

UNITED NATIONS DEVELOPMENT PROGRAMME  
Office of Audit and Investigations



AUDIT  
OF  
UNDP COUNTRY OFFICE  
IN  
TURKEY

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## Report on the Audit of UNDP Turkey Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Turkey (the Office) from 11 to 22 July 2016. 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 2015 to 30 June 2016. The Office recorded programme and management expenditures of approximately \$38.9 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.”

### Good practice

The Office had established a working space through a UN-wide Knowledge Management Portal in order to maintain the Long Term Agreements signed by United Nations agencies in the Country to ensure that all agencies **can review and piggyback on each other’s** Long Term Agreements.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following:

Objectives	Recommendations No.	Priority Rating
Reliability and integrity of financial and operational information	4, 5	Medium
Effectiveness and efficiency of operations	1	High
	2, 3	Medium

For high (critical) priority recommendations, 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. The high (critical) priority recommendation is presented below:

Weaknesses in  
organizational structure  
(Issue 1)

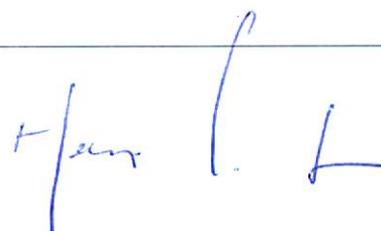
The Office's existing structure was the result of a realignment exercise motivated by the emerging development challenges and needs of the Country and in response to the evolving national development context. In order to ensure that the Office was 'fit for purpose', an organizational change process started in 2014 and was completed in 2015, greatly focusing on strengthening the programme area. The consequence was a resulting matrix structure in the reporting lines that has created certain exposures on the clarity of responsibilities and roles, and duplications of functions, as well as a decentralization of processes including procurement, which impacted the effectiveness and efficiency of operations.

Recommendation: The Office should undertake a review and update its organizational structure and the matrix reporting structure in order to: (a) clarify roles, responsibilities and accountabilities; (b) ensure adequate operational support for programme activities as a way to promote greater efficiency; (c) match the Internal Control Framework with the revised organizational structure; (d) ensure that adequate segregation of duties is maintained and address any deviations from the 'UNDP Programme and Operations Policies and Procedures'; and (e) revisit the existing structure of the procurement function.

#### 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 have 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.



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Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Ankara, Turkey (the Country), had 20 staff members under fixed-term appointments, 105 service contract holders, and 5 UN Volunteers at the time of the audit. The Office was directly implementing one project, and was providing Country Office support for 62 projects under the national implementation modality. The Country Programme Document was operational as of January 2016, and was aligned to both the national priorities and the United Nations Development Assistance Framework (UNDAF), as also confirmed by interviewed government officials. The 2014-2015 Programme Repositioning Exercise was articulated into the Country Programme Document and in the bi-annual Partnership and Resource Mobilization Implementation Plan. The United Nations Development Cooperation Strategy serves as a substitute for the UNDAF, and currently covers the period from 2016 to 2020.

## II. Good practice

OAI identified the following good practice:

Operations/Procurement. The Office had established a common working space through a UN-wide Knowledge Management Portal in order to maintain the Long Term Agreements signed by other United Nations agencies in the Country to ensure that United Nations agencies can review and piggyback on each other's Long Term Agreements. All United Nations agencies were granted access to the Knowledge Management Portal. The agencies were communicating their Long Term Agreements to the UNDP Procurement Associate who was reviewing the Agreements in terms of content, validity, and terms and conditions, and uploading them to the Knowledge Management Portal after screening. Amendments to the Long Term Agreements were also being uploaded to the Portal in the same way. This good practice could be replicated in other offices within the region.

## III. Audit results

Satisfactory performance was noted in the following areas:

- (a) Leadership, ethics and values. Overall, staff members were aware of the Office's priorities, challenges and control objectives regarding ethical behavior. No reportable issues were identified.
- (b) Development activities. 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) Resident Coordinator Office. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country and were very supportive of the achievement of the Government's **development goals**.
- (d) Human resources. Controls over human resource management were generally operating.
- (e) Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating effectively.
- (f) General administration. Controls over general administration activities, including common services, vehicle management, and travel management, were found to be adequate. Physical verifications of the Office's assets were periodically conducted.
- (g) Asset management. Controls over the **Office's assets were generally operating**. No reportable issues were identified.

OAI made one recommendation ranked high (critical) and 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.

High priority recommendation:

- (a) Review and update organizational and matrix reporting structure (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Ensure the correct use of GLJEs (Recommendation 5).
- (b) Strengthen monitoring activities (Recommendation 2).
- (c) Improve the use of Atlas by providing training to staff members (Recommendation 4).
- (d) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Organizational structure and delegations of authority

#### Issue 1 Weaknesses in organizational structure

The 'Operational Guide of the Internal Control Framework for UNDP' stipulates that each head of office has the overall responsibility for establishing and maintaining adequate internal controls, and for ensuring the adequate documentation of their offices' 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 vision and mission of an office as well as its organizational effectiveness relies on the **office's** adequate organizational structure, which allows for clear roles and responsibilities, as well as reporting lines.

The Office's **existing** structure was the result of a realignment exercise motivated by the emerging development challenges and needs of the Country and in response to the evolving national development context. In order to ensure that the Office was '**fit for purpose**', an organizational change process started in 2014 and was completed in 2015, greatly focusing on strengthening the programme area. As a result, the new programme structure was set on three programmes and was complemented with strategic partnerships.

Under the existing organizational structure, the audit identified some weaknesses and unclear roles and responsibilities among programme and operations areas, as follows:

- The Office's structure included two layers e under the Programme Unit: Programme Cluster Unit and Programme Implementation Support Unit. Portfolio Administrators (within the Programme Implementation Support Unit) had a matrix reporting line to the two Assistant Resident Representatives (Programme and Operations). In addition, a Programme Services Centre was also established for the provision of operational services to programmes and projects, also under a dual reporting line. Under this structure, some operational functions were decentralized to both the Programme Implementation Support Unit and the Programme Services Centre:

- The Office retained a Human Resources Associate and a Procurement Associate within the Operations Unit for day-to-day guidance, advisory services, and clearance of the human resources and procurement processes carried out by the Programme Implementation Support Unit. By segregating these business functions, specializing in specific areas and sharing knowledge became difficult. Furthermore, any risks arising after the completion of the business process may not be adequately mitigated.
  - The Programme Unit employed a Communication Assistant that was not under the purview of the Communication Officer; therefore, there was the potential for duplication of functions with respect to the communications activities of the Office.
  - Portfolio Managers in the Programme Unit were still transitioning from their old functions, as they were still involved in project implementation and were not fully devoted to their new portfolio management functions. The same occurred with the Results-Based Management Programme Associate, who was acting as a Portfolio Administrator and was not fully aligned to the Results-Based Management role.
- Procurement was also a decentralized business function within the Office's organization structure. As a result:
- There was a dual reporting structure, whereby both the Assistant Resident Representative (Programme) and Assistant Resident Representative (Operations) had oversight over the procurement functions conducted by the Portfolio Administrators.
  - The contract management phase was conducted by both the Programme Services Centre (transactional) and the Programme Implementation and Support Unit (administrative). The Evaluation Committee was not chaired by procurement staff. There was no assurance over maintaining the confidentiality of the procurement processes due to the number of personnel involved during the different phases of the processes.
  - Procurement accountability was the responsibility of the Procurement Associate who was a staff member, yet the procurement processes were carried out by a service contract holder within the Programme Implementation Support Unit. However, the requirement that certain processes should undergo an independent review by the Regional Advisory Committee on Procurement or the Advisory Committee on Procurement necessitated that the procurement function be centralized to ensure accountability at the procurement function level. In addition, service contractors were not covered by **the 'Staff Rules and Staff Regulations of the United Nations'**, nor were they required to comply with the Financial Disclosure Policy.
  - The Office was acting as signatory for the direct contracting of individual contractors. In one case, the respective ministry requested the Office, in its capacity as signatory, to directly contract a number of individual consultants. There was no documented evidence of the Office doing any prior research that the selected individual consultants were not on the government payroll as either consultants or employees, as required by the Individual Contracts Policy.

An organizational structure with dual reporting lines contributes to the lack of clarity of roles and responsibilities. The dual authority may cause miscommunication and ineffective management, which puts the **Office's** Internal Control Framework at risk. Decentralization of the procurement function may pose a risk to the effectiveness and efficiency of procurement processes.

Priority	High (Critical)
<p>Recommendation 1:</p> <p>The Office should undertake a review and update its organizational structure and the matrix reporting structure in order to:</p> <ul style="list-style-type: none"> <li>(a) clarify roles, responsibilities and accountabilities;</li> <li>(b) ensure adequate operational support for programme activities as a way to promote greater efficiency;</li> <li>(c) match the Internal Control Framework with the revised organizational structure;</li> <li>(d) ensure that adequate <b>segregation of duties is maintained and address any deviations from the ‘UNDP Programme and Operations Policies and Procedures’</b>; and</li> <li>(e) revisit the existing structure of the procurement function.</li> </ul>	
<p>Management action plan:</p> <p>In view of the assessment concerning layering in the programme implementation support structure and the decentralization of operational functions among the Programme Implementation Support Unit and Programme Services Centre, the Office, as a part of its change management follow-up, will:</p> <ul style="list-style-type: none"> <li>(a) conduct an internal review and analysis of the organizational and functional organigram of the Office with a view to increase efficiency, effectiveness, accountability and compliance;</li> <li>(b) centralize the procurement function;</li> <li>(c) consider, analyse and assess the probable impact of the centralization of other operational functions <b>currently retained in “Programme Implementation Support” and “Programme Services Centre” such as finance</b> in a broader context of the Office Resource Management and other programmatic functions;</li> <li>(d) reflect functional and organizational changes into the Internal Control Framework and revise reporting arrangements as appropriate; and</li> <li>(e) centralize the procurement function in the Office whereby the principles stated in (e), (f), and (g) above shall be re-validated.</li> </ul> <p>Estimated completion date: March 2017</p>	

## 2. Risk management, planning, monitoring and reporting

### Issue 2 Weaknesses in monitoring activities of projects

Monitoring is driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making. **It is an essential management tool to support UNDP’s commitment to accountability** for results, resources entrusted to it, and organizational learning. Monitoring relates to pre-identified results in the development plan that are achieved throughout project implementation, where baselines, indicators, targets and measurements of results are clearly defined and regularly monitored. Monitoring frameworks at the project level also ensure that projects are implemented within the agreed timeframe and capture lessons learned.

The audit reviewed a sample of 8 ongoing projects that comprised 11 outputs out of a total of 63 projects comprising 73 outputs. The audit disclosed that project documents contained monitoring frameworks detailing

monitoring activities to be carried out during the life cycle of each project; such activities entailed preparing quarterly project progress reports, including the financial monitoring of project annual work plans and field visits. In addition, the Office reviewed annual work plans of projects during meetings among the Office, government officials, and project managers once a year, where the monitoring of project results was carried out. However, information for six out of the eight sampled projects showed that project documents, annual work plans and Atlas reports (enterprise resource planning system of UNDP) used indicators that were not specific, measurable, attainable, relevant, and time-bound (SMART). In addition, annual work plans did not include baselines, and output targets were not identified in accordance with the Results-Based Management programming principles. Although the Office regularly visited its implementing partners and projects, these monitoring visits were not results-oriented and the available minutes did not meet the requirements of the Results-Based Management approach. **The Office's management explained that this practice was considered sufficient to comply with the requirements of the government counterparts.**

In addition, the Office carried out risk assessments when formulating the projects as required; however, the risk assessments were not regularly updated and recorded in Atlas as required by the monitoring framework. OAI also found that monitoring activities within the Office had been hampered due to the fact that the monitoring and evaluation post remained vacant and the Results-Based Management Associate who carried out the monitoring function had been assigned Portfolio Administrator responsibilities (refer to issue 1) that negatively impacted the completion of the Results-Based Management and monitoring activities.

Projects were exposed to risks for which no mitigating actions were planned/carried out. The lack of effective monitoring may impede the Office from determining whether intended results are being achieved, and whether corrective action is necessary to ensure the delivery of intended results.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen monitoring activities by:	
<ul style="list-style-type: none"> <li>(a) timely carrying out the activities described in the project monitoring frameworks;</li> <li>(b) ensuring that field visits are results-oriented and properly documented; and</li> <li>(c) performing project risk assessments on an annual basis and recording them in Atlas.</li> </ul>	
Management action plan:	
In order to strengthen project monitoring activities, the Office will:	
<ul style="list-style-type: none"> <li>(a) as an immediate action, appoint an additional and dedicated staff/person and task her/him to ensure (i) field visits are documented and are results-oriented and (ii) risks assessments are performed on an annual basis and recorded in Atlas in a timely manner;</li> <li>(b) launch the use of a standard checklist ensuring recommended issues/tasks (a), (b) and (c) are addressed/completed on a regular basis; and</li> <li>(c) also consider the establishment of a local Results-Based Management and monitoring and evaluation position at the professional level to be funded from Office projects and linked to an international monitoring and evaluation position assigned to a Junior Professional Officer position, which the Office will continue to pursue.</li> </ul>	
Estimated completion date: December 2016	

## B. United Nations system coordination

### 1. Harmonized Approach to Cash Transfers

#### Issue 3 Harmonized Approach to Cash Transfers not fully 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 the 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 HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

At the time of the audit fieldwork, HACT was not yet fully adopted despite the efforts in 2015 towards its full adoption. A macro-assessment had been carried out along with micro-assessments of implementing partners. The audit noted, however, that spot checks of the implementing partners remained a pending matter. In addition, even though the use of Funding Authorization and Certificate of Expenditures (FACE) forms had been enforced per the UNDP financial guidelines, it was not always applied (e.g. request for direct payments). The Office expected to be fully HACT compliant by the second half of 2016.

Unless all of the HACT requirements are implemented, the objectives of harmonizing practices among United Nations agencies are at risk of not being achieved.

Priority	Medium (Important)
Recommendation 3:	<p>The Office should fully adopt the Harmonized Approach to Cash Transfers by:</p> <ul style="list-style-type: none"> <li>(a) fully adopting the use of FACE forms; and</li> <li>(b) developing an assurance plan and conducting spot checks, as required.</li> </ul>
Management action plan:	<ul style="list-style-type: none"> <li>(a) The Office has already started to use the FACE form also for direct payments.</li> <li>(b) The Office will revise its assurance plan and proceed with conducting spot checks accordingly.</li> </ul>
Estimated completion date:	December 2016

## C. Programme activities

### 1. Project management

#### Issue 4 Weaknesses in use of Atlas for project management

Atlas supports the management of the Office substantially and, as such, users are required to make adequate use of the system. In addition, the information entered in Atlas is used in other corporate systems, such as the corporate planning system, and Results-Based Management.

OAI reviewed 8 out of 63 development projects containing 11 outputs representing 40 and 47 percent of total programme delivery for calendar years 2015 and 2016, respectively (as of 30 of June 2016). Out of the 8 reviewed projects, 6 were nationally implemented and 2 were directly implemented by the Office. The following weaknesses were noted, which were mainly due to limited knowledge in the use of Atlas by some Office personnel:

- Targets, baselines and indicators for outputs were not entered or updated on an annual basis.
- The initially agreed amounts of the projects' budgets as per the signed project documents were not entered for six of the eight projects reviewed in the new project management module, thereby affecting the Budget Cover Page report.
- Project revision justification was not entered for six of the eight projects reviewed, thereby affecting project financial reporting.
- Generic Implementing Partner codes were used, which made it impossible to know how many projects were being implemented by each partner.
- For three of the eight projects reviewed, UNDP was identified as the implementing partner instead of the national institution implementing the project, thereby affecting the reporting of the project implementing modality.
- Key project files, such as project documents, project appraisal committee minutes, project revisions, and project progress reports, were not consistently uploaded as required for the International Aid Transparency Initiative.

Following the identification of these weaknesses, the Office undertook immediate action for those projects where the information was available, such as those pertaining to the Global Environmental Fund portfolio.

The inadequate use of Atlas and the incorrect input of project information could impact the completeness and accuracy of project management and financial reporting. Furthermore, project information that is not entered into Atlas impacts the corporate planning system used for Results-Based Management at the country, regional and global levels, as **the Office's data** may not be accurately reflected.

Priority	Medium (Important)
<p>Recommendation 4:</p> <p>The Office should improve the use of Atlas by providing training to staff members and ensuring appropriate follow-up action, specifically in:</p> <ul style="list-style-type: none"> <li>(a) entering and updating risks and monitoring items for all active projects as required;</li> <li>(b) entering and updating targets, indicators and baselines on a yearly basis;</li> <li>(c) entering and updating project management information, such as total project amounts and correct implementing partner codes; and</li> <li>(d) uploading key documents.</li> </ul>	
<p>Management action plan:</p> <ul style="list-style-type: none"> <li>(a) The Office will organize a training session on the use of Atlas for project management and draw on resources from UNDP HQ units/offices.</li> <li>(b) Entry and regular update of key project information data/information will become a key part of the Results-Based Management staff duties and integrated into the job description for that position.</li> <li>(c), (d) <b>The Office will conduct a “verification test” to ensure all</b> relevant data is entered into Atlas and complies with UNDP project management standards.</li> </ul> <p>Estimated completion date: December 2016</p>	

## D. Operations

### 1. Finance

#### Issue 5 Unjustified use of General Ledger Journal Entries

According to the ‘Operational Guide of the Internal Control Framework for UNDP’, all General Ledger Journal Entries (GLJE) should be supported by appropriate documentation, and these supporting documents should be maintained and securely filed as part of UNDP records.

The audit disclosed that the Office followed the practice of creating GLJEs for projects by using the incorrect 11999 funds to cover deficits in project resources while expecting donors or cost sharing contributions to be received. Once project contributions were received, adjustments were processed to properly reflect the income and expenses for projects. At the end of 2015, the Office transferred \$1.5 million from fund 11300 to fund 11999 for development project initiatives and subsequently the adjustments were booked in Atlas without adequate supporting documentation.

Covering deficits of project resources in order to pay for the expenses of projects that lack sufficient resources and using manual adjustments to transfer funds may increase the financial risks of the Office and may distort UNDP financial reporting.

Priority	Medium (Important)
Recommendation 5:  The Office should ensure the correct use of GLJEs by:  (a) having every manually approved/booked GLJE duly supported by adequate documentation; and (b) refraining from using other funds to cover project deficits.	
Management action plan:  In line with the compliance notification sent from the Resident Representative to all Office staff members on 3 August 2016, the Office has already put in place a strict monitoring mechanism through UNDP Finance and has already started implementation so that:  (a) GLJEs are accompanied with adequate supporting documentation; and (b) other funds are not used to cover project deficits.  Estimated completion date: August 2016	
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.	

## 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.