



AUDIT

OF

UNDP COUNTRY OFFICE

IN

BARBADOS

Report No. 1108
Issue Date: 26 March 2013

Table of Contents

Executive Summary	i
I. Introduction	1
II. About the Office	1
III. Detailed assessment	2
1. Governance and strategic management	2
1.1 Organizational structure and delegations of authority	2
1.2 Leadership, ethics, and values	2
1.3 Risk management, planning, monitoring, and reporting	2
1.4 Financial sustainability	3
2. United Nations system coordination	4
2.1 Development activities	5
2.2 Resident Coordinator Office	5
2.3 Role of UNDP - "One UN"	6
2.4 Harmonized Approach to Cash Transfers	6
3. Programme activities	7
3.1 Programme management	7
3.2 Partnerships and resource mobilization	7
3.3 Project management	7
4. Operations	9
4.1 Human resources	9
4.2 Finance	10
4.3 Procurement	11
4.4 Information and communication technology	13
4.5 General administration	13
4.6 Safety and security	13
4.7 Asset management	14
ANNEX I. Definitions of audit terms - Ratings and Priorities	15

Report on the audit of UNDP Barbados Executive Summary

From 12 to 23 November 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of UNDP Barbados and the Organisation of Eastern Caribbean States (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 \$19.8 million. The last audit of the Office was conducted by OAI in 2007.

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 that “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.

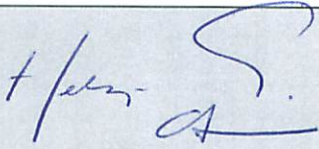
Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring, and reporting	Satisfactory			
1.4 Financial sustainability	Partially 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	Satisfactory			
3.3 Project management	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 of which were 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) weaknesses in cost recovery, (b) Harmonized Approach to Cash Transfers not fully implemented, (c) weaknesses in project review and approval and (d) incorrect use of purchase orders.

Management comments and action plan

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



Helge S. Ostveiten
Director
Office of Audit and Investigations

I. Introduction

From 12 to 23 November 2012, OAI conducted an audit of UNDP Barbados and the Organisation of Eastern Caribbean States (the Office). 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 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 \$19.8 million. The last audit of the Office was conducted by OAI in 2007.

II. About the Office

The Office, located in Christ Church, Barbados (the Country), not only covered the Country, but also the Organisation of Eastern Caribbean States, which comprised of the following countries: Anguilla, Antigua and Barbuda, British Virgin Islands, Commonwealth of Dominica, Grenada, Montserrat, Saint Lucia, Saint Christopher and Nevis (also known as Saint Kitts and Nevis) and Saint Vincent and the Grenadines.

The Office has been set-up to handle the complex environment, in which the United Nations Resident Coordinator and UNDP Resident Representative are responsible for several countries, each with a different income level and developmental status.

Barbados was ranked very high (No. 47) on the 2011 Human Development Index (HDI). The Organisation of Eastern Caribbean States countries were rated as having high human development with rankings varying between 60 (Antigua and Barbuda) and 85 (Grenada). These high human development rankings, however, coexisted with relatively high levels of poverty. Poverty levels ranged from around 14 percent in Barbados (1996 est.) to 39 percent in the Commonwealth of Dominica (2002 est.), and the region's Gini coefficients suggested high and persistent levels of inequality, ranging from 0.23 in the British Virgin Islands to 0.48 in Antigua and Barbuda.

At the time of the audit, the Office had 18 staff members, consisting of 3 International staff, 7 National Officers and 8 General Service staff. In addition, there were seven Service Contract holders and one National United Nations Volunteer. The Office shared premises with six other United Nations agencies in a building called United Nations House, which was donated by the Government, and the Office had responsibility for administering the common services for this building.

The Office successfully managed to prepare and sign the multi-country United Nations Development Assistance Framework for the new programming cycle 2012-2016.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

1.1 Organizational structure and delegations of authority

Satisfactory

The Office's structure had been changed three times since November 2011 following a reduction in staff. Changes included a reduction of the Poverty Team from four to two staff members, and elimination of the Program Assistant post as well as the United Nations Coordination Associate. The Office did not have a dedicated procurement unit but had instead appointed the Information and Communication Technology Support Associate as their Procurement Focal Point.

The OAI review of the Office's internal control framework and the corresponding Atlas user profiles showed that the approval rights as defined in the internal control framework did not align with the actual Atlas approval rights. Moreover, two Atlas users had been given certain approval rights that should not have been combined; specifically, senior management approval rights and vendor approval rights. These issues were discussed with Office management who informed OAI that the internal control framework would be updated to reflect the approval rights as defined in Atlas. Furthermore, management took action and removed the vendor approval rights of one user who also had senior management approval rights, which is why OAI did not raise an audit issue. Management further explained that with regard to the second case, they preferred to keep the situation as is since this related to the Atlas user profile of the Deputy Resident Representative, who had specifically been assigned the vendor approval rights to provide some senior management oversight on vendor creation, especially in an era of increased scrutiny of procurement to safeguard UNDP against terrorist activities, money laundering and politically exposed persons. Furthermore, management informed OAI that they planned to mitigate the situation of conflicting rights by introducing compensating controls. No other 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 completion of the mandatory ethics training. The financial disclosure policy requires staff members who have direct access to confidential procurement or investment information to file a financial disclosure statement. OAI noted that the staff member who was recently appointed as the Procurement Focal Point of the Office and would therefore qualify to file the financial disclosure statement had not done so. OAI discussed this issue with Office management who stated that they would address this and inform the staff member of the need to file a financial disclosure statement. As the only issue identified is being addressed, OAI did not raise an audit issue.

No other reportable issues were identified.

1.3 Risk management, planning, monitoring, and reporting

Satisfactory

Based on OAI discussions with senior management and programme staff members, as well as review of relevant information available in corporate tools, such as the Integrated Results Based Management platform and Atlas, the planning, monitoring, reporting, and risk management practices in the Office were found to be in line with corporate requirements.

The monitoring of the Integrated Work Plan and its projects was adequately led by the Deputy Resident Representative. Following a low delivery rate encountered by projects during 2011, the Office had been working

to improve its delivery rate. At the time of the audit, the Office had delivered \$8.4 million, which already exceeded the total programme delivery for 2011 of \$7.4 million and the target for 2012 of \$7.9 million.

As the Office was responsible for the Country as well as for the nine member states of the Organisation of Eastern Caribbean States, it had faced some difficulties with its monitoring and reporting. For instance, some corporate tools such as the Executive Snapshot showed consolidated information at the Office level while Atlas showed information split by departments, which represented countries. Hence, the Office had to consolidate the Atlas information for the ten countries for which it had responsibility for, in order to obtain the Office results.

No reportable issues were identified.

1.4 Financial sustainability

Partially Satisfactory

OAI reviewed the programme delivery rate and cost recovery policy compliance. The extrabudgetary reserve of three months as shown in the Executive Snapshot was not in line with the Office's calculation, which was equivalent to 15 months. This discrepancy was caused by the following: since the Country was a Net Contributing Country, the extrabudgetary reserve of the Office was centrally managed by the Office of Planning and Budget. Information shown in the Executive Snapshot relating to extrabudgetary reserves is updated based on completion of the Office of Planning and Budget's internal processes, rather than automatically in accordance with delivery.

One medium priority issue was identified, but due to its relevance, this section was rated as "partially satisfactory."

Issue 1 Weaknesses in cost recovery

According to the UNDP Programme and Operations Policies and Procedures, the importance of a healthy level of cost recovery to the sustainability of UNDP cannot be overemphasized. All efforts should be made to recover costs incurred by UNDP in providing services to programmes, projects and agencies. OAI identified weaknesses with regard to the Office's cost recovery.

Cost recovery received for all Global Environment Facility projects under the Office's purview amounted to \$38,931 for 2011. Recording of Global Environment Facility cost recovery was done by the Global Environment Facility Unit in Headquarters and was reflected in Atlas as "GMS of the top" without a project number. The cost recovery was recorded as a lump-sum amount and the Office did not reconcile this amount with the total estimated cost recovery for each Global Environment Facility project. Therefore, the completeness and accuracy of the Global Environment Facility cost recovery received was not ensured.

Regarding General Management Support charges, OAI noted that for two out of eight projects it reviewed, the Office did not charge General Management Support, resulting in an amount of approximately \$10,000 that the Office had failed to recover.

With regard to Implementation Support Services charges, for two of the five projects reviewed by OAI, no Implementation Support Services had been charged in the two year period from January 2011 to December 2012 and, for another project, no Implementation Support Services were charged in 2011 even though the Office provided support services to these projects for those periods. Furthermore, the Office did not have a set frequency or time-schedule to charge Implementation Support Services to projects which had incurred related costs, increasing the risk of failing to charge Implementation Support Services.

Billing to other United Nations agencies was not done using the Atlas Billing Module. Instead, the Office was issuing journal vouchers once a year. For instance, the last invoice for services provided to UN Women was issued in December 2011 and billing for services provided since then were pending as of the date of the audit.

OAI also noted that non-standard services, such as human resource advisory, were not charged since they were not listed in the Universal Price List catalogue.

The Office management explained that prior to the completion of the audit, the Senior Management Team had discussed with the Programme Finance Associate the need to fully capture and reconcile the General Management Services/cost recovery of the Office. Since the audit, further discussions have taken place with the Human Resource Officer, Finance Associate, and Information and Communication Technology Coordinator in regard to ensuring that the Office would be billing for all General Management Services provided and agreed upon. The Human Resource Officer had a good record of all the recruitments and services provided during the weeks following the audit, and using this information had billed for all recruitments, completed and ongoing, as well as for all non-Universal Price List services. The finance team was double checking the non-Atlas Agency billings to make sure all authorizations were billed at the correct rates, while the Information and Communication Technology Coordinator, who had a good ticketing system for the Information and Communication Technology billings, completed his billings on Friday, 7 December 2012.

Inadequate cost recovery will lead to the use of the Office's limited resources as a subsidy to cover other parties transaction costs, thereby negatively impacting the financial sustainability of the Office.

Priority	Medium (Important)
Recommendation 1:	
<p>The Office should strengthen its cost recovery by:</p> <ul style="list-style-type: none"> (a) reconciling the total cost recovery received for all Global Environment Facility projects with the calculated amount for each project to assess completeness and accuracy of the income received; (b) reviewing General Management Support cost recovery per project and ensuring that all projects are being charged the applicable General Management Support; (c) creating a standard frequency or time-schedule for billing for Implementation Support Services rendered and ensuring that all projects for which support services have been rendered are being billed; (d) using the Billing Module in Atlas for all services provided to United Nations agencies, ensuring that all service requests received from United Nations agencies are adequately recorded; (e) establishing a frequency for billing of services provided to United Nations agencies; and (f) negotiating and establishing prices for non-standard services with United Nations agencies. 	
<p>Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>Additional information provided by the Office has been reflected in the audit observation.</p> <p>Going forward, billings will be done immediately when processing the transaction and in any case at least quarterly. Furthermore, the Office will correct the current deficiency regarding the total cost recovery received for all Global Environment Facility projects with help from the Programme Management Analyst for Global Environment Facility in the Panama Regional Center. Additionally, the Operations Manager has contacted his counterparts in a number of other offices who have agreed to assist the Office in developing a comprehensive cost recovery system for 2013 and beyond.</p>	

2. United Nations system coordination **Satisfactory**

The United Nations Team in the Country had a particular composition which differed from a traditional United Nations Country Team, due to the fact that the Office served the Country as well as the Organisation of Eastern

Caribbean States. While most of the agencies had presence in the Country, the Representatives of some of them were not based in the Country, which adds complexity to carrying out the work of the United Nations system, such as, organizing meetings and joint activities. Instead of the traditional United Nations Country Team, the Office created a group called the United Nations Sub-regional Team since it had responsibility for more than one country. The United Nations Sub-regional Team, headed by the Resident Coordinator, included FAO, ILO, ITU, PAHO/WHO, UNAIDS, UNECLAC, UNESCO, UNIC, UNICEF, UNDP, UNFPA and UN Women.

OAI met with the Resident Coordinator, who mentioned that the development context was particularly challenging due to the different needs of each country. OAI also met with representatives of five United Nations agencies.

2.1 Development activities

Satisfactory

At the time of the audit, the Office was operating under the United Nations Development Assistance Framework 2012-2016, which was signed by all countries and by all resident and non-resident agencies. OAI reviewed the United Nations Development Assistance Framework 2012-2016 and found it to be aligned to the Country's and the development priorities of the Organisation of Eastern Caribbean States. Due to differences in the countries' income status, the target outcomes of the United Nations Development Assistance Framework were broadly defined.

United Nations Development Assistance Framework Outcome Groups were: (a) Environment, Energy, Climate Change and Disaster Risk Reduction (b) Enabling Environment for Effective Economic and Social Governance and Enhanced Security; (c) Social Protection and Poverty Reduction with a Focus on Vulnerable Groups; (d) Public Health within Context of the Development Agenda using Rights-based Approach, Maintaining Focus on HIV/AIDS and Non-communicable Diseases; (e) Improved Food and Nutrition Security; and (f) Capacity Building and Institutional Strengthening.

According to the United Nations Development Assistance Framework, priorities would be translated into joint programmes. At the time of the audit, no joint programmes were being implemented yet, as the United Nations Development Assistance Framework was still in the early stages of implementation.

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. OAI met with five United Nations agencies, Resident Coordinator Office staff, implementing partners and donors. OAI reviewed the minutes of the United Nations Sub-regional Team meetings, the Resident Coordinator Office work plan for 2011 and 2012, and budget allocations and expenses.

The participation rate in the United Nations Sub-regional Team, particularly by non-resident agencies, was low because the various United Nations agencies that were part of the United Nations Sub-regional Team were geographically dispersed. Some agencies had presence in the Country, but their Representatives were based in a different country and had responsibilities for countries and geographic areas that did not always match those of the Office. Moreover, each geographic area covered a different set of countries. As a consequence, agencies had to participate in more than one United Nations Country Team; one agency had to participate in no less than five different Country Team meetings per month.

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.

2.4 Harmonized Approach to Cash Transfers

Partially Satisfactory

The Harmonized Approach to Cash Transfers implementation was led by the interagency Harmonized Approach to Cash Transfers Focal Group composed of UNICEF, UNFPA, UNDP and the Resident Coordinator Office; UN Women joined the group in 2012.

One reportable issue was noted, but due to its importance, this area was rated as “partially satisfactory.”

Issue 2 Harmonized Approach to Cash Transfers not fully implemented

Harmonized Approach to Cash Transfers is an integral part of the common country programming processes. Harmonized Approach to Cash Transfers implementation involves a series of steps, taken together with partners, to assess financial management risks, identify capacity development needs and build assurance mechanisms into the design of country programmes at the planning stage. There are three key elements that offices need to be compliant with: (a) assessment of financial management practices (macro-assessment of the public financial system and micro-assessment of implementing partners); (b) assurance activities; and (c) common format to request funds before Harmonized Approach to Cash Transfers can be considered fully implemented.

At the time of the audit, Harmonized Approach to Cash Transfers was not fully implemented. The macro-assessment was prepared during the preparation of the United Nations Development Assistance Framework. However, micro-assessments were only partially completed; out of 19 implementing partners, 4 had not been assessed, of which 2 had expenditures over \$100,000. Furthermore, the Office could not provide evidence for three micro-assessments conducted out of a sample of four. One reason for this was that the micro-assessments of two implementing partners were performed by other United Nations agencies and were not available for review. For the micro-assessment that was made available, OAI noted that it focused on the capacity of the implementing partner in relation to a particular project rather than on the implementing partner’s general capacity.

Furthermore, OAI identified a lack of assurance activities; as a joint audit plan for implementing partners was not in place, and spot checks on implementing partners were neither planned nor coordinated.

The lack of full implementation of Harmonized Approach to Cash Transfers could lead to unwanted additional burden for UNDP partners.

Priority	Medium (Important)
Recommendation 2:	
The Office should fully implement the Harmonized Approach to Cash Transfers modality by: (a) completing the micro-assessments for implementing partners, and sharing the results of all micro-assessments with all United Nations agencies involved; and (b) coordinating with the United Nations agencies to establish a joint audit plan and conducting spot checks and audits on implementing partners.	
Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Office management informed OAI after the audit mission that the Harmonized Approach to Cash Transfers	

implementation was discussed with UN agencies during the annual UN Systems Team retreat held from 1 to 3 November 2012 and with country focal points during the UNDP/UN System Annual Review Meeting held on 10 and 11 December 2012. Gaps are being identified and micro assessments will be conducted based on existing criteria. Furthermore, efforts are being conducted to put in place a joint audit plan.

3. Programme activities

Satisfactory

3.1 Programme management

Satisfactory

OAI reviewed the Country Programme Document 2012-2016 for the Country and the Organisation of Eastern Caribbean States which was approved by the Executive Board of UNDP during its first regular session in 2011 and found it to be aligned with the United Nations Development Assistance Framework 2012-2016, which in turn was aligned with the development priorities of the Country and the Organisation of Eastern Caribbean States. Further, the Multi-Country Programme Action Plan for the period 2012-2016, which covered the Country and the Organisation of Eastern Caribbean States, was aligned to the Country Programme Document. OAI also reviewed the evaluation plan and found that all mandatory evaluations scheduled for 2011 were carried out as planned. In addition, OAI reviewed the evaluation plan for the new programmatic cycle which was uploaded, as required, to the Evaluation Resource Centre website and found it to be adequate.

No reportable issues were identified.

3.2 Partnerships and resource mobilization

Satisfactory

OAI met with government counterparts, implementing partners and donors. All parties expressed their appreciation for the Office as a development partner. As part of the preparation of the United Nations Development Assistance Framework, Country Programme Document and Multi-Country Programme Action Plan documents, the Office developed a strategy to mobilize resources considering the funding gaps identified during the planning process, as well as a strategy to manage partnerships to ensure that the agreed development results would be achieved.

In accordance with the International Public Sector Accounting Standards requirements, each contribution received should be in line with a formal agreement; therefore, all locally approved contribution agreements need to be uploaded to the centrally managed Document Management System. The Office complied with this requirement by entering and uploading the relevant information in the system.

No reportable issues were identified.

3.3 Project management

Satisfactory

The Office was implementing 51 development projects at the time of the audit. OAI reviewed seven of them, of which four were nationally implemented, two directly implemented and one under UN agency implementation modality. The total value of projects reviewed represented more than 71 percent of the total delivery for 2011 and 73 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.

Although the Office informed OAI that 51 development projects were being implemented at the time of the audit, OAI noted that the Office had 127 active projects in Atlas. Twenty-three, out of 127 active projects, had been operationally closed more than one year ago, and 21 with a status of ongoing had no expenses recorded

for either 2011 or 2012. The Office management informed OAI that the process of closing old projects was ongoing and that 17 projects were financially closed in 2011. Given that the Office was working on closing projects as part of the Office clean-up, OAI did not raise an audit issue.

Since only one medium priority issue was identified, this section was rated as “satisfactory.”

Issue 3 Weaknesses in project review and approval

According to the Programme and Operations Policies and Procedures, a project document for non-Country Programme Action Plan countries or an annual work plan combined with the Country Programme Action Plan for Country Programme Action Plan countries is required to start a project and to support creation of the required Proposal and Award in Atlas to ensure that adequate planning takes place and that development results are achievable and well defined. In addition, the Programme and Operations Policies and Procedures indicate that special consideration should be given to quality programming and that the project document or the annual work plan combined with the Country Programme Action Plan should be reviewed by the Project Appraisal Committee. 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 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.

As part of the review of projects being implemented by the Office, OAI noted the following weaknesses:

- Five projects funded by Target for Resource Assignment from the Core were created in Atlas in 2006 and were still ongoing at the time of the audit without having the prescribed project document or an annual work plan combined with the Country Programme Action Plan to support their creation. According to the Office, these projects were well aligned to Country Programme Action Plan outcomes and, consequently, there was no need for a project document or an annual work plan. This practice was not in line with Programme and Operations Policies and Procedures.
- Four projects, out of the seven projects reviewed had no minutes or evidence of having a Project Appraisal Committee and one project had appraisal minutes signed only by the chair of the Project Appraisal Committee. In addition, two projects were reviewed substantively by the Project Board, but were not reviewed by Project Appraisal Committee. Since the sample of projects was from the previous programmatic cycle, OAI extended the sample size to assess the Office’s current practices, and reviewed three projects approved during 2012. OAI found that, even though Project Appraisal Committee minutes had been prepared for these projects, they were not fully aligned to the Programme and Operations Policies and Procedures, since, for instance, checklists were not used.
- During the review period, the Office was directly implementing 11 projects of which 2 were regional and 9 national. Two out the nine national projects had not received authorization from the Director, Regional Bureau for Latin America and the Caribbean. These projects (“CARUTA”, Atlas Award ID 00040126 and Project ID 00045241 and “Improved Data Framework”, Atlas Award ID 00060921 and Project ID 00076922) were operationally closed in April 2012.

The Office management explained with regard to the first bullet point that this situation was partly due to the multi-country context of the Office, dealing with 10 different countries, 7 of which are independent and 3 of which are British Overseas Territories. The Multi-Country Programme Action Plan is therefore the legitimate work plan and authority from which these countries act, and if the Office had to go back to each Government to obtain sign off on each project after they had signed the Multi-Country Programme Action Plan, then a lot of time would be wasted and very little would be achieved. The Office further stated that in fact, this was exactly the challenge the Country Programme Action Plan was designed to correct even in a single country context, and becomes even more important in a 10 country context.

With regard to the second bullet point, Office management explained that the practice of the Chair of the Project Appraisal Committee signing the Project Appraisal Committee minutes was again due to the multi-country context where members were not present to sign the minutes although they concurred.

Implementing projects without having a project document or annual work plans prevents the Office from defining and monitoring the development results and, thus, assessing the project's contribution to the agreed outcomes would be difficult, if not impossible. Weaknesses in review and approval of projects increase the risk of not achieving expected results.

Priority	Medium (Important)
Recommendation 3:	
<p>The Office should ensure that projects are only started once all applicable criteria have been met, as follows:</p> <ul style="list-style-type: none"> (a) a project document or annual work plan has been created; (b) review and appraisal by the Project Appraisal Committee, involving the most relevant participating partners, has been conducted; and (c) for directly implemented projects, a formal approval from the Director of the Regional Bureau for Latin America and the Caribbean has been received. 	
<p>Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed</p> <p>Additional information provided by the Office has been reflected in the audit observation.</p> <p>The Office will make every effort to comply with the recommendation but asks that due cognizance be taken of the multi-country context of the Office.</p> <p>With regard to the lack of signatures of approved Project Appraisal Committee minutes, the Office will rectify this by getting members to sign and scan the page back or provide an email confirmation of their concurrence. Furthermore, going forward, Project Appraisal Committee checklists will be attached to the Project Appraisal Committee minutes.</p> <p>The Office management informed OAI after the audit mission that they had already taken action to ensure that all existing directly implemented projects have received authorisation from the Regional Director.</p>	

4. Operations	Satisfactory
----------------------	---------------------

4.1 Human resources	Satisfactory
----------------------------	---------------------

At the time of the audit, the Office had 18 staff members, consisting of 3 International staff, 7 National Officers and 8 General Service staff. In addition, there were 7 Service Contract holders and 1 National United Nations Volunteer. The human resources function was performed by a Human Resources Associate and the Office provided human resource services to other United Nations agencies.

OAI reviewed the overall management of the human resources functions, specifically all recruitment (3) and separations (4) of staff members during the audit period. OAI also reviewed the benefits and entitlements of staff members such as annual leave and home leave travel to ascertain compliance with the relevant policies and procedures.

OAI noted that service contract data had not yet been migrated to the Atlas Human Resource Module, despite the fact that the deadline for migration was on 31 December 2011. The Office management informed OAI that the process would be completed by the first quarter of 2013, which is why OAI did not raise an audit issue.

OAI noted that the personnel files were well maintained and that the documentation supporting the recruitment process was exemplary.

No other reportable issues were identified.

4.2 Finance

Satisfactory

OAI reviewed the Office financial management processes and controls. The Office processed 4,249 vouchers during the period under review with a value of \$15.2 million. OAI took a sample of 25 non-purchase order vouchers, totalling approximately \$1.6 million, for detailed review and testing.

OAI also reviewed the Office's bank reconciliation process. The Office did not have an electronic interface between Atlas and the local bank; disbursements were mainly made through manual checks. This issue was discussed with staff of the Finance Unit and Operations Unit, who informed OAI that local banks did not offer the option of an electronic interface, which was why payments had to be done by checks.

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

Issue 4 Long outstanding cash advances to nationally implemented projects

The National Implementation Modality Guidelines and Procedures on National Implementation of UNDP Supported Projects issued on 1 July 2011 states that the Office must constantly monitor the balance of national implementation modality advances. In addition, according to the Programme and Operations Policies and Procedures, advances are granted for a three-month period and where there are long outstanding advances to an implementing partner, no new advances may be issued to the partner even for a new project.

From the review of the National Implementation Modality Advances Report, OAI noted that as of the end of November 2012, four projects had advances amounting to \$119,400, granted between the last quarter of 2011 and the first quarter of 2012.

Long outstanding advances impede proper tracking of the use of funds and thus increase the risk of misuse.

Priority	Medium (Important)
Recommendation 4:	
The Office should improve its monitoring of cash advances to nationally implemented projects and ensure timely liquidation of long outstanding balances.	
Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office accepts the OAI recommendation and has resolved to monitor outstanding advances more closely and liquidate them in a timely manner by following up more frequently with governments and other partners and ensuring that they understand and appreciate the implications of non-compliance.	

4.3 Procurement

Partially Satisfactory

During the review period, the Office issued around 2,100 purchase orders valued at \$11.7 million. OAI reviewed a sample of 21 purchase orders, with a total value of \$3.6 million, representing 31 percent of the purchase order value. Where applicable, OAI reviewed the entire procurement process, from the sourcing of suppliers to contract management and payment of obligations.

The Office did not have a dedicated procurement unit, but had instead appointed the Information and Communication Technology Support Associate as the Procurement Focal Point of the Office.

Since two medium priority issues were identified, this section was rated as “partially satisfactory.”

Issue 5 Incorrect use of purchase orders

Purchase orders are required to be raised for the full amount of the contract at the time the contract is signed. Only by doing this can the contractually obligated amounts be fully encumbered, thus ensuring that funds are available when payments have to be made. Furthermore, the Programme and Operations Policies and Procedures prescribe that purchase orders be raised for all procurement exceeding \$5,000.

The following deficiencies in the use of purchase orders were noted:

- In various instances, the Office raised a purchase order for each payment in situations where contracts were paid in multiple instalments. Furthermore, purchase orders were raised at the time a payment needed to be made and not at the time the contract was signed. By not raising a purchase order at the time of contract signing and/or for the full contractual amount, the total funds needed to honour the obligation had not been encumbered, introducing the risk that at the time of the next instalment payment, the Office might not have sufficient funds to make a payment. Furthermore, since the amount of the partial (or split) purchase order was less than the total value of the contract, the approval level for the purchase order could be lower than the required level. Finally, this practice created additional administrative workload for the Office and obscured the audit trail.
- Out of the 21 purchase orders reviewed, 7 cases representing 33 percent of the sample were transactions where creating a purchase order was not necessary. Four of these were for advance payments to national implementation modality projects and the other three were for requests for disbursement from national implementation modality projects, none of which entailed any procurement activity for the Office.
- OAI noted at least one instance where the Office procured services, but had not raised the corresponding purchase order. By not creating a purchase order, the necessary funds needed to honor the contractual obligation were not encumbered; thus, introducing the risk that funds would not be available at the time when payments are to be made. Finally, by not using purchase orders when required, the Office significantly weakens the controls regarding the payment of procurement actions since the control process of three-way matching will not take place for these cases.

Priority	Medium (Important)
Recommendation 5:	
The Office should ensure that purchase orders are raised for all applicable procurement activities in compliance with the UNDP Programme and Operations Policies and Procedures and for the full amount of the contractual obligation when contracts are signed.	

Management Comments and Action Plan: Agreed Disagreed

The Office accepts the OAI recommendations and has already advised staff that purchase orders must not be prepared for non-procurement activities, but must be prepared for all contractual obligations and for the full amount of those obligations. The Office is mindful though that for large amounts which may be payable over more than one financial year, it may negatively affect cash flow to encumber the entire amount up front.

Issue 6 Deficiencies in the use of the Individual Contract modality

The Programme and Operations Policies and Procedures stipulate that the Individual Contract modality is to be used for the procurement of services of an individual to perform time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs.

OAI reviewed eight Individual Contracts and identified deficiencies in the use of Individual Contracts, specifically in regard to:

- In four related cases, Individual Contracts were signed by the Office whereby the complete procurement process was done by the Government of one of the Organisation of Eastern Caribbean States countries. Contracts signed by the Office should be done under full control of the Office and should follow the UNDP procurement policies and procedures. For cases where there was outside involvement in the procurement process, and where it was not under the full control of the Office and/or no longer followed the UNDP procurement procedures, the contract should have been signed by the Government. This practice exposes the organization to financial and reputational risks.
- In two cases, the Terms of Reference included the provision that travel cost would be paid separately, following UNDP travel policies and procedures. This provision was not fully in line with the applicable guidelines covering Individual Contracts which state that it is recommended that travel costs be incorporated into the contract on a lump-sum basis, in order to minimize UNDP administrative and transaction costs involved in making separate arrangements for the travel of Individual Contract holders.
- In one case, an Individual Contract was contracted for 2011 and 2012 with a contractual value of \$22,000 per year without having completed a competitive procurement process. This was not in line with the Individual Contract guidelines which state that the management of Individual Contracts is a procurement modality and therefore subject to competitive and review processes, as elaborated in Section 2.2 "Competitive Selection Process."
- In another case, an Individual Contract was used to engage a national United Nations Volunteer, which could be regarded as an incorrect use of an Individual Contract. Furthermore, the Individual Contract was extended, thereby exceeding 12 months in duration. For Individual Contracts with a duration of more than 12 months, approval from the Director of the Regional Bureau for Latin America and the Caribbean must be obtained prior to any required submission to a procurement review committee (if applicable) and prior to contract signature, to ensure the proper use of this contractual modality. However, such approval had not been obtained by the Office.

Priority	Medium (Important)
Recommendation 6:	
<p>The Office should ensure compliance with the policies and procedure governing the Individual Contractor modality, specifically:</p> <ul style="list-style-type: none"> (a) signing Individual Contracts only when the procurement process is conducted under control of the Office; (b) excluding the provision in the Terms of Reference that travel cost will be paid separately; (c) selecting Individual Contractors on a competitive basis; and 	

(d) obtaining approval from the Director of the Regional Bureau for Latin America and the Caribbean in cases whereby Individual Contracts are extended beyond 12 months.

Management Comments and Action Plan: Agreed Disagreed

The Office has taken due cognizance of the cases identified and although there may have been special circumstances which resulted in the particular deficiencies, the Office resolves to achieve greater clarity and congruence with the rules in making such decisions in the future.

4.4 Information and communication technology

Satisfactory

OAI reviewed the Office's Information and Communication Technology structure, as well as hardware and software management, systems security, information management plan and the mechanisms for disaster recovery.

OAI noted that the Information and Communication Technology section, comprising of one General Service staff member who was also the Office Procurement Focal Point, was well organized and functioning well. OAI found the Office Disaster Recovery Plan to be comprehensive and well-structured but noted some content that needed to be updated; specifically section 5.4.1 of the plan, which was similar to section 5.3.1 and needed to be changed. This issue was discussed with the Information and Communication Technology Support Associate who informed OAI that immediate action would be taken to address this issue, which is why OAI did not raise an audit issue.

No other reportable issues were identified.

4.5 General administration

Satisfactory

OAI reviewed the administration of the Office premises, travel, documentation and records management. The Office premises were provided by the Country free of charge and shared with six other United Nations agencies. The management of the common premises was done by the Operations Managers Team, composed of a representative of each of the seven agencies. Common and shared services costs were managed by the Office as a separate project and the payments for the estimated yearly costs were charged in advance to the sharing United Nations agencies and were revised and adjusted twice a year.

No reportable issues were identified.

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 Security Advisor of the United Nations Department for Safety and Security with responsibility for the Office, based in Trinidad and Tobago, visited the Office regularly and when not in the Country participated remotely in the meetings of the Security Management Team.

The Office had recently updated its Business Continuity Plan to align the plan with its new staffing. However, at the time of the audit, the updated Business Continuity Plan had not been signed yet. OAI discussed this issue with the Office management who informed OAI that immediate action would be taken to address this issue.

No other reportable issues were identified.

4.7 Asset management

Satisfactory

OAI reviewed asset management. The Office had one vehicle and owned assets, basically information and communication technology equipment, valued at \$111,876 at the time of the audit. OAI physically verified the existence of assets by sampling ten assets valued at \$62,268.

Since only one medium priority issue was identified, this section was rated as “satisfactory.”

Issue 7 Weaknesses in asset management

The Programme and Operations Policies and Procedures require offices to maintain complete and accurate records of all assets. For this purpose, all assets have to be recorded in the Atlas Asset Management Module and subsequently disposed of in case of sale, obsolescence, damage or theft. Disposals must be initiated by the Asset Focal Point and approved by the Asset Manager in the Document Management System, after which staff members of the Global Shared Service Centre record the transactions in the Asset Module using the Atlas Asset Management Disposal Functionality.

During the review of the asset management, OAI noted the following weakness:

- In November 2011, the Office traded-in a vehicle valued at \$23,500 and acquired a new vehicle valued at \$31,900. Although these items were reconciled in the 2012 Mid-Year Certification Letter, none of the information regarding these vehicles had been updated in the Assets Module of Atlas. In December 2011 one laptop was disposed of; however, OAI found out that the laptop had never been recorded in the Asset Module in Atlas. In addition, in October 2012, the Office disposed of 17 computers valued at \$26,409 which were also pending removal from Atlas.

Inadequate asset management could lead to misappropriation of assets. There is also a risk that the Office assets may be over or under stated in the organization’s accounts.

Priority	Medium (Important)
Recommendation 7:	
The Office should ensure proper, complete and timely recording of assets in Atlas by requesting assistance from Global Shared Service Centre to update assets previously acquired but not yet recorded or disposed of but not yet removed.	
Management Comments and Action Plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Based on the comments received, OAI had revised the observation and recommendation accordingly.	
The Office has accepted the recommendations of OAI and has requested and obtained the assistance of the Global Shared Service Centre in removing the old Office vehicle from Atlas and replacing it with the new Office vehicle. The Office has also received the assistance of the Global Shared Service Centre in recording the disposal of the computers.	

ANNEX I. 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 not included in this report.