



AUDIT

OF

UNDP COUNTRY OFFICE

IN

NICARAGUA

Report No. 1232
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Report on the audit of UNDP Nicaragua Executive Summary

From 26 August to 6 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Nicaragua (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 30 June 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$34 million. The last audit of the Office was conducted by OAI in 2009.

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 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.”

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	Partially 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*	Partially Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised seven issues and resulted in seven recommendations, all 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." These recommendations include actions to address: non-compliance with requirements regarding nationally implemented projects; weaknesses in project budget revision process; and deficiencies in the management of service contracts.

Cross-cutting themes

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

- **Asset management.** Satisfactory. No reportable issues identified.
- **Leave management.** Partially Satisfactory. (Refer to Issue 7). Significant delays in annual leave approvals were observed due to the fact that the e-Service application used to record leave was not properly used.
- **Global Environment Facility.** No reportable issues identified.

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 26 August to 6 September 2013, OAI conducted an audit of UNDP Nicaragua. 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 2012 to 30 June 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$34 million. The last audit of the Office was conducted by OAI in 2009.

II. About the Office

The Office, located in Managua, Nicaragua (the Country), was comprised of 39 staff members (of which the Resident Representative and Deputy Resident Representative were the only two international staff members), 47 service contract holders and 11 United Nations Volunteers. Besides the main office in Managua, the Office had three project offices, located in Biwi, Bluefields, and Esteli.

The Office was committed to implement projects in the agreed development areas for the new programmatic cycle 2013-2017: (a) poverty reduction, (b) increasing human wellbeing in the Country, (c) protection of the environment and sustainable development, and (d) strengthening institutional capacity for technology and industrialization.

The Country, the second poorest country in Latin America and the Caribbean with about 6 million inhabitants, was ranked medium (129 out of 187) on the most recent Human Development Index and was one of the 10 countries with the lowest Human Development Index within the Americas.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

1.1 Organizational structure and delegations of authority

Satisfactory

OAI reviewed the Standard Basic Assistance Agreement, the organizational structure, the delegation of authority and its alignment with the Internal Control Framework and Atlas user profiles.

No issues were identified.

1.2 Leadership, ethics and values

Satisfactory

OAI reviewed the Global Staff Survey, compliance with the financial disclosure policy, the policy regarding reporting of outside activities as well as completion of the mandatory Ethics training course. OAI noted that 5 out of 39 staff members had not completed the Ethics training. This issue was discussed with the Office's management who agreed to ensure that staff members complete the mandatory courses, and thus 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's discussion with senior management and programme staff members, as well as a 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.

No reportable issues were identified.

1.4 Financial sustainability

Satisfactory

The extrabudgetary reserve at the end of 2012 was equivalent to 48 months and the Office projected a reserve of 21 months by the end of 2013, which was well over the corporate defined minimum threshold of 12 months. The Office was closely monitoring its soft and hard pipelines, which showed estimated resources of \$175 million for the period covering 2013-2017, to ensure sufficient funds were available to meet the long-term operating requirements of the Office.

At the time of the audit, the Office had already received the Government Contributions to Local Office Costs targeted for 2013.

No reportable issues were identified.

2. United Nations system coordination

Satisfactory

The United Nations Country Team included 22 agencies, 7 of which were resident (FAO, UNDP, UNFPA, UNICEF, UNOPS, WFP and WHO/PAHO) and 15 of which were non-resident (IAEA, ICT, IFAD, ILO, IOM, OCHA, OHCHR, UNAIDS, UNEP, UNESCO, UNIDO, UNODC, UNV, UN WOMEN, and UNWTO). OAI met with Resident Representatives of two United Nations resident agencies, FAO and UNICEF.

At the time of the audit, there were three joint programmes being implemented, and UNDP was the lead agency of one of these programmes.

2.1 Development activities

Satisfactory

At the time of the audit, the Office was operating under the United Nations Development Assistance Framework (UNDAF) 2013-2017, which was signed by the Government as well as by all resident and non-resident agencies.

As a result of the final evaluation of the UNDAF 2008-2012 and in consensus with other United Nations agencies and the Government, an UNDAF Action Plan was prepared in 2012.

No reportable issues were identified.

2.2 Resident Coordinator Office

Satisfactory

The Resident Coordinator Office comprised of one national officer (Coordination Specialist), two United Nations Volunteers and two service contract holders whose contracts were funded by the Millennium Development Goal Fund. OAI reviewed the minutes of the United Nations Country Team meetings as well as the Resident Coordinator Office Work Plan for 2012 and 2013 and the existing joint programmes.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"

Not Applicable

Since the Country was neither a pilot for "One UN" nor a "Delivering as One" self-starter, this area was not applicable to the audit.

However, in meetings with the Resident Coordinator, it was mentioned that the Country had requested the United Nations Development Group to become a "Delivering as One" self-starter. At the time of the audit, no decision in this regard had been taken.

2.4 Harmonized Approach to Cash Transfers

Partially Satisfactory

A joint working group, consisting of the Operations Managers of three Executive Committee agencies (UNDP, UNFPA and UNICEF) and reporting to the United Nations Country Team was responsible for HACT implementation.

One reportable issue was noted, but due to its significance, this area was rated as "partially satisfactory."

Issue 1 Harmonized Approach to Cash Transfers not fully implemented

HACT is an integral part of the common country programming processes. HACT 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 programme at the planning stage. HACT compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system, (b) micro-assessments of Implementing Partners; (c) agreement with the Government on HACT implementation; and (d) an assurance and audit plan concerning Implementing Partners has been developed and implemented.

At the time of the audit, HACT was not fully implemented. The macro-assessment was conducted for the previous programmatic cycle, yet had not been conducted for the new UNDAF 2013-2017. Furthermore, micro-assessments of applicable Implementing Partners had not been carried out for the new cycle.

In response to the draft version of this report, Office management explained that the preparation of the UNDAF in the Country was a complex and long process. The final UNDAF Action Plan had been signed on 15 May 2013. Since the Common Country Assessment was an internal United Nations process, it did not include the macro-assessment. The macro-assessment was being developed by the relevant government ministry, which originally felt that, since there had been no major changes affecting the capacity of the Government to manage and audit projects, the resulting investment was not justified. It was expected that the macro-assessment would be finalized by March 2014.

The objectives of harmonizing practices among United Nations agencies and lessening the burden of using multiple procedures will not be achieved unless HACT requirements are implemented.

Priority	Medium (Important)
Recommendation 1:	
In coordination with its other partners, the Office should fully pursue the implementation of Harmonized Approach to Cash Transfers and ensure that its related requirements are duly adhered to.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The additional information provided by management had been reflected in the audit observation.	
Action Plan:	
<ul style="list-style-type: none"> (a) To carry out the macro-assessment (b) Conclusion of the remaining micro-assessments (during the 2013-2017 cycle, UNDP and UNFPA had already carried out 24 micro-assessments with Implementing Partners). (c) Implementation of assurance plan (Harmonized Approach to Cash Transfers Audit, spot checks, etc.) 	

3. Programme activities

Partially Satisfactory

3.1 Programme management

Satisfactory

OAI reviewed the Country Programme Document 2013-2017 and found it to be aligned with the UNDAF 2013-2017. OAI also reviewed the evaluation plan of the existing programme and found that out of 11 mandatory evaluations scheduled for 2012, 7 were carried out as planned. The four remaining evaluations were rescheduled for 2013 due to delays in the implementation of the projects. 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 Implementing Partners, and donors and all parties expressed their appreciation for the Office as a development partner.

The Resource Mobilization Strategy prepared by the Office showed a target for the existing programmatic cycle (2013-2017) of \$103 million. The Office was confident that they would most likely be able to meet this target since the existing hard and soft pipeline already showed estimated resources of \$175 million.

No reportable issues were identified.

3.3 Project management

Partially Satisfactory

The overall rating for this section takes into account the results of the audit of Global Environment Facility projects described in Section 4.9.

The Office was implementing 35 development projects at the time of the audit. OAI reviewed 6 of them, 4 of which were nationally implemented, and 2 of which were directly implemented. The total value of projects reviewed represented 45 percent of the total delivery for 2012 and 50 percent of the total delivery for the first half of 2013. The projects were reviewed with respect to their document structure, appraisal, approval, monitoring and evaluation, annual reporting, and donor reporting.

Since three medium priority issues were identified, this section was rated as "partially satisfactory."

Issue 2 Non-compliance with requirements regarding nationally implemented projects

During the review of nationally implemented projects, non-compliance with the following appropriate guidelines was observed:

- The UNDP Programme and Operations Policies and Procedures indicate that whenever UNDP provides support services to national implementation as a Responsible Party, a Letter of Agreement should be signed, clearly specifying the list of services and the associated costs. The Office provided support services to nationally implemented projects (e.g. conducting procurement services) but did not have the required Letter of Agreement.

- The National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures provide that project developers and concerned Country Office programme personnel should assess the project implementation capacity of all potential partners that have been identified. The assessment of the Implementing Partners must be conducted using the capacity assessment for project implementation checklist which includes instructions for use. The Office had not conducted the capacity assessments prior to selecting an Implementing Partner.
- Neither the UNDP Programme and Operations Policies and Procedures nor the National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures did not have any provisions allowing the granting of petty cash funds to nationally implemented projects. However, the Office provided funds for petty cash expenses to nationally implemented projects, amounting to \$44,000 in 2012 and to \$38,000 in 2013.

Not implementing the corporate guidelines is not only a matter of non-compliance, but it also creates issues of accountability as the roles and responsibilities are not clearly defined for either the Office or the Implementing Partner. In addition, providing funds for petty cash expenses, which is not in line with prescribed procedures, might increase the risk of misappropriation of funds.

Priority	Medium (Important)
Recommendation 2:	
The Office should ensure compliance with appropriate UNDP policies and procedures regarding nationally implemented projects by:	
<ul style="list-style-type: none"> (a) signing the Letter of Agreement when providing Country Office support; (b) conducting the prescribed capacity assessment of its Implementing Partners; and (c) refraining from providing petty cash funds to nationally implemented projects that use the direct payment modality. 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Action Plan:	
<ul style="list-style-type: none"> (a) The recommendation regarding signing a Letter of Agreement when providing Country Office support was put into practice immediately following the audit. (b) In view of the need to carry out three different assessment processes (financial, procurement and capacity), the Office started to integrate and merge the three instruments into a single one aimed at reducing the burden to the national Implementing Partners. It was to be applied to all new projects effective 1 December 2013. (c) On the third issue related to granting petty cash funds to nationally implemented projects, the Office has already taken action, duly informing the Implementing Partner that for all nationally implemented projects, this could be possible only if the Implementing Partner operates under the advance of funds modality. 	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk review and follow-up process of OAI.	

Issue 3 Weaknesses in project budget revision process

A budget serves as a plan of action for achieving quantified objectives and can be used as a standard for measuring performance. As such, a budget has to be well defined and changes in budgets need to be properly justified and documented. Furthermore, according to UNDP Programme and Operations Policies and Procedures, budget changes exceeding the budget tolerance set by the Project Board require a revision from the Project Board.

In reviewing the project budget revision process and documentation thereof, OAI observed that in many instances changes in budgets were done through general revisions with limited information and limited explanation. These changes were approved by the Resident Representative without having been reviewed by the Project Board. Although a tolerance level had not been set by the relevant Project Board for these projects, OAI is of the opinion that the aforementioned budget changes would have been significant enough to warrant a review by the Project Board.

From the sample of eight projects reviewed, the following issues in budget revisions were identified

▪ Reducción de Riesgos y Vulnerabilidad del río Estero Real (Atlas Project ID 00059776)

Significant budget changes with limited information:

- 26 December 2012 – Increase of the 2013 budget by 33 percent (\$206,824).
- 30 July 2013 – Decrease of the 2013 budget by 29 percent (\$500,000) and increase in the 2014 budget .

In addition to the significant changes, smaller changes occurring as often as five times in the same months were also observed.

▪ Promoción de un Transporte Ambientalmente Sostenible (Atlas Project ID 00048774)

Significant budget changes with limited information:

- 28 December 2012 – Decrease of the 2012 budget by 136 percent (\$948,953) to adjust the budget to the actual 2012 expenditures.
- 8 May 2013 – Transfer of 14 percent of the 2013 budget to the 2014 budget (\$115,453).
- 14 July 2013 – Transfer of 14 percent of the 2013 budget to the 2014 budget (\$110,151).

- Budget revisions for Global Environment Facility projects were not sent to the UNDP Regional Technical Advisor in advance, as required.

In response to the draft version of this report, Office management explained that none of the revisions mentioned in the report had any impact on the overall project budget. OAI then considered that most of the significant revisions were shifting on the use of the resources from one year to another but all within the programme cycle. The Office management further explained that all revisions were agreed with the counterpart, after a thorough analysis of the timing and financial performance capability of each project and jointly defining the scope of the budget reduction in a given year and how much should be transferred to the following year. The Office opined that it smoothly carried out budget revisions aimed at aligning budgets against expenditures forecast and would continue to do it as many times as it is required to optimize an efficient allocation of resources, in particular Target Resource Assignment from the Core (TRAC) resources. It is the Office's opinion that exercising programme flexibility and ensuring that resources that will not be used by a project be released as

soon as possible, thereby optimizing resource allocation is not only a virtuous position but consistent with what is expected of a field office.

OAI remains of the opinion that the issue and recommendation are valid given that the Office has not provided any additional information/documentation or evidence that significant budget changes were properly justified and submitted for review.

Unjustified and frequent significant changes in budgets that have not been reviewed and approved by the Project Board constitute non-compliance with UNDP Programme and Operations Policies and Procedures. In addition, this constitutes poor planning and may result in inefficient project management and inefficient use of financial resources, which might also lead to inability to achieve agreed development results.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve its budget revision process by:	
(a) submitting properly justified and documented significant changes to the Project Board for approval; (b) complying with Global Environment Facility requirements; and (c) improve planning processes to prevent frequent budget revisions.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Action Plan:	
(a) Training the Office's program staff on budget revision procedures and Global Environment Facility requirements.	
OAI Response: OAI acknowledges the response of the Office now incorporated in the audit observation, which will be reviewed as part of the standard desk follow-up process of OAI.	

Issue 4 Projects with large infrastructure components not submitted to the Regional Bureau Director for authorization

UNDP Programme and Operations Policies and Procedures indicate that the Resident Representative does not have authority to approve a Project Document that includes support to an infrastructure project, which refers to construction or other major infrastructure development or large equipment components, unless the Resident Representative has received specific authorization from the Regional Bureau Director.

OAI identified two projects with infrastructure components, which were implemented without appropriate authorization.

- Project Pequeñas Centrales Hidroeléctricas II (Atlas Project ID 00059154). One of the objectives of the project was to build small power stations in remote locations in the Country. Out of \$12 million spent in the project as of 3 September 2013, approximately \$8 million were related to construction and installation expenses.

- Project Promoción de un Transporte Ambientalmente Sostenible (Atlas Project ID 00048774). In line with the reduction in CO2 emissions, one of the project objectives was to build a cycling path in Managua, the cost of which was estimated at \$500,000 out of a total budget of \$2.9 million.

Implementing projects without the required authorization from the Regional Bureau Director constitutes non-compliance with UNDP Programme and Operations Policies and Procedures and increases risks on governance.

Priority	Medium (Important)
Recommendation 4:	
The Office should obtain the formal authorization from the Director of the Regional Bureau for Latin America and the Caribbean before engaging in projects with significant infrastructure components. In addition, for projects 00059154 and 00048774, seek guidance from the Regional Bureau for Latin America and the Caribbean on how to address the lack of authorization by the Director.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
With regard to the lack of authorization from the Regional Bureau Director to sign two projects with "big infrastructure components", please note that in both cases these were technical assistance and innovative projects, key in our portfolio and producing transformational changes. Please also note that:	
<p>(a) The infrastructure component of project "Transporte ambientalmente sostenible" accounts for 17.2 percent of the total budget and is a necessary complement of the overall initiative. However, construction had not yet started. Following OAI's recommendation, the Office will proceed to ask the Regional Bureau Director for approval.</p> <p>(b) The infrastructure and equipment component of project "PCH II" accounts for 42 percent of the total budget and is also a necessary complement of the overall initiative, which focuses on the off-grid poorest populations living in remote areas. The Office agreed to seek the Regional Bureau Director's immediate approval following the audit recommendation.</p>	
OAI response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk review and follow-up process of OAI.	

4. Operations

Satisfactory

4.1 Human resources

Satisfactory

At the time of the audit, the Office was comprised of 39 staff members, consisting of 2 international staff, 17 national officers and 20 General Service staff. In addition, there were 47 service contract holders and 11 United Nations Volunteers.

OAI reviewed the overall management of the human resources functions, specifically the recruitment process for all 6 fixed-term appointments and 5 out of 17 service contracts, and the separation of 4 staff members during the audit period. In one out of six recruitment cases, the screening of candidates was limited only to the interview, and therefore not in line with the UNDP Recruitment and Selection Framework. Furthermore, the final

interview reports stating the score of shortlisted candidates and the recommended candidate(s) only included the assessment and signature of the hiring manager, and not those of the panel members. This issue was discussed with Office management who agreed to conduct technical assessments in all recruitment for fixed-term appointments and to have the final interview report signed by all panel members. Subsequent to the audit, but prior to issuance of the audit report, the Office provided evidence that this issue had indeed been addressed, which is why OAI did not raise an audit issue. OAI also reviewed the benefits and entitlements of staff members such as home leave travel to ascertain compliance with the relevant policies and procedures. Additionally, OAI reviewed the granting of salary advances and noted that during the audit period, at least 50 salary and medical advances totalling \$66,000 were granted by the Office. Given that recovery of the advances was properly managed and all advances were recovered in a timely manner, OAI did not raise an audit issue. However, OAI discussed the issue of granting such a number of advances in the audit period with Office management, who agreed with the observation and informed OAI that they would improve the management of salary advances.

It was noted that the post of the Human Resources Officer had been vacant since December 2012. At the time of the audit, the recruitment of this post was at its final stage.

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

Issue 5 Deficiencies in the management of service contracts

The Service Contract User Guide establishes that UNDP offices must comply with UNDP standards for competitive selection and transparent processes to ensure that the person selected is the best-qualified candidate to perform the job functions in a fully satisfactory manner. Furthermore, the UNDP Policy on Family Relationship establishes that the appointment of a candidate under any kind of contractual modality who is related to a staff member of any United Nations agency working in the same country is prohibited.

OAI noted the following shortcomings with regard to service contract management:

- The Office appointed two existing service contract holders to a different service contract position without following the established selection process.
- None of the five contracts reviewed included the terms of references as stipulated in the contract text. The terms of references specify what is to be expected from the contract holder and are the basis for the Office’s ability to measure compliance and overall results and should therefore be an integral part of the contract.
- Extension of service contracts were granted before the mandatory performance evaluation was completed.
- In January 2013, a service contract was awarded to a person who had disclosed to be related to staff member of another United Nations agency in the same duty station, which was not in line with the UNDP policy on family relationships.

By not conducting the performance evaluation in a timely manner, there is an increased risk of extending contracts of underperforming service contract holders and ultimately not receiving value for money. Lack of transparency and non-compliance with applicable rules and regulations in the selection process may prevent the selection of the best suitable candidate and may result in reputational damage to the Office and UNDP.

Priority	Medium (Important)
Recommendation 5:	
The Office should improve the management of service contracts by:	
<ul style="list-style-type: none"> (a) following a transparent and competitive selection process when contracting service contract holders; (b) including the terms of reference in the signed contracts; (c) conducting performance evaluations prior to contract extension; and (d) ensuring adherence to the provisions of the UNDP Policy on Family Relationships. (e) 	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Action Plan:	
<ul style="list-style-type: none"> (a) A circular on these limitations will be sent to all staff members and training on service contract selection processes and the policy on family relationship will be implemented next January for all personnel involved in these issues. (b) Signed terms of references have already been included in human resources files jointly with related contracts. 	
An email from the Office of Human Resources has been sent to UNDP Nicaragua personnel informing them that performance evaluations are a requisite to contract extensions.	
OAI response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk review and follow-up process of OAI.	

4.2 Finance

Satisfactory

OAI reviewed the Office's financial management processes and controls, such as cash advance payments, account payable and disbursements, payment of payroll, hospitality expenses, and banking and cash management. The Office processed around 15,800 vouchers during the period under review, with a value of \$34 million. OAI took a sample of 23 non-purchase order vouchers, totalling \$3.1 million, for detailed review and testing.

OAI noted that a large number of payments to local vendors, nearly 50 percent of the total value of payments during the period under review, were processed in US dollars without any documented justification. According to UNDP Programme and Operations Policies and Procedures, local currency should be used to settle all local vendor and local payroll obligations, except when the local economy is "dollarized" de jure or de facto. This issue was discussed with Office management who explained that the reason for payment in US dollars was due to the wide spread use of the US dollar for local payments in the Country, creating a de facto dollarization of the local economy. Due to this, the Office considered that the exceptions listed in the policy (payment in US dollars to local vendors is allowed in case of a "de facto dollarization of the local economy) applied to them. Notwithstanding this, the Office agreed to contact the Office of Financial Resources Management for further guidance regarding the payments to local vendors in US dollars, and therefore OAI did not raise an audit issue.

No other reportable issues were identified.

4.3 Procurement

Satisfactory

During the review period, the Office issued around 670 purchase orders valued at \$4.6 million. OAI reviewed a sample of 37 purchase orders with a total value of \$2.3 million, representing 50 percent of the value of all purchase orders issued during the review period. In addition, two procurement processes for an institutional contract and one for a long-term agreement with a combined value of \$2.6 million were also reviewed. OAI reviewed the entire procurement process from the sourcing of suppliers to contract management.

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

Issue 6 Inadequate justification for direct contracting

The UNDP Programme and Operations Policies and Procedures stipulate that all procurement processes need to be conducted in a fair and transparent manner, in the interest of obtaining best value for money, which is gained through a competitive process.

In the period under review, the Office conducted 60 procurement processes relating to individual contracts for a total amount of \$506,000. OAI noted that out of these 60 processes, 17 processes totaling around \$211,000 were conducted as direct contracting. A further review of these direct contracting processes showed that in the majority of these cases the justifications were either “continuation of existing situation” or “a formal request (competitive process) will not bring satisfactory results.” OAI considers this justification inadequate. The first justification included references to instances where the initial contracting was either not based on a competitive process or where the initial competitive process had taken place long time ago and for the second justification, no evidence was provided substantiating the statement.

Procuring through direct contracting without appropriate and documented justification increases the risks of non-transparent procurement and of not receiving best value for money.

Priority	Medium (Important)
Recommendation 6:	
The Office should ensure that all contracts are awarded following a competitive process and that the use of direct contracting procurement is limited to exceptional circumstances.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Action Plan:	
<ul style="list-style-type: none"> (a) To improve procurement planning in order to ensure more competitive processes. (b) To train programme personnel in procurement guidelines. (c) To limit direct contracting to exceptional circumstances. 	

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.

No reportable issues were identified.

4.5 General administration

Satisfactory

OAI reviewed general administration activities, including travel and transportation, common services and vehicle management. OAI's review of a sample of 15 international trips showed that travel management was in accordance with UNDP Programme and Operations Policies and Procedures. The Office ensured that staff members submitted their travel claims on time with appropriate supporting documentation, including back-to-office reports when required.

OAI's review of common premises and vehicles found them to be in line with applicable policies and procedures.

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 the responsibilities with regard to safety and security of UNDP personnel. The Security Management Team was functioning well.

The Office was assessed as 76 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security. However, following the audit, the Office implemented a number of security related changes and was subsequently assessed as 95 percent compliant, thus OAI did not raise an audit issue.

With regard to the Business Continuity Plan of the Office, OAI noted that the Plan had been updated in July 2013; however, it had not been fully tested since December 2010. The Office had conducted building evacuation drills in 2013, but other components of the Business Continuity Plan, such as continuing work from remote locations after an evacuation, had not been tested. This issue was discussed with Office management, who subsequent to the audit, informed OAI that a full test of the Business Continuity Plan was scheduled for 9 December 2013 and that a preliminary test of the Business Continuity Plan had taken place on 7 November 2013. Thus OAI did not raise an audit issue.

No other reportable issues were identified.

4.7 Asset management

Satisfactory

OAI reviewed asset records, asset disposal processes and the Office's 2012 mid-year and year-end certification. The certified assets as of 31 December 2012 consisted of 118 assets valued at \$3.5 million. OAI physically verified the existence of assets by sampling 29 assets valued at \$310,020.

No reportable issues were identified.

4.8 Leave management

Partially Satisfactory

OAI reviewed leave management, including management of attendance records, calculation of home leave entitlements, accuracy of leave balances and the extent to which Atlas e-Services was used by the Office.

One medium priority issue was raised, but due to its relevance, this section was rated as “partially satisfactory.”

Issue 7 Weaknesses in leave management

Staff leave must be managed in line with UNDP Programme and Operations Policies and Procedures and is requested, approved and recorded through Atlas e-Services. Although the Office’s use of Atlas e-Services had improved in 2013 as compared to 2012, OAI noted the following shortcomings regarding the Office’s leave management:

- In 19 cases, leave was approved after the date leave was taken with delays ranging from 1 to 32 days.
- Annual leave requests were not entered in e-Services by staff requesting the leave, but by the Leave Monitor. By having the leave requests entered by the Leave Monitor instead of staff, the Office runs the risk of having incorrect and/or incomplete leave requests.
- In three cases, certified sick leave of more than 20 days was approved without submission of the mandatory United Nations Medical Service Certification by the staff.

By not having an adequate leave management process, the Office faces the risk of having inaccurate leave balances, which could lead to misstatement of liabilities or erroneous availment of these benefits by staff.

Priority	Medium (Important)
Recommendation 7:	
The Office should improve its leave management process by ensuring that: (a) staff member enter his/her own leave requests in the Atlas e-Services module and that these requests are timely approved; and (b) in cases of certified sick leave exceeding 20 days, staff comply with the requirement to submit the United Nations Medical Service Certification.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Action plan:	
(a) Training on leave policy and procedures was carried out.	
(b) A Leave Monitor Focal Point by area has been appointed and trained.	
OAI response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk review and follow-up process of OAI.	

4.9 Global Environment Facility

Not Applicable

As part of the OAI 2013 Annual Work Plan, Global Environment Facility is a cross-cutting theme to be reviewed in more depth.

The project portfolio of the Office included five Global Environment Facility projects. OAI reviewed the following two Global Environment Facility projects in detail:

- Reducción de Riesgos y Vulnerabilidad del río Estero Real (Atlas Project ID 00059776)
- Promoción de un Transporte Ambientalmente Sostenible (Atlas Project ID 00048774)

The Global Environment Facility rules and guidelines stipulate that for agency fees and management costs, agencies receive a fee equivalent to 10 percent of the budget from each Global Environment Facility grant to cover all expenses related to corporate activities and project cycle management. OAI noted that for project Reducción de Riesgos y Vulnerabilidad del río Estero Real (Atlas Project ID 00059776), the agreed amount for management costs was \$450,000. As of June 2013, mid-term of the project implementation, total management costs had amounted to \$362,000, representing 80 percent of the agreed maximum amount. For project Promoción de un Transporte Ambientalmente Sostenible (Atlas Project ID 00048774) which started in 2011 and was scheduled to run until 2014, the management cost as of June 2013 totalled \$362,000, representing 9.4 percent of the total project budget. Given the amounts already spent in relation to the total budget and the life cycle of the projects, there was a risk that the total amount of management costs would surpass the agreed 10 percent maximum.

OAI discussed this with Office management who explained that they had no intention of charging more than the agreed 10 percent for management costs. Management explained that management costs defrayed not in linear trend as the execution of projects and that a project lasting 48 months will not incur equal amounts for each month 1/48th of the total amount of management costs. Many projects require front-loading of management costs during initial stages of implementation and UNDP should not be expected to pre-finance support costs when front loading is required. This is why there are high percentages of management costs defrayed at the initial stages and declines towards completion of the projects. OAI agreed with management's comments and did not raise an audit issue. However, OAI advised Office management to closely manage and monitor its management costs to avoid surpassing the agreed maximum.

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 not included in this report.