



AUDIT

OF

UNDP COUNTRY OFFICE

IN

ARMENIA

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Report on the audit of UNDP Armenia Executive Summary

From 11 to 22 February 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Armenia (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling \$18 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 plan and perform 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	Satisfactory			
3.3 Project management	Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Satisfactory			
4.3 Procurement	Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised two issues resulting in two recommendations, both of which were ranked medium (important) priority, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." The recommendations include actions to address a lack of progress with the Harmonized Approach to Cash Transfers process and to address the lack of documentation in project agreements regarding the support services to be provided by the Office.

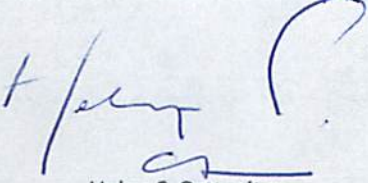
Cross-cutting themes

As part of the 2013 OAI annual work plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management.** Satisfactory. No reportable issues noted.
- **Leave management.** Satisfactory. No reportable issues noted.
- **Global Environment Facility.** No reportable issues noted.

Management comments and action plan

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



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 11 to 22 February 2013, OAI conducted an audit of UNDP Armenia. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling \$18 million. The last audit of the Office was conducted by OAI in 2007.

II. About the Office

The Office, located in Yerevan, Armenia (the Country) was established in March 1993. Programme expenditures totalled \$8.3 million in 2011 and \$6.3 million in 2012. At the time of the audit, the Office had 29 staff members and 113 service contract holders working mainly in the programme activities and operations areas.

The United Nations Development Assistance Framework identified four main focus areas, including: (a) inclusive and sustainable growth; (b) democratic governance strengthening through institutional and capacity development; (c) access and equality of social services; and (d) environment and disaster risk reduction, which were translated into the UNDP Country Programme which was agreed upon with the Government.

Democratic Governance represents the main component of the programme portfolio with an annual delivery in 2012 of \$2.7 million (43 percent). While the Environment Governance portfolio's delivery remained stable with \$1.5 million in expenditures in 2012, a decrease in expenditures since 2010 was recorded in the Socio-economic Governance area with a total spending in 2012 of \$1.4 million (22 percent). In the course of the current and next four years, it is expected that the Office will experience growth in delivery relating to the implementation of a large integrated border management programme, which will amount to approximately \$53 million.

The economy mainly consists of small-scale agriculture and is supported by remittances from the large Armenian diaspora, as well as international aid and foreign direct investments. The Country has only two borders opened: Georgia and Iran.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

1.1 Organizational structure and delegations of authority

Satisfactory

The structure of the Office had remained stable since the last audit performed in 2007. OAI reviewed roles and responsibilities of the staff to ensure that adequate segregation of duties were established. OAI noted that approval authority was mainly concentrated with senior and middle management. The Office agreed to address the issue through a review of its internal processes and by involving more programme unit staff in the approval process for lower value purchase orders and payment vouchers related to project implementation.

In addition, the Office addressed a discrepancy between the approved Internal Control Framework and the approval authority in Atlas, which had previously been identified by OAI.

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 the completion of the mandatory ethics training. OAI also discussed with all appropriate parties, the interaction of senior management with staff members.

No reportable issues were identified.

1.3 Risk management, planning, monitoring and reporting

Satisfactory

Based on discussions with senior management and programme staff and based on the OAI review of relevant information, the risk management, planning, monitoring and reporting practices in the Office were found to be adequate.

No reportable issues were identified.

1.4 Financial sustainability

Satisfactory

Extrabudgetary reserves for the Office at the end of 2012 were calculated to be 17 months, which was above the recommended safety limit. The existing project pipeline was sufficient to ensure financial sustainability of the Office for at least the next four years.

The Government Contribution to Local Office Costs cash target was \$160,000 for 2012. Since this amount was not known prior to the approval of the Government's 2012 annual budget, the Government paid the equivalent of the 2011 contribution, which resulted in a shortage of \$30,000. The same situation was repeated in 2013, with the Government paying an amount equivalent to the calculated 2012 amount. The Office requested that the Government acknowledge and pay the full amount of Government Contribution to Local Office Costs as calculated. The Government agreed to pay \$15,000 of the outstanding balance in 2013, and \$15,000 in 2014

together with calculated contributions due for those years. The Office had already received the first instalment of \$15,000 in August 2013.

The Government provided facilities to the United Nations, which was reflected as an in-kind contribution valued at \$428,000. In preparation for the International Public Sector Accounting Standards implementation, the Office had confirmed that this represented the fair value of these premises.

No other reportable issues were identified.

2. United Nations system coordination

Satisfactory

The United Nations Country Team included UNICEF, UNHCHR, WFP, DPI, UNAIDS, WHO, UNFPA, UNIDO, FAO, ILO, IOM, OHCHR and OCHA. OAI met with three United Nations agencies, which described cooperation within the Country Team as positive. At the time of the audit, there were two joint programmes with budgets totalling about \$2.5 million.

No reportable issues were identified.

2.1 Development activities

Satisfactory

At the time of the audit, the Office was in the middle of implementing the Country Programme agreed upon with the Government in the Country Programme Action Plan Assessment. The United Nations Development Assistance Framework for the period 2010-2015 was prepared with broad participation from government counterparts, United Nations agencies and other stakeholders.

OAI reviewed the United Nations Development Assistance Framework and its formulation process, assessed the joint programme formulation processes, ascertained the coherence between United Nations Development Assistance Framework outcomes and programme results, reviewed the quality of joint programming documents and reporting, and assessed the joint programme monitoring and evaluation and coordination mechanisms.

No reportable issues were identified.

2.2 Resident Coordinator Office

Satisfactory

The function of the Resident Coordinator was performed by the UNDP Resident Representative until she was reassigned in October 2012. The representative of UNICEF then took over the Resident Coordinator's function for a temporary period. Subsequently, a new Resident Representative was appointed, and was to assume the Resident Coordinator responsibility again. OAI met with two United Nations agencies, the Resident Coordinator Office staff, and donors to assess the efficiency and effectiveness of the services provided by the Resident Coordinator Office, joint programming, and work of the United Nations Country Team. OAI also reviewed the minutes of the United Nations Country Team meetings, the Resident Coordinator Office work plans and annual reports, and the staffing of the Resident Coordinator Office.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"

Not Applicable

This area was not applicable as the Country was not a pilot country for One UN, nor was it a Delivering as One self-starter.

2.4 Harmonized Approach to Cash Transfers

Partially Satisfactory

Issue 1 Lack of progress with the Harmonized Approach to Cash Transfers process

The Office failed to comply with the requirement to ensure a common operational framework for the Harmonized Approach to Cash Transfers providing the basis for the efficient use of cash modalities across United Nations agencies present in the same country. Such harmonization might reduce transaction costs as well as lessen the burden on the Implementing Partners having to adhere to the different sets of rules and procedures of the various United Nations agencies.

The last review assessment of the Public Financial Management System (macro-assessment) was performed in 2005, and pre-dated the existing programming cycle (2010-2015), which also made the information on the Public Finance Management System outdated. Also, a formal assessment of risks related to cash transfers to particular Implementing Partners (micro-assessments) was not performed.

The Office explained the delayed progress in the implementation of Harmonized Approach to Cash Transfers was due to the absence of common Implementing Partners in the Country. However, the list of all Implementing Partners which was originally prepared in 2005 had not been regularly updated. OAI also noted that UNICEF and UNFPA had progressed with implementation of Harmonized Approach to Cash Transfers by using a less formal capacity assessment based on the smaller size of the Implementing Partners (e.g. rather than performing external micro-assessments of Implementing Partners). This was in accordance with the Harmonized Approach to Cash Transfers guidelines, which allow agencies to conduct their own less formal assessment for Implementing Partners for which the planned annual cash transfers are below \$100,000.

Priority	Medium (Important)
Recommendation 1:	
<p>In coordination with the United Nations Country Team, the Office should:</p> <ul style="list-style-type: none"> (a) update the assessment of existing conditions; (b) ensure regular update of the analysis of common Implementing Partners; and (c) implement the Harmonized Approach to Cash Transfers process. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
<p>The Office works primarily with the Government and very few projects are carried out through other Implementing Partners. However, taking into consideration that the other agencies of the United Nations Country Team use that modality, particularly UNICEF and UNFPA, the Office will follow the recommendation of assessing the Implementing Partners, regularly updating their analysis, and implementing the Harmonized Approach to Cash Transfers.</p>	

3. Programme activities

Satisfactory

3.1 Programme management

Satisfactory

UNDP activities in the Country are guided by the Country Programme Document (2010-2015) approved by the Executive Board during the annual session of May-June 2009 that had been prepared in consultation with key partners in the Government, civil society, the private sector, United Nations system agencies, and the international community. The Country Programme Document focuses on the following four national priorities: (a) ensuring access to enhanced economic opportunities; (b) increasing the capacity of citizens to participate and exercise their rights and responsibilities, and of government institutions to comply with their obligations; (c) ensuring access to quality social services; and (d) improving effective management of natural resources.

OAI reviewed the composition and functioning of Outcome Boards, the consistency among the development projects with the Country Programme Document and the United Nations Development Assistance Framework, the annual reporting, and the alignment of development projects in Atlas.

No reportable issues were identified.

3.2 Partnerships and resource mobilization

Satisfactory

The Office had prepared a comprehensive resource mobilization strategy analysing the local environment and donor mapping based on areas of intervention identified and formulated in the Country Programme. In 2012, the Office signed 10 contribution agreements totalling \$60 million (out of which \$52 million related to the Integrated Border Management Programme). The extrabudgetary reserve was 17 months at the end of 2012, higher than the corporate required minimum of 12 months.

OAI met with representatives of the Government, United Nations agencies, and donors. All partners rated the Office's cooperation as positive.

Issue 2 No support services specified in Annual Work Plans

As part of the Country Programme Action Plan for the period 2010-2015, the Office signed a letter of agreement with the Government which called for the Office to "provide support services for assistance with reporting requirements and direct payments." Such services included: (a) identification and/or recruitment of personnel; (b) procurement of goods and services; (c) contracting of responsible parties; and (d) identification and facilitation of training activities. It was agreed that the extent of the support services provided shall be detailed in an annex to Annual Work Plans for projects.

With the exception of one project, the Office had failed to formally document agreements with the Government on specific support services to be provided in support of the implementation of development projects. The Office explained that it was mutually understood by the Government and the Office that all support services were to be provided by UNDP. Subsequent to OAI's discussion with management, the Office agreed to include the specification of the support services to be provided into the annual work plans for all future projects.

Priority	Medium (Important)
Recommendation 2:	
The Office should ensure that support services to be provided by the Office to the Government are specified in an annex to annual work plans for all projects.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Following the preliminary recommendations of the audit, the list of support services provided by the Office to the Government were annexed to the new project documents signed during 2013 and will be added to the 2014 annual work plans of ongoing projects, upon their signature for the upcoming years.	

3.3 Project management **Satisfactory**

The Office was implementing 30 projects with a total budget of \$83 million. Its programme portfolio had four directly implemented projects and 26 nationally implemented projects.

The Office had a stable delivery rate which averaged around \$7.7 million during the period 2010-2012. In August 2012, the Office agreed on three projects for modernization of border crossing points, with a total budget of \$53 million to be funded by the Government. These additional projects had more than doubled the planned delivery for next three years. The Office had started implementation activities in line with the annual work plan and had requested the first tranche of funding in January 2013; however, it was not received until April 2013. The Office had mitigated the risk that the Government would not be able to secure the transfer of funds on time by including a protection clause on payments in the contracts. This clause had been submitted to and cleared by the Legal Support Office. This clause allowed the Office to pay its commitments only after receiving the funds from the Government. Since the risk had been adequately mitigated by the Office, OAI has not raised an issue.

OAI reviewed a sample of six projects representing 55 percent of the programme budget and 59 percent of the programme delivery in 2012. OAI reviewed the projects for appraisal, approval, monitoring, evaluation, and donor reporting. The Office had established adequate systems for project monitoring and implementation.

No reportable issues were identified.

4. Operations **Satisfactory**

4.1 Human resources **Satisfactory**

The Office had 29 staff members consisting of 4 international staff, 6 national officers, and 19 General Service staff members. In addition, 113 service contract holders and 195 individual contract holders were working on projects at the time of the audit. The Human Resources function was performed by two Human Resources Associates. OAI reviewed a sample of 6 staff, 15 service contract holders, and 11 individual contract holders to verify the relevant recruitment and selection processes. OAI also selected a sample of four staff to review the separation process.

The Electronic Procurement and Recruitment software was launched in 2009 and enabled the Office to fully rely on on-line applications. The shift to electronic recruitment allowed the Office to organize, review and monitor the recruitment process in a more effective and efficient manner.

No reportable issues were identified.

4.2 Finance

Satisfactory

The Office recorded 4,319 payment vouchers with a value of \$10 million in 2011 and 3,998 payment vouchers with a value of \$7.5 million in 2012. OAI reviewed 30 payment vouchers with a total value of \$2.4 million representing about 14 percent of the value of total vouchers during the audited period. OAI also reviewed the payment process, adequacy of supporting documents, management of bank accounts, and use of the correct Chart of Accounts. The Office had agreed to deactivate obsolete and duplicate vendors in the vendor database to minimize the risk of duplicate payments to the same vendor.

The electronic payment transfers with a local bank were managed outside of Atlas as there was no direct interface between Atlas and the banking software. As a result, the Office reviewed and approved payments in Atlas, then manually re-entered the data into the banking software which required payments to be approved a second time. To reduce inefficiency and prevent human error, the Office had started to work on an automated procedure to allow for uploading the Atlas payment data directly into the banking software. No issues were identified in the bank reconciliation process.

Invoices and some supporting documents attached to the payment vouchers were written in the Armenian language only. As Armenian is not a working language of UNDP, the Office agreed to translate documentation into English in order to ensure that proper control is established over commitments.

No other reportable issues were identified.

4.3 Procurement

Satisfactory

The Office recorded 1,044 purchase orders with a value of \$12.4 million during the period under review. OAI reviewed the procurement process by interviewing the Office staff and testing a sample of 29 purchase orders valued at \$3.4 million or about 27 percent of the total value of items procured during the audited period.

During the period from January 2011 to December 2012, the same staff member approved both the requisitions and purchase orders for six transactions relating to travel for a total amount of \$81,000. The Office agreed to ensure adequate segregation of duties when exercising the approval authority over requisitions and purchase orders.

The Chairperson of the Contract, Asset and Procurement Committee did not have the required level 1 procurement training certificate. The Office agreed to ensure that the Chairperson and members of the Contract, Asset and Procurement Committee complete the certification in 2013.

The Office used 159 individual consultants in 2011 with a total cost of \$2,105,976, and 195 individual consultants in 2012 with a total cost of \$1,830,940. OAI reviewed a sample of 11 recruitment cases by examining supporting documents and interviewing Office staff.

No other reportable issues were identified.

4.4 Information and communication technology

Satisfactory

The OAI review showed that the disaster recovery (business continuity) plan, data backup procedures, use of licensed software and procedures protecting information technology systems from viruses and attacks from hackers were adequate.

No reportable issues were identified.

4.5 General administration

Satisfactory

OAI reviewed the administration of the Office premises, record management, vehicle management and travel to assess if these services were carried out in accordance with the relevant regulations and rules, and policies and procedures and to assess whether the Office manages the resources efficiently. It also assessed whether the Office recovered expenses incurred in the provision of services to other United Nations agencies.

No reportable issues were identified.

4.6 Safety and security

Satisfactory

The Country was ranked at security level Low (2). The UNDP Resident Representative was the Designated Official responsible for safety and security of United Nations agencies in the Country until October 2012, when the UNICEF Resident Representative was appointed to perform the function in the absence of a permanent UNDP Resident Coordinator. The latest Security Risk Assessment of the Office, conducted in June 2012 identified only three areas as 'Medium' residual risk. The other areas were identified as 'Low' or 'Very Low' risk. Mitigating measures were in place and therefore no issue has been raised.

4.7 Asset management

Satisfactory

The Office performed asset counts two times per year as required by the Programme and Operations Policies and Procedures. The physical counts confirmed the accuracy of the asset records. The asset net book value at the end of 2012 was \$320,000. The list included 36 assets (e.g. high frequency radio stations, security cameras, alarm system, metal safe, etc.) with \$0 net book value (fully depreciated assets). OAI verified a sample of the assets and did not identify any missing, obsolete or redundant assets.

No reportable issues were identified.

4.8 Leave management

Satisfactory

All annual leave for personnel on fixed-term appointments and service contracts was properly administered through e-service in Atlas. The leave monitor regularly reminded staff members about accumulated leave days. In January 2013, the Office informed 11 staff members (7 operations, 3 programme and 1 communications) that by 31 March 2013, their accumulated leave days would exceed the maximum limit of 60 accruable days. If no leave was taken, the accrued days would be between 63 and 75 days. The Office agreed to encourage staff members to balance work commitments with annual leave.

No other reportable issues were identified.

4.9 Global Environment Facility

Not Applicable

The Office project portfolio included eight projects funded by the Global Environment Facility with a total contribution of \$7.5 million in 2012. Total expenditures of these projects totalled \$0.9 million in 2012. OAI reviewed the extent to which the Office ensures effective support of Global Environment Facility projects and programme formulation, implementation, oversight, resource mobilization and knowledge management.

No 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 not included in this report.