation for International Public Sector Accounting Standards implementation, the Office was financially closing long-outstanding operationally-completed projects and that the process was still ongoing; noting that 29 projects were closed during the audit review period. Given that the Office was actively working on financially closing operationally-completed projects as part of the Office clean-up, OAI did not raise an audit issue.

OAI also noted that several projects started with high budgets and were not able to reach even 50 percent of total planned delivery and that the remaining resources were refunded to the donors as stipulated in the POPP. This was discussed with the Office programme staff members who mentioned that this was related to the local situation, forcing them to allocate budgets, covering the whole period, in one year. Although all cases were properly justified under the Brazilian National Project Implementation modality, there was a risk for the Office of being identified as a weak partner in terms of resource management and achievement of development results could be questioned. OAI did not raise an audit issue since the Office was starting a new programmatic cycle and was taking into consideration better budgeting process.

Two medium priority issues were identified; therefore this area was assessed as "partially satisfactory".

Issue 2   Project Appraisal Committee meetings not following prescribed procedures

According to the POPP, as part of the project appraisal process, appropriate UNDP representatives and stakeholders shall ensure that a project has been designed with a clear focus on agreed results. Appraisal is based on considerations for quality programming that apply to all phases of the programming process. All projects and substantive revisions should be reviewed and approved through a Project Appraisal Committee (PAC) meeting to ensure that outputs are aligned with the desired results of the Country Programme, and that a proper project management structure is defined to monitor and evaluate them.

OAI reviewed a sample of 15 development projects and found that only two of them were reviewed by the PAC, while the remaining 13 projects had minutes signed only by the head of the Programme Unit, which was not in line with the POPP. In addition, the existing minutes lacked details about the discussions and the results of the review of project documents. Furthermore, substantive revisions had been made to two projects. These revisions had been approved by their corresponding Project Board but not by the local PAC and approval had been done without the prescribed checklist, as required in the POPP. For instance, most of the projects had indicators which lacked baseline, source of information, interval between readings, and which were making them more narrative than measurable and, therefore, leaving the achievement of results more prone to a subjective analysis. A proper PAC review process might have spotted such weaknesses and these could then be addressed, as part of the project design.

Office management explained that all projects were reviewed by a project board constituting of representatives from one of the main national counterparts and UNDP. For some PAC meetings, the Office prepared a list of participants and collected their signatures. PAC minutes were not signed by members due to the fact that the said main national counterpart did not recognize the PAC as the instance of project approval. The main national counterpart considered a project approved only after the agency had signed an official appraisal letter of non-objection. Despite the fact that the board members did not sign the PAC minutes, they were in agreement with PAC decisions reflected in the final project document signed by all parties.

Weaknesses in review and approval of projects increase the risk of not achieving expected results. These results need to be fully aligned to agreements with the host Government and stakeholders through the CPAP. Not meeting expected results can negatively affect UNDP's reputation and could reduce interest among the donor community for future project funding.

Priority	Medium (Important)

Recommendation 2:
The Office should ensure that all projects and their substantive revisions are reviewed and approved by the Project Appraisal Committee, involving the most relevant participating partners, in line with the Programme and Operations Policies and Procedures.

Management comments and action plan: __√____ Agreed   ____Disagreed
Office management informed OAI after the audit mission that the Office has already started reviewing the Project Appraisal Committee process in order to align it to the UNDP Programme and Operations Policies and Procedures. Negotiations between the Office and one of the main national counterparts resulted in the latter's agreement to sign Project Appraisal Committee minutes together with all relevant partners. Furthermore, the baseline indicators of all new projects and substantive revisions would be reviewed by the Monitoring and Evaluation Unit to ensure their adequacy.

Issue 3   Project documents with non-standard legal clauses

A project document is considered to be a binding document in which UNDP commits with the Implementing Partner and the Government to achieve a set of development results within a legal context, governed by the Standard Basic Assistance Agreement and by specific management arrangements.

OAI noted that from the sample of 15 development projects reviewed, 11 of them had non-standard project documents, two were based on Global Environment Facility standard documents, one had no project document on file, and only one complied with UNDP standard clauses. The major concern was deviation from standard legal clauses, as project documents were aligned mostly to the requirements of one of the main national counterparts, including a section called obligations and pre-requisites (*obrigações e pré-requisitos*) which were not in accordance with UNDP standard clauses. One of the main differences noted by OAI regarded a section that dealt with the responsibility for the safety and security of the implementing partner and its personnel and property, which was part of the standard legal context of the project document, but not of the obligations and pre-requisites section used by the Office. In addition, the documents were mostly in Portuguese and one of them used a legal text called Complementary Adjustment which, although it has many of the components of a project document, is not one. Furthermore, OAI noted that project documents were more aligned to the national rules and regulations for National Project implementation (Brazilian NEX modality) than with UNDP regulations and rules leading to low use of corporate tools such as Atlas due to the differences in project design .

Project documents with non-standard legal clauses may expose the Office and its projects to risks with possible legal and reputational consequences. Not fully using corporate tools affects consolidated reporting which in turn may affect reporting back to donors.

Priority	Medium (Important)

Recommendation 3:
The Office should align project documents to UNDP requirements ensuring that standard legal clauses are used and that project design is in line with corporate tools. In case of deviation, the Office should seek clearance from the Legal Support Office.

Management comments and action plan: ___√___ Agreed   ____Disagreed
The Office is reviewing all the templates and procedures for project and revision formulation to fully align them with the UNDP Programme and Operations Policies and Procedures. In cases in which the said main

national counterpart does not agree with UNDP templates and procedures, the Office will seek clearance from the Legal Support Office.

4. Operations	Satisfactory

4.1 Human resources	Satisfactory

At the time of the audit, the Office employed 62 staff members, consisting of three international, 23 national officers and 36 general service staff members. In addition, there were 126 service contract holders and three United Nations volunteers.

OAI reviewed the overall management of the human resources functions, specifically all recruitment (3) and separations (3) of staff members and recruitment of service contract holders (6) during the audit period. OAI also reviewed the benefits and entitlements of staff members, such as salary advances and home leave travel, to ensure compliance with relevant policies and procedures.

OAI noted that 14 service contract holders recruited for a specific DIM project were transferred to a NIM project, and their contracts, initially signed by the Office, were still on-going. Although the chart field of accounts of the related expenditures was changed to reflect the NIM project, the service contract holders were still working based on service contracts under the responsibility of the Office, with the risks inherent to the contractual relation. This issue was discussed with Office management who agreed to discontinue the contractual relation once it expired, which is why OAI did not raise an audit issue..

Since only one medium priority issue was identified this section was assessed as "satisfactory".

Issue 4   Improper conversion of Temporary Appointments to Fixed Term Appointments

Staff Regulation 4.5b stipulates that a TA shall not be converted to any other type of appointment. In addition, the UNDP Temporary Appointment Guidelines establish that staff members holding a TA can only apply for FTA positions as external candidates since a TA is not endorsed and reviewed by the Compliance Review Panel, which is mandatory for an FTA.

OAI noted that appointments of three former staff members were converted from TA to FTA without following a competitive recruitment process. Since no recruitment processes had been followed, these new appointments had not been reviewed by the Compliance Review Panel, as would be mandatory for an FTA.

The Office wants to highlight that it is committed to following the Staff Regulations as demonstrated in the more than 200 recruitment processes undertaken in the last two years. Regarding these three cases, the risk to the Office of not selecting the most qualified candidates and of being exposed to reputational risk due to lack of transparency, was significantly mitigated by the following elements:
- the decision to change the Temporary Appointments to Fixed Term Appointments took into account that the three staff members participated in the competitive processes in 2008 and joined the organization under Activities of Limited Duration contracts;
- the Results and Competency Assessments for these three staff members demonstrated that they fully met or exceeded expectations;
- prior to conversion of their Temporary Appointments to Fixed Term Appointments, they were evaluated by a panel of members of other United Nations Agencies and a member of the UNDP Human Resource Unit; and

- this decision was preceded by a discussion in a management meeting, held on 16 May 2011, during which the need to consolidate the Office structure was identified, including changing the contracts of this group of professionals, working under Temporary Appointments in programmatic and administrative areas, from TA to FTA.

Converting appointments of staff members from TA to FTA without a competitive process creates a risk for the Office of not selecting the most qualified candidate and leaves the office exposed to a reputational risk due to lack of transparency.

Priority	Medium (Important)
Recommendation 4: The Office should ensure that all Fixed Term Appointments are made on the basis of a competitive recruitment process and an independent review by the Compliance Review Panel.	
Management comments and action plan: ___√___ Agreed ____Disagreed The Office agrees with the recommendation and confirms its commitment to follow the letter and spirit of the Staff Regulations and Rules.	

4.2 Finance   Satisfactory

OAI reviewed the Office financial management processes and controls. The Office processed 52,318 vouchers during the period under review for a total of $156 million. OAI took a sample of 30 non-purchase order vouchers, totalling approximately $34.7 million, for detailed review and testing. There were a large number of payments without purchase order due to the use of the direct payment modality for NIM projects.

Since only one medium priority issue was identified this section was assessed as "satisfactory".

Issue 5   Advances to National Implementation Modality projects incorrectly disbursed as direct payments and recorded as expenditures

UNDP Financial Regulations and Rules require that advances to NIM projects are closely monitored by country offices in order to verify the correct use of the advanced funds for achieving immediate results and expected outputs. In addition, advances should be recorded in Atlas through non-purchase order vouchers, charging Atlas account code 16005 (OFA - Governments (NEX)), and the actual expenses are only to be recorded when the implementing partner reports them.

From the review of non-purchase order vouchers, OAI noted that advances to NIM projects, amounting to approximately $6 million, were treated as direct payments and charged directly to expenditure accounts instead of to account 16005. Some of these disbursements were charged to the Sundry account (Atlas account code 74525) since, at the time of disbursement, it was not clear how the disbursement was exactly going to be used and, therefore, the exact expenditure accounts to be used were not yet known. OAI also noted that the disbursements were done following a request from the government institution, including certification of the proper use of the previous disbursement, providing further evidence that the requested disbursement was an advance and not an expense and should therefore have been charged to account 16005.

Incorrectly recording advances issued to NIM projects as expenditure makes it difficult for country offices to manage the proper use of the advances and monitor the amount of outstanding advances. Furthermore, recording advances as expenditure will overstate actual delivery.

Priority	Medium (Important)
Recommendation 5: The Office should ensure that advances to National Implementation Modality projects are recorded as advances, using Atlas account code 16005, and manage these advances using the established procedures.	
Management comments and action plan: ___√___ Agreed ____Disagreed The cases raised by OAI relate to south-south National Implementation Modality projects. The Office will review the situation internally and with one of the main national counterparts to implement the recommended adjustments.	

4.3 Procurement	Partially Satisfactory

OAI reviewed the Office procurement processes, including a sample of procurement processes that were conducted under Fast Track Procedures (FTP) for the Rio + 20 conference in June 2012. For the period under review, the Office issued 7,483 purchase orders, valued at $141 million. OAI selected a sample of 11 Individual Contracts, valued at approximately $0.7 million and 18 procurement processes, valued at $50.7 million. Additionally, 12 post facto procurement processes, valued at $1.8 million were verified. OAI reviewed the pre-award, award and post award phases of the procurement processes selected for review.

OAI noted several challenges that the Office encountered with procurement processes under the FTP. Challenges included, but were not limited to, timing constraints of the FTP for complex procurement processes and compliance with procurement procedures while maintaining satisfactory results in terms of best value for money. Another constraint was the fact that submissions to the ACP had to be completed in English. Under the FTP, the turnaround time for ACP submittals was stipulated to be 48 hours; however, the actual turnaround time was longer considering the complexities at stake, leading to requests for clarification, and language constraints.

The Procurement Unit indicated that the experience of the Rio + 20 conference, and specifically the challenges experienced with the FTP procurement processes, would be shared in order to improve organizational practices, aimed at assisting other UNDP country offices in similar crisis/special situations.

At the time of the audit mission, the chairperson of the Contracts, Assets and Procurement Committee was the Deputy Resident Representative, who also had primary supervisory oversight of the Procurement Unit, which led to a lack of segregation of functions. OAI discussed this issue with the Office management who, subsequent to the audit mission, took action by revoking the appointment of the Deputy Resident Representative and appointing a new chairperson of the Contracts, Assets and Procurement Committee.

As a good practice, the Office applied green procurement procedures for the new premises. Many green concepts were applied to the architectural design that took into account the furniture, internal structures and systems already in use by the Office. Green procurement was also applied to the purchase of air conditioning and flooring.

Considering that there were two medium priority issues, this audit area was rated as "partially satisfactory".

Issue 6	Weaknesses in submission of procurement processes to the Regional Advisory Committee on Procurement / Advisory Committee on Procurement

All procurements above the delegated procurement authority that is granted to the Office's management need to be reviewed by the RACP/ACP as applicable.

OAI noted several weaknesses in the submissions to and responses from the RACP/ACP; specifically:

- All 13 procurement cases submitted to the ACP, which were reviewed by OAI, were done by staff members not duly authorized by the Resident Representative in his function as Procurement Authority. At the time of the audit mission, procurement authority had been sub-delegated only to the Deputy Resident Representative and to the Procurement Analyst by the Resident Representative. Furthermore, having procurement processes submitted by staff members that were not authorized to do so increases the risk that the quality of submission would be below par, as evidenced by the rating of 'fair' by the ACP of cases submitted to them.
- Of the 13 procurement cases reviewed, the supporting documentation submitted was incomplete (5 cases), needed improvement (1 case) or needed further clarification (7 cases). For the five cases in which the documentation was incomplete, the minimum documentation was not provided to allow the review committee to render reasonable assessment of the procurement process. As a minimum, the solicitation document, advertisements, offers and evaluation forms are required to support the review process.
- Procurement processes between $0.5 million and $1 million were submitted to the RACP in Portuguese. This prevented the RACP members from fully discharging their responsibilities for a thorough review, as RACP members were not proficient in Portuguese (and they could not be expected to be since Portuguese is not an official language of the United Nations).
- The response and meeting minutes of the RACP were submitted to the Office in Spanish, a language in which the majority of the Office staff members were not sufficiently familiar. As the submissions to the ACP were in English, the Procurement Unit indicated that the preferred United Nations working language would be English for all communications with the RACP/ACP in order to ensure that all parties involved could easily review the submissions and evaluate the corresponding RACP/ACP comments.

The Office management explained that staff members who submitted cases to the ACP were experienced professionals with procurement certification (level two). Considering the high volume of operations during certain exceptional circumstances, other procurement staff members were designated to submit cases. With regard to submissions needing further clarification, the Office management explained that a number of cases submitted to the RACP and ACP during the audit period were of high value and complexity, naturally resulting in the need for further clarifications. Nevertheless, cases that required other documentation and/or clarifications were eventually approved.

As the independent review process is a key phase of the procurement cycle, the procurement process may face delays if submissions lack quality and/or if communication is done in languages not easily understood by all parties involved.

Priority	Medium (Important)
Recommendation 6: The Office should ensure that: (a) only staff members duly sub-delegated by the Resident Representative in his capacity as Procurement Authority submit proposals to the procurement review committees; (b) submissions are provided in English, and responses or comments by the applicable procurement review committee are in the same language; and (c) all required supporting documentation is submitted to the procurement review committees.	
Management comments and action plan: ___√___ Agreed ____Disagreed OAI was informed after the audit mission that: (a) submission of cases was now being processed only by duly delegated staff members; and (b) cases were now systematically being submitted in English.	

    Issue 7   <u>Deficiencies in use of the Individual Contract modality</u>

The POPP describes the policies and procedures for the correct use of an Individual Contract (IC) and stipulates that the IC modality is to be used for the procurement of services of an individual to perform time-bound and non-staff member tasks aimed at delivering clear and quantifiable outputs.

OAI identified deficiencies in the use of ICs, specifically in regard to:

- Three out of six consultants reviewed were paid based on an hourly fee for stipulated products, up to a monetary amount not to be exceeded. However, the terms of reference did not identify the equivalent in hours for the realization of tasks and outputs. Therefore, there was no stipulated payment schedule. IC fees are to be submitted as a lump sum or daily fee for a specified number of days and payment needs to be based on defined outputs.
- Two out of the six consultants reviewed were contracted on a monthly fee basis without clear terms of reference regarding the products of the consultancy. Payment of IC fees is contingent on the satisfactory provision of products. However, since milestones were not clearly stipulated, the basis for the Office's payment of fees was not clear.
- Selection of 21 consultants under IC for the Rio +20 conference were made without a competitive process and best value for money evaluation. All consultants, hired under the IC modality, have to be selected through a competitive process. For direct contracting, an appropriate justification is required and the best value for money evaluation is required. The direct contracting of these consultants was at the request of the governmental organizing committee of the Rio + 20 conference and under the signature of the Office, which poses a risk to the Office.

The Office opined that they are following the appropriate regulations and rules concerning the competitive basis for Individual Contracting. Other practices adopted during the Rio+20 conference included the publication of a general procurement notice, resulting in a database of more than 20,000 interested suppliers and professionals. All contracts issued during the Rio+20 conference were also supported by previous experiences with other development projects, which provided reference prices (large consultant contracts) and other ICs ensuring the best value for money.

The deficiencies identified constitute non-compliance with the applicable policies and procedures governing use of ICs and places the Office at risk of not receiving value for money.

Priority	Medium (Important)
Recommendation 7: The Office should ensure compliance with the policies and procedures governing the Individual Contractor modality, specifically: (a) payment of fees based on defined and satisfactory provision of outputs; and (b) selection of Individual Contractors on a competitive basis.	
Management comments and action plan: ___√___ Agreed ____Disagreed The Office agrees with the recommendation and will ensure immediate implementation. The Office would also like to highlight the following: Some types of services required by development projects have to be adapted to UNDP's contract modalities; e.g. south-south cooperation requires the hiring of long term consultants to be stationed in other countries. The nature of such contracts does not always allow the clear identification of all products to be delivered during the timeframe. Considering these findings and recommendations, the Office is committed to constantly improve the quality of Terms of References for the Individual Contract modality, as well as take efforts to identify within UNDP's procedures other practices that would be most appropriate for these cases.	

| 4.4 Information and communication technology | Satisfactory |

The Information and Communication Technology (ICT) of the Office was managed by an ICT Analyst who supervised one ICT Associate and one ICT Assistant. OAI reviewed the hardware and software management, systems security, information management plan and mechanisms for disaster recovery and found that the Disaster Recovery Plan was very limited. Since the Office was already in contact with the Office of Information Systems and Technology regarding improvements to the Disaster Recovery Plan and had to adjust its plans due to the fact that the Office was moving to new premises, OAI did not raise an audit issue. However, OAI discussed with the head of the ICT unit and the Office management the importance of having this done as soon as the move to the new premises is completed. As part of the review, OAI visited the new premises and verified the existence of a server room which complied with required standards.

OAI also found good practices in the use of ICT tools to monitor vehicle usage and procurement contracts, among the most relevant applications, contributing to a more effective work environment

No other reportable issues were identified.

| 4.5 General administration | Satisfactory |

OAI reviewed general administration activities, including travel and transportation and hospitality.

Review of a sample of 28 trips showed that travel claims were not submitted after the end of the assignment. In some cases, a back-to-office report showing evidence of the trip taken was submitted. However, the back-to-office reports did not provide the evidence needed to be able to ensure that travel was undertaken in line with the approved itinerary. In order to comply with the travel policy, travel claims need to be submitted within two weeks after staff members return from mission, completed with supporting documentation, and signed by supervisors for approval. This issue was discussed with the Office management who took immediate action to ensure that travel claims are properly submitted. Thus, OAI did not raise an audit issue.

| 4.6 Safety and security | Satisfactory |

The Resident Representative, who was also the United Nations Designated Official, was well aware of responsibilities with regard to safety and security of UNDP personnel. The Security Management Team was functioning well.

The Office was assessed as 98 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security.

No reportable issues were identified.

| 4.7 Asset management | Satisfactory |

With regard to asset management, OAI noted that the Office had erroneously recorded as assets in Atlas a number of items (containers, generators and office furniture) valued at around $480,000 although they were only rented for the Rio +20 conference. This created a discrepancy between the asset information in the Atlas Asset Management module and the asset listing of the Office submitted to the Administrative Services Division, Bureau of Management. If not corrected, this leads to overstating the total value of UNDP assets. This issue was discussed with the asset management focal point of the Office, as well as the Office management, who took immediate action to address this.

No other reportable issues were identified.

ANNEX   Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **Satisfactory**   Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **Partially Satisfactory**   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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **Unsatisfactory**   Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **High (Critical)**   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 and may affect the organization at the global level.

- **Medium (Important)**   Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

- **Low**   Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.