UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

VENEZUELA

Report No. 1566

Issue Date: 12 February 2016

Table of Contents

Report on the Audit of UNDP Venezuela
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Venezuela (the Office) from 16 to 27 November 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, business continuity, 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 September 2015. The Office recorded programme and management expenditures of approximately $75 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*.

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."

Key recommendations: Total = **6**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are six 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 weaknesses noted mainly in segregation of duties, adherence to corporate guidelines on the national implementation of projects, as well as in project and individual contracts management.

The six recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendations 3 and 5); (b) reliability and integrity of financial and operational information (Recommendation 1); (c) effectiveness and efficiency of operations (Recommendation 6); and (d) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2 and 4).

Management comments and action plan

The Resident Representative accepted all six 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Caracas, Venezuela (the Country) had 26 staff members at the time of the audit (16 on fixed-term and 10 on temporary appointments). The Office was implementing a Country Programme agreed with the Government for the period 2015-2019, which was aligned to both the national development plan (2013-2019) and the UNDP Strategic Plan 2014-2017. The Country Programme included areas such as capacity development, knowledge management, South-South Cooperation and triangular cooperation. The Country was experiencing a period of social and economic crisis due to the complex currency exchange mechanisms that limited access to hard currencies, and which resulted in a very high inflation rate, increased level of insecurity, crime and violence, price distortions and shortages of food, medicines and essential goods. Despite the challenging context, the Office was able to significantly increase programme delivery and to ensure a high level of staff satisfaction as reflected in the Global Staff Survey, which positioned the Office among the best rated in UNDP.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Leadership, ethics and values.</u> Overall, staff were aware of the Office's priorities, challenges and control objectives regarding ethical behavior. No reportable issues were identified.

(b) <u>Development activities.</u> Implementing partners, United Nations agencies and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner.

(c) <u>Resident Coordinator Office.</u> The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.

(d) <u>Human resources.</u> Adequate controls were established regarding the recruitment and separation processes of staff, and staff benefits and entitlements. The Country does not use the service contract modality due to restrictions in place based on local regulations.

(e) <u>General administration.</u> Controls over general administration activities, including common services, fuel management, vehicle management, and travel management, were found to be adequate. Physical verifications of the Office's assets were periodically conducted and OAI found them to be adequate.

(f) <u>Information and communication technology.</u> The systems managed by the Office, including hardware, software and system security were operating adequately.

(g) <u>Safety and security.</u> The Business Continuity Plan was updated in June 2015. UNDSS shared the Office's premises, and as such, it issues basic emergency instructions for new and emerging contingencies on a continuous basis.

OAI made six 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) Enhance the Office's financial sustainability (Recommendation 3).
(b) Implement the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' for all active and new projects (Recommendation 2).
(c) Ensure that duties are adequately segregated (Recommendation 1).
(d) Strengthen project management (Recommendation 5).
(e) Comply with the Harmonized Approach to Cash Transfers project readiness requirements (Recommendation 4).
(f) Reassess the management of individual contracts and ensure compliance with procurement policies and procedures (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Inadequate segregation of duties

According to the 'Operational Guide of the Internal Control Framework' for UNDP, each head of office is responsible for establishing and maintaining adequate internal controls in his or her office, and for ensuring documentation of the Office's internal control procedures. The Internal Control Framework clearly defines three levels of authority – project manager, approving manager, and disbursing officer. No single person can exercise both first and second authorities over any one transaction. As second authority, approving managers that also have project manager profiles should not approve purchase orders and non-purchase order payments for their own projects. Similarly, the third authority must be independent from first and second authorities.

The audit identified the following:

- Two staff members acting as project managers for five projects approved 686 vouchers for transactions totalling $1.7 million charged to their respective projects during the period covered by the audit, which contravened the segregation of duties requirement for first and second authorities, as per the Internal Control Framework.

- One approving manager (second authority) approved 109 purchase orders and 1,342 non-purchase order vouchers totalling $14.3 million. The same staff member had also been assigned the role of disbursing officer (third authority) for all payments made by the Office.

Office management explained that in 2014 the small structure of the Office made adherence to the Internal Control Framework a challenge. To address this issue, 10 staff were hired between 2014 and 2015 under the temporary appointment modality and a fixed-term position was approved for the position of Service Centre Manager in order to appropriately segregate duties and allocate approving rights in Atlas (enterprise resource planning system of UNDP). Although the new structure allowed for improved segregation of duties, the Service Centre Manager retained approving rights in Atlas for the approval of transactions corresponding to management projects, and also as bank signatory. Even though the segregation of duties improved, there were still overlapping roles at the time of the audit fieldwork.

Inadequate segregation of duties jeopardizes the effectiveness of the entire internal control system, which can lead to the untimely detection of errors and fraud and to financial losses for the organization.

Priority	Medium (Important)

Recommendation 1:

The Office should ensure that duties are adequately segregated as required by the Internal Control Framework by ensuring that:

(a) project managers who also have approving manager roles refrain from approving transactions for their own projects; and
(b) the staff member with second and third authorities no longer holds both approving manager and disbursing officer roles.

Management action plan:

(a) The crossover approving modality will start from January 2016 for project managers.
(b) The Office will separate functions from second and third authorities by removing the role of approving manager from the staff member that has both.

Estimated completion date: April 2016

2. Risk management, planning, monitoring and reporting

Issue 2 Lack of adherence to corporate guidelines for nationally implemented projects

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' (Guidelines), such projects are to be implemented following one of two scenarios: (a) full national implementation, in which the national implementing partners directly assume responsibility for the related output(s) and carry out all activities towards the achievement of those output(s); or (b) national implementation, in which the national implementing partner assumes full responsibility for the related output(s) but where, at the request of the Government through a standard Letter of Agreement for support to national implementation, UNDP serves as a responsible party that undertakes specific, clearly defined activities for the implementing partner.

The review of five nationally implemented projects noted the following weaknesses with regard to the implementation of the Guidelines regarding Country Office support to national implementation:

- The required capacity assessments of implementing partners were not carried out. Direct payments were being effected without prior knowledge of the implementing partners' financial capacity. The Office explained that although UNDP requirements establish that capacity assessments should be undertaken, the Country context made it difficult to carry out the assessments due to high turnover of officials at all levels.
- The Office's support to national implementation was provided on the basis of the management arrangements agreed to in the Project Document; however, there was no standard Letter of Agreement with appendices for each project indicating the support expected from UNDP and the associated costs.

As a result, even though the Office was recovering direct project costs in addition to General Management Support, the audit was unable to determine whether all direct project costs were recovered or not.

- The audit identified $20 million of purchase orders placed for nationally implemented projects, which were part of the Office's support activities during the audit period. These transactions were recorded in Atlas under the national implementing partner's code without using a separate code for UNDP as a responsible party, thus making it difficult to segregate activities completed by the implementing partners and those carried out by the Office; this impaired the ability of the Office to produce financial reports on Country Office support to national implementation. Furthermore, for the purposes of the annual planning of the audit exercise of nationally implemented projects, the Office considered the projects as being fully nationally implemented and therefore included the total value of each project's Combined Delivery Report as part of the audit plan, without excluding the portion of expenses where the Office provided support to national implementation. As a result, activities carried out by the Office were audited by external auditors, contrary to the single audit principle. This situation was a consequence of not having the Letter of Agreement and appendices signed and recorded in Atlas, and it is not expected to occur in the future, provided the Office signs the necessary documents. Therefore, OAI did not issue a separate recommendation to this respect.

The lack of adherence to the corporate guidelines may cause issues of accountability due to unclear roles and responsibilities for the Office and/or the implementing partners. Furthermore, there may be confusion as to which regulations, rules, policies and procedures govern project activities.

Priority	Medium (Important)

Recommendation 2:

The Office should implement the Guidelines for all active and new projects by:

(a) performing capacity assessments before engaging implementing partners;
(b) signing the standard Letter of Agreement with appendices for each project whenever the Office provides support to national implementation; and
(c) ensuring that implementing partners use standard contracts when hiring consultants.

Management action plan:

(a) The Office will undertake capacity assessments for new implementing partners.
(b) The Office will make sure to sign off on the Letter of Agreement with required appendices for each project whenever new project initiatives are started.
(c) The Office will make sure implementing partners use standard contracts when new consultants are hired. For this last recommendation, a Memorandum Letter will be sent to each project manager informing them about this issue in January 2016.

Estimated completion date: June 2016

3. Financial sustainability

Issue 3 Office's financial sustainability at risk

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish effective partnerships, develop a resource mobilization strategy, as well as implement a corresponding resource mobilization action plan. In accordance with UNDP corporate requirements, all offices are also required to maintain a minimum financial reserve of 12 months and ensure financial sustainability by securing long-term committed resources.

There were concerns about the Office's financial sustainability due to the following:

- The project portfolio was heavily reliant on two projects. As of November 2015, both projects' delivery amounted to $25.1 million out of a total programme delivery of $26.7 million. At the time of the audit, one of the projects was closing and the implementation of the other project was hindered due to restrictions on local currency (VEF) conversion to the US dollar. Project contributions in 2015 totalled $35 million and were made in the local currency. The local Central Bank was unable to convert them into US dollars despite multiple Office requests, to allow for the purchase of goods for the project. During 2015, the project was only able to complete the procurement processes that had been approved or initiated in 2014.
- A project funded by the Global Environment Facility was not able to deliver the agreed results due to delays in the implementation of the project mainly caused by frequent changes of the implementing partner's project officers. Consequently, the Office, in agreement with the implementing partner and the donor, agreed on closing the project, which implied a refund by the Office to the donor of approximately $6.1 million.
- The United Nations Official Rate of Exchange (UNORE) was set to VEF 6.23 per one US dollar and was the rate used by UNDP for accounting purposes. In 2014, the Government allowed the United Nations system of agencies in the Country to convert US dollars at a different rate known as *Sistema Marginal de Divisas* (SIMADI). Per the SIMADI exchange rate, one US dollar corresponds to VEF 200, instead of VEF 6.23 per the UNORE rate. As a result, the Office started to accumulate a significant amount in VEF. This amount was recorded by the Office as "Other revenue" and as of December 2015, the total amount booked amounted to $15.3 million. The Office was taking into consideration this revenue when forecasting on financial sustainability scenarios, as it provided cash liquidity to cover operating expenses. Treasury had exceptionally agreed to this practice.

  The Atlas records showed that the Office had recorded 11 months of reserve as of December 2015, as the system did not take into account the "Other revenue" for the calculation of the total reserve. This revenue, however, allowed the Office to make an estimate of 19 months of reserve, thus resulting in a healthy financial situation. The 19 months of reserve was also agreed with the Regional Bureau for Latin America and the Caribbean as the reserve period to be taken into account for reporting purposes.
- There was a significant increase in staff costs from $0.2 million at year-end 2014 to $1.5 million as of December 2015, due to two salary adjustments made throughout the year, based on the results of salary surveys. Salaries were assessed in the surveys as low compared to the market, as these were paid in VEF using the UNORE rate (VEF 6.23/US dollar). In order to address this issue, the Office started to reimburse staff up to 50 percent of their salaries using the SIMADI exchange rate for the conversion to VEF. As a result, starting September 2015, salaries were deposited to the local staff US dollar accounts based on the US/UNORE exchange rate, and were converted to VEF per the SIMADI rate.

According to the Office's management, this practice was followed in consultation with the Regional Bureau for Latin America and the Caribbean and with the Bureau for Management Services. In order to regulate the use of a different exchange rate for converting VEF to US dollars and to proceed with the staff payments described above, the Office drafted a standard operating procedure labelled "Venezuela Country Office purchase of local currency using the SIMADI rate" in consultation with both the Regional Bureau for Latin America and the Caribbean and with the Bureau for Management Services. The Treasury department confirmed this practice via electronic mail; however, there was no evidence of formal approval of the document.

The audit team acknowledged the efforts made by the Office to maintain a more diverse project portfolio, especially due to projects closing down, to the financial situation of the Country, and to currency conversion difficulties for implementing partners. Nevertheless, low programme delivery may lead to inefficient project management and the inability to achieve agreed development results. The use of different exchange rates, despite increasing the Office's reserves, may have the opposite effect if the difference in exchange rates diminishes/changes.

Priority Medium (Important)

Recommendation 3:

The Office should enhance its financial sustainability by:

(a) increasing the project portfolio through revisiting the project pipeline and improving resource mobilization to the extent possible to start new development projects;
(b) continuing to closely monitor the use of the different rates of exchange so that timely decisions can be taken; and
(c) obtaining formal approval from Treasury on the standard operating procedure.

Management action plan:

(a) The Office will elaborate on an action plan to operationalize the resource mobilization strategy as a priority for programme and management during 2016.
(b) The Office will continue monitoring the exchange rate system.
(c) The Office will request from Treasury a formal approval of the standard operating procedure for local salaries.

Estimated completion date: June 2016

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 4 Harmonized Approach to Cash Transfers not implemented

To lessen the burden caused by the multiplicity of United Nations procedures and rules for its partners, the 'Framework for Harmonized Approach to Cash Transfers to Implementing Partners' requires that participating United Nations agencies (UNDP, UNICEF and UNFPA) agree on and coordinate Harmonized Approach to Cash

Transfer (HACT) activities. 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 implementing the HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

As part of the preparation for HACT adoption during the transitional year for UNDP, UNFPA and UNICEF, the United Nations Country Team (UNCT) created an inter-agency working group for programme activities, which included a HACT subgroup led by UNFPA. The status of the preparation process was as follows:

- A macro-assessment based on data from the Inter-American Development Bank and Development Bank of Latin America was presented to the UNCT and was pending approval.
- A repository for micro-assessments was created where UNICEF initially shared their assessments, UNFPA hired a consultant to conduct their micro-assessments, and UNDP had completed the micro-assessment plan but had not carried out any micro-assessment.

Nevertheless, the Office was not ready for HACT adoption in 2016 since the Office still had not completed the transitional assurance plan. The HACT project dashboard showed the Office's overall rating was 69 percent, with a rate of 55 percent for data and planning readiness. In order to be ready by January 2016 the Office would need to be at 100 percent by the end of 2015. Furthermore, the Office was processing direct payments and issuing advances to implementing partners using an outdated form; the implementation of Funding Authorization and Certificate of Expenditures (FACE) form was also pending.

The Office's management explained that they had prioritized the signature of the United Nations Development Assistance Framework and the Country Programme Document, which was carried out successfully given the Country's context, thus HACT Framework implementation was delayed.

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

Priority	Medium (Important)

Recommendation 4:

The Office should comply with the Harmonized Approach to Cash Transfer project readiness requirements by:

(a) completing the micro-assessments of implementing partners;
(b) establishing assurance plans and conducting assurance activities; and
(c) implementing the use of the Funding Authorization and Certificate of Expenditures form.

Management action plan:

(a) According to the micro-assessments plan for the programme cycle, designed considering the national context and status of the portfolio, the first micro-assessments should be completed at the end of the first quarter of 2016.
(b) HACT focal points and key management staff will implement an Action and Monitoring Plan that will allow for a quarterly follow-up regarding the progress and results achieved in order to ensure 100 percent implementation in 2016. The results will be presented monthly to management for review and evaluation.
(c) The Office has already proceeded with training in the use of FACE to three implementing partners and

will comply with this corporate template in all active projects.

Estimated completion date: June 2016

C. Programme activities

1. Project management

Issue 5 Weaknesses within project management

The UNDP programme and project cycles are the underpinning processes that provide UNDP with the ability to deliver results. Within these processes, a series of actions are carried out including the definition of a clear hierarchy of results (outputs contributing to outcomes) and continuous monitoring of progress towards these specified results. In general, a UNDP programme is a plan for effectively delivering development results through a set of projects. Projects are integral components of a UNDP programme and in order to achieve the specified results, appropriate project management structures should exist.

The audit reviewed a sample of 6 ongoing projects that comprised 14 outputs out of a total of 22 projects with 49 outputs and found the following weaknesses:

- The Office was using the Atlas budget report instead of a complete annual work plan as prescribed by the 'UNDP Programme and Operations Policies and Procedures'. The Atlas report only reflects the budget, whereas a complete annual work plan contains more details about inputs and activities with annual targets, baselines and indicators for each output. Without standardized annual work plans it is difficult to consolidate and monitor project progress towards expected development results.
- The Office created risk registers when formulating projects and entered some of them into Atlas, but failed in entering management responses and reassessing risks as required. Risk management is a critical aspect of project management and failing to do it may expose the projects and the Office to undetected/uncontrollable risks with no mitigating or planned action to timely address them.
- A field visit plan corresponding to the period covered by the audit was not available. Even though programme unit staff and management visited the projects, no formal field visit reports were prepared or filed.
- All substantive revisions for the projects reviewed, such as recurrent project extensions and budget increments affecting project results, were not appraised by the Project Appraisal Committee as required.
- An initiation plan was created in 2013 for one project, and it was extended in two instances for an additional year each time for a total duration of three years. The initiation plan as defined by the 'UNDP Programme and Operations Policies and Procedures' is a directly implemented project that can have a maximum duration of 12 months and should not be extended without authorization from Headquarters.
- The audit identified 15 operationally closed projects where 11 of them exceeded the 12-month period for financial closure but had not been financially closed as required by the 'UNDP Programme and Operations Policies and Procedures'.

The identified project management weaknesses can affect the delivery of intended results, impacting on the programme and on the reputation of the Office.

Priority	Medium (Important)

Recommendation 5:

The Office should strengthen project management by:

(a) ensuring that annual work plans are complete and contain information about inputs and activities with annual targets, baselines and indicators for each output;
(b) performing project risk assessments on an annual basis and recording them in Atlas;
(c) ensuring that a field visit plan is created and that field visits are results oriented and properly documented;
(d) having all project substantive revisions appraised by the Local Project Appraisal Committee as required;
(e) refraining from using the initiation plan beyond the maximum recommended duration, and in case of requiring an extension, doing so through the Regional Bureau for Latin America and the Caribbean; and
(f) finalizing the pending actions to financially close the projects that were operationally closed for more than 12 months.

Management action plan:

(a) The quarterly Progress Reports were adjusted in the first quarter of 2015 and implemented by April 2015 in order to complement the annual work plan generated by Atlas and contains all the needed information including gender and/or vulnerable populations, lessons learned, financial reporting, and a risk monitoring matrix. From January 2016 the Office will comply with the annual work plans for all projects.
(b) Through the risk log included in the Quarterly Report, all types of risks, their descriptions, potential and level of impact, probability and risk values, as well as a mitigation action plan has been loaded in the Atlas system gradually during 2015 and this will continue to be a practice for all active projects in 2016.
(c) The Office has already created a field visit plan for 2016 to be implemented in all projects and will be duly documented.
(d) The Office will continue to prepare the substantive revisions duly agreed by both parties at technical levels, validated and signed by the Project Board members, including the relevant ministry. The Project Appraisal Committee meetings are not always possible to arrange due to the national context.
(e) The Office had only one initiation plan, which was inactive since August 2015 and will be closed by the end of January 2016.
(f) The Office has already proceeded to close 6 out of the 12 identified projects. The remaining 6 will be closed up to February 2016.

Estimated completion date: June 2016

OAI Response

OAI acknowledges the actions taken by management; these actions will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

D. Operations

1. Procurement

Issue 6 Discrepancies with management of individual contractors

The 'UNDP Programme and Operations Policies and Procedures' stipulate that all procurement processes need to be conducted in a fair and transparent manner and in the interest of obtaining best value for money, through a competitive process. As a general policy, the individual contract modality is used for the procurement of services of an individual to perform time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs which must be clearly identified in the contract and directly linked to payment. Under no circumstances shall an individual contractor be used for functions normally performed by staff; these functions should be carried out under staff contracts such as the temporary appointment. The term "genuine exigency" refers to situations whereby the goods or services required comprise emergency interventions and therefore cannot be delayed, thus justifying the use of direct contracting. The procurement of goods or services that do not meet the "genuine exigency" criteria will not be considered an exception to the competitive process, even if the context is an early recovery programme/project.

As a general principle, personnel related to nationally implemented projects are recruited by the implementing partner (or its contractors) unless otherwise specified. In order to do so, there is a standard template that should be used for such purposes.

The review of a sample of 13 individual contractors who received payments through purchase orders amounting to $473,606 identified the following discrepancies:

- Nine contractors were directly contracted without undergoing a competitive bidding process due to a "genuine exigency" justification, according to the Office's explanation. These individual contractors performed core functions in the Office during part of 2014 and were paid monthly, contrary to the policy. Later in 2014, the Office created 10 temporary appointment positions to perform core functions and resolved the problem of having individual contractors perform core functions.
- There was no evidence of a reference check of any of the contractors prior to awarding the contracts.

During the audit period, there were payments related to 81 contractors working for nationally implemented projects, amounting to $851,137. The review of five nationally implemented projects identified two consultants that were hired by the implementing partners using non-standard contracts.

Procuring through direct contracting without appropriate and documented justification may result in lack of transparent procurement processes and in not receiving services that ensure best value for money. The signing of non-standard UNDP contracts may result in negative legal and reputational consequences.

Priority	Medium (Important)

Recommendation 6:

The Office should reassess the management of individual contracts and ensure compliance with procurement policies and procedures.

Management action plan:

The Office will minimize the direct contracting.

Estimated completion date: June 2016

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 <u>not included in this report</u>.