

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

PERU

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Table of Contents

Executive Summary	i
I. About the Office	1
II. Good practices	1
III. Audit results	1
A. Governance and strategic management	2
1. Organizational structure and delegations of authority	2
C. Programme activities	3
1. Programme management	3
D. Operations	4
1. Human resources	4
2. Finance	6
Definitions of audit terms - ratings and priorities	8

Report on the Audit of UNDP Peru Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Peru (the Office) from 1 to 12 June 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2014 to 30 April 2015. The Office recorded programme and management expenditures totalling \$218 million. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **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.”

Good practices

The Office received the Silver Gender Award, which denoted good practices in promoting gender equality and the empowerment of women.

The Office was making available invoices relating to expenses of the common premises that are shared with other United Nations agencies through a dedicated website where tenants could verify all UNDP expenses on a monthly basis.

Key recommendations: Total = 4, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are four medium (important) priority recommendations, which means, “Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.” These recommendations include actions to address deficiencies in the Office’s organizational structure, implementing partner capacity assessments not carried out as required, weaknesses in the management of service contracts, and deficiencies in vendor management and voucher entries.

The four recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 4); (b) effectiveness and efficiency of operations (Recommendation 1); and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2 and 3).

Implementation status of previous OAI audit recommendations: Report No. 865, 29 December 2011.

Total recommendations: 7

Implemented: 7

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Antoine Khoury
Officer-in-Charge
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I. About the Office

The Office, located in Lima, Peru (the Country) had 31 staff members and 150 service contract holders at the time of the audit. The Office was implementing a Country Programme agreed upon with the Government for the period 2012-2016 covering areas such as democratic governance, poverty reduction and Millennium Development Goals, crisis prevention and recovery, and environment and sustainable development. In addition, the Office provided support to the organization of the United Nations conference on climate change, which was appreciated by the different stakeholders.

II. Good practices

OAI identified good practices, as follows:

Governance and strategic management. The Office received the Silver Gender Award which denoted good practices in promoting gender equality and the empowerment of women. In UNDP, advancing gender equality is a primary goal and its importance in accelerating progress on sustainable development is highly recognized.

General administration. The Office was sharing invoices with other United Nations agencies relating to expenses for the common premises. In order to do so, the Office established a website through which the tenants could verify, on a monthly basis, the UNDP expenses relating to the premises. This practice increased transparency within the United Nations System.

III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Leadership, ethics and values. Key controls were in place and adequate. Overall, staff were aware of the Office's priorities, challenges and control objectives. No reportable issues were identified.
- (b) Development activities. Government counterparts, implementing partners and donors with whom OAI met during the audit expressed their appreciation of the Office as a valued development partner.
- (c) Resident Coordinator Office. Key controls were in place and adequate. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.
- (d) Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately.
- (e) General administration. Records and controls were adequate for asset management. The Office was well administered.
- (f) Safety and security. The Office tested its Business Continuity Plan and included other United Nations agencies located in the same compound to work towards an integrated response to emergencies.

OAI made four recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

Medium priority recommendations, arranged according to significance:

- (a) Improve the organizational structure (Recommendation 1).
- (b) Perform detailed capacity assessments of implementing partners (Recommendation 2).
- (c) Comply with the 'UNDP Service Contract User Guide' and contract clauses (Recommendation 3).
- (d) Improve vendor management and the use of Atlas (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Deficient organizational structure and unclear roles and responsibilities

The 'Operational Guide of the Internal Control Framework' for UNDP stipulates that each head of office has overall responsibility for establishing and maintaining adequate internal controls, and for ensuring documentation of the office's internal control procedures. Further, the UNDP 'Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The control environment encompasses ethical values, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, human resource policies and practices, efficiency, competence, and integrity of personnel.

The UNDP Change Management Toolkit indicates that Operations Managers should ensure strategic financial and human resources management, efficient procurement and logistical services, effective information and communication technology, and common services consistent with UNDP rules and regulations.

The audit identified the following:

- The Office had a sub-unit within the Operations Unit known as the Service Centre, under the leadership of a Service Centre Analyst reporting to the Office's Operations Manager. The purpose of this unit was to centralize services rendered to United Nations agencies and development projects, such as information technology, procurement, general administration and common services. The audit indicated that the roles and responsibilities of the Service Centre Analyst and the Operations Manager were diluted. Even though the Service Centre Analyst had direct supervisory responsibilities, in certain areas there was unclear involvement from the Operations Manager (e.g. information technology, procurement, general and common services).
- In 2014, the Office had created a separate temporary unit to provide procurement services to the largest and more important projects of the Office, known as the Strategic Projects Unit. This unit was under the direct supervision of the Deputy Resident Representative and it was established to resolve delays noted in procurement projects that impacted project activities. The audit indicated that the Service Centre's role lost relevance as well as self-sustainability, as it eventually was only offering services to United Nations agencies and only minor procurement services to the Office. The structure and role of the Service Centre Unit was inefficient, as procurement delays were encountered for large-scale projects. This led to the establishment of the Strategic Projects Unit.

- The Operations Manager was directly supervising two units: the Human Resources Unit and the Finance Unit, which was not in line with the generic job description of the position.
- The Finance Unit was understaffed due to a temporary increase in workload, as project delivery increased significantly in 2014 (over \$100 million) and a similar pattern was expected for 2015. Consequently, in order to maintain segregation of duties and due to the low number of staff, bank reconciliation was performed by one person without any backup. Office management indicated that they were in the process of hiring staff on temporary appointments to address this oversight.

An organizational structure that does not establish clear reporting lines that are aligned with respective functions may result in unclear roles, responsibilities, and accountabilities. Furthermore, unclear reporting lines may have a negative impact on the efficiency and effectiveness of the overall operation of the Office.

Priority	Medium (Important)
Recommendation 1: The Office should improve the organizational structure by: <ul style="list-style-type: none"> (a) reviewing and updating the organogram of the Service Centre Unit to clarify roles, responsibilities and accountabilities with emphasis on the roles and responsibilities of the Service Centre Analyst and the Operations Manager; and (b) conducting a cost benefit analysis as to establish the value for money underlying the existence of the Service Centre Unit. 	
Management action plan: The Office takes note of the recommendation. The Office will thoroughly review the Service Centre Unit's structure and operations and will conduct a cost benefit analysis to further reinforce and clarify roles and responsibilities within the Operations Unit and update its organizational structure. Special emphasis will be placed on increasing effectiveness and efficiency of operational services provided to clients as well as reviewing the roles and responsibilities of the Operations Manager and the Service Centre Analyst.	
Estimated completion date: December 2015	

C. Programme activities

1. Programme management

Issue 2 Implementing partner capacity assessment not carried out as required

The UNDP guidelines for nationally implemented projects require that financial and other specific capacity assessments be carried out for partners that receive or are expected to receive over \$100,000 from UNDP per year. Other additional assessments, as needed or required, of procurement and recruitment capacities should be carried out to identify specific problematic areas.

OAI reviewed 11 development projects, out of which 9 were nationally implemented and lacked the required implementing partner capacity assessments. Although the Office was providing support to national implementation through the use of Letters of Agreement for three projects, there were cases where implementing partners received over \$100,000 per year, and were experiencing delays in project implementation due to operational capacity gaps that would have been identified during the assessments, had these taken place.

Engaging implementing partners without the required capacity assessments exposes the Office and related projects to potential operational gaps, which may impact the achievement of agreed upon outputs. Without an adequate strategy that considers oversight, technical support and capacity development of implementing partners, there is an increased risk of failure in project implementation, and of financial losses.

Priority	Medium (Important)
Recommendation 2:	
The Office should perform detailed capacity assessments of implementing partners and, as applicable, ensure that implementing partner capacity is strengthened to ensure the timely implementation of annual work plans.	
Management action plan:	
An instruction has been issued to the Programme Unit on 23 June 2015 requesting that all project documents include an annex with a capacity assessment of the implementing partner, when projects meet the established criteria.	
A follow-up will be performed accordingly and this item will be included in the Project Appraisal Committee's checklist to ensure that project documents are recommended for signature only when an appropriate capacity assessment has been conducted. In case partners have capacity gaps, the Office will ensure that a proper capacity development plan is implemented.	
Estimated completion date: September 2015	
OAI Response	
OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

D. Operations

1. Human resources

Issue 3 Weaknesses in the management of service contracts

According to the 'UNDP Service Contract User Guide', UNDP Offices must ensure that individuals engaged under service contracts are covered under a pension scheme, as appropriate. To use the pre-existing pension

option, UNDP offices must receive adequate evidence that the individual has coverage. It is not permitted to include an amount for social security in the service contract remuneration where no coverage is in place. Under this arrangement, the reasonable and customary amount of the premium for the location is added to the lump sum remuneration package. In addition, a clause for service contracts states that the subscriber must disclose to UNDP any business or professional employment or other activity in which they may be engaged prior to or at any time during the duration of the contract. The Resident Representative shall make the final decision as to the compatibility of such activities with the services under this contract.

The audit indicated that no evidence or proof of enrolment in a pension scheme was requested from service contractors before or after signing the contract. At the time of the audit fieldwork, the Office was managing 150 service contractors.

Regarding business/professional employment or other activities, the Office was not requesting service contractors to disclose them for subsequent analysis or approval. From the review of 10 service contracts, OAI found that in 1 instance the contractor was performing an undisclosed activity.

By not adhering to the 'UNDP Service Contract User Guide' regarding pension coverage and outside activities, the Office may be exposed to financial, regulatory and possible reputational risks. Furthermore, by not disclosing other activities, there is a risk of lack of transparency as well as of potential conflicts of interest between professional responsibilities and private interests and activities.

Priority	Medium (Important)
Recommendation 3: The Office should comply with the 'UNDP Service Contract User Guide' and contract clauses by: <ul style="list-style-type: none"> (a) obtaining evidence of service contractors' enrolment in a pension scheme, and assessing whether terminating the contracts of those individuals who cannot provide such evidence; and (b) enforcing the disclosure of other activities as applicable, as well as requesting the submission of the disclosure for the case identified in the audit. 	
Management action plan: (a) Regarding the service contractors' enrolment in a pension scheme, action has been taken, as follows: <ul style="list-style-type: none"> ▪ An instruction was issued on 26 June to all service contract holders reminding them of their responsibility to demonstrate evidence of enrolment in a pension scheme. ▪ The Office is collecting and keeping records of evidence as part of the service contract holders personal files and will take appropriate measures for those not providing adequate evidence. <p>The Office expects to complete the collection of evidence of pension scheme enrolment latest by end-September 2015 for current service contract holders. For newly recruited personnel, this will be a requirement before signing their contracts.</p> (b) For the disclosure of other activities, the Office has undertaken the following measures to disseminate the ethical framework of the organization among staff and service contract holders: <ul style="list-style-type: none"> ▪ Ethics training was organized with the Ethics Office in March 2015 for staff and service contract 	

<p>holders.</p> <ul style="list-style-type: none"> Two reminders were sent to all personnel by email in May and June 2015 to reinforce the importance of declaring outside activities and seeking authorization. As a result, three cases were reported and all of these cases were approved by Ethics Office. A new form of disclosure of other activities for newly recruited personnel was introduced from August 2015 onwards. Current personnel will also be asked to complete this form at the latest by mid-September. The case identified by the audit team has submitted its disclosure of other activities and additional information has been requested in order to be submitted to the Ethics Office. <p>Estimated completion date: September 2015</p>
<p>OAI Response</p> <p>OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.</p>

2. Finance

Issue 4 Deficiencies in vendor management and voucher entries

UNDP's enterprise resource planning system, Atlas, is used to record information and process payments. An integral part of the payment process is to ensure that vendors meet UNDP requirements. The 'UNDP Programme and Operations Policies and Procedures' state that prior to the creation of a vendor record, supporting documentation must be obtained that indicates a bona fide business relationship between UNDP and the vendor. Key supporting documents include originals or certified copies showing the complete name, address and banking details of the vendor and are duly signed by an authorized company official as appropriate. Should such a signed document not be available, prior to approval, the approving officer must obtain satisfactory evidence that the details are authentic. Furthermore, if the vendor is unable to provide a letterhead for its own business entity, a certification of bank account details from the vendor's bank is required.

The audit requested 20 signed forms relating to vendor creation for review; only 5 were provided by the Office, as the remaining 15 could not be easily retrieved. The review of the 5 vendor forms showed that no supporting documents, such as a vendor's invoice or a certified document with banking details were requested from vendors to certify the accuracy of information provided.

The review of the vendor database showed the following:

- There were 60 duplicate vendors out of 120 vendors approved in Atlas with the same vendor name and bank account number.
- 650 out of 775 approved suppliers recorded in Atlas did not have a bank account number. As a result, some vendors were paid by cheque or through a letter issued to the bank.
- The maintenance of vendor records was not assigned to any particular unit in the Office, but was instead spread among finance, procurement, and programme units.

The audit also identified 160 deleted vouchers during the audit period, valued at \$1.1 million. According to the Office's management, this was due to the fact that vouchers were created by project personnel who had limited knowledge of creating vouchers in Atlas, which resulted in errors.

Without verifying vendor bank information, there was no assurance that payments were made to the correct account. This practice may lead to the creation of duplicate vendors, the processing of duplicate payments, or the processing of payments to fictitious vendors.

The lack of adequate knowledge in the use of Atlas by project personnel may lead to burdensome transactions and input of inaccurate information in the system.

Priority	Medium (Important)
Recommendation 4: The Office should improve vendor management and the use of Atlas by: <ul style="list-style-type: none"> (a) requesting supporting documentation for vendor profile creation, and having the bank provide vendors' banking details on the bank's letterhead to reduce the risk of error when making Electronic Fund Transfer payments; (b) reviewing data of vendors' information in Atlas to ensure that duplicate profiles are inactivated; and (c) training and instructing project personnel on the proper use of Atlas. 	
Management action plan: In order to strengthen the creation, approval and management of vendors, the following actions have been undertaken/planned: <ul style="list-style-type: none"> ▪ The Finance Unit is being assigned as the focal point for vendor management. ▪ A memorandum reminding the users about the required supporting documentation to be submitted with the vendor form was issued on 30 June 2015. This memo also reinforced to the users the correct process for data entry and searching of information in Atlas. ▪ The Office is reviewing its current database in order to deactivate the vendors who have had no movements for more than one year. This procedure will be done every six months. ▪ In order to reduce the amount of deleted vouchers, the Office has shared with all users on 18 June 2015 the procedure for creating and deleting vouchers. ▪ Training sessions with project personnel to remind them of the correct use of vendor forms and supporting documentation as well as the correct use of Atlas will be conducted during the 3rd quarter of the year. 	
Estimated completion date: October 2015	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **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.
- **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.
- **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.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **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.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to 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.