

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

SURINAME

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Report on the Audit of UNDP Suriname Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Suriname (the Office) from 10 to 14 October 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 31 August 2016. The Office recorded programme and management expenditures of approximately \$3.5 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 **partially satisfactory**, which means, “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.” This rating was mainly due to the following: lack of adherence to corporate guidelines for nationally implemented projects; weaknesses in the monitoring, risk management and reporting activities of programme and projects; weaknesses in payment processes; and insufficient cost recovery and resource mobilization strategy.

Key recommendations: Total = 8, high priority = 4

The eight recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1, 2	High
	3	Medium
Reliability and integrity of financial and operational information	5	Medium
Effectiveness and efficiency of operations	7	High
	8	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4	High
	6	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. All high (critical) priority recommendations are presented below according to significance:

Lack of adherence to corporate guidelines for nationally implemented projects (Issue 4)

OAI identified the following discrepancies in the application of the corporate guidelines for nationally implemented projects:

- The Office was providing support to national implementation without the required standard Letter of Agreement where accountabilities are clarified and the list of services along with associated costs are specified. As a consequence, unclear roles and accountabilities between the Office and the implementing partners were noted, and the audit exercise of the nationally implemented projects was impacted since all of the expenses were reported as if they were incurred by the implementing partners, which resulted in external auditors also covering the Office's expenses when auditing the partners, thus contravening the single audit principle.
- As part of the support to national implementation, the Office carried out most of the procurement except for the signature of the awarded contract; this contravened the national implementation procurement guidelines. In one case, part of the procurement process (sourcing of vendors, participation of UNDP in the Evaluation Committee) was conducted by the Office and part of the process by the implementing partner (drafting Terms of Reference, evaluation and signing of the contract). During the period covered by the audit, the Office undertook procurement action for \$892,000. Out of this amount, approximately \$580,000 corresponded to nationally implemented projects.

The audit also identified contracts signed between the projects and the contractors that did not follow any of the standard templates to be used by the implementing partners; despite the fact that contracts established that the individual contractor was not linked to UNDP, these contracts established UNDP as responsible for the payment of salaries, thus creating a risk of liabilities for UNDP (legal, financial, etc.).

- The UNDP logo was used in project contracts, even though the contracts were signed by the national partner.

Recommendation: The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required by: (a) refraining from using non-standard contracts and ensuring that implementing partners have a salary scale comparable to UNDP's or use UNDP's service contract salary scale as a reference when hiring project personnel; and (b) discontinuing the use of the UNDP logo in project documentation.

Weaknesses in monitoring, risk management and reporting activities of programme and projects (Issue 1)

The review of four ongoing projects that comprised 14 outputs (representing 60 percent of total programme delivery for the review period) noted the following:

- Even though two out of four project documents contained a monitoring framework detailing monitoring activities to be carried out during the life cycle of each project, these were not carried out as stipulated in the project documents. In addition, the Office did not update the risk assessments

carried out when formulating the projects, and they were also not recorded in Atlas (enterprise resource planning system of UNDP) as required. Furthermore, projects under the governance portfolio lacked standard annual work plans leaving project implementation to the agreed results with implementing partners without results-based information, such as SMART indicators, baselines and targets for each output.

- The Office recorded the lowest score across UNDP in the 2015 Results Oriented Annual Report (ROAR) evaluation due to weaknesses in programme monitoring and results reporting. Even though for 2016 the Corporate Planning Tool reflected that 11 out of 12 results were indicated as likely to be achieved. However, given the insufficient project monitoring at the time of the audit, it was uncertain whether the Office would achieve its planned programmatic results for 2016.
- The monitoring function was assigned to Programme Officers who in their oversight roles did not ensure adequate evidence and supporting documentation reflected in the Quality module of the Corporate Planning System.

Recommendation: The Office should strengthen monitoring, risk management and reporting activities by: (a) carrying out the activities described in the project monitoring frameworks; (b) performing project risk assessments as stipulated in the project documents and recording them in Atlas; (c) gathering the evidence of programme monitoring and improving the ROAR exercise; and (d) ensuring that the monitoring information of projects is entered in the Quality module of the Corporate Planning System.

Weaknesses in payment process (Issue 7)

There were inefficiencies and lack of controls in the payment process identified during the audit as described below:

- The paycycle process was initiated by selecting all approved vouchers in Atlas to be included in the paycycle without verifying the supporting documentation of those vouchers. It was assumed that if a voucher was approved for payment, the related invoice was in the Office.
- For payments completed through bank transfers, the online banking application was not used because UNDP Treasury had not approved the Office's request due to additional information needed before approval and weak segregation of duties. The Office was instead using a separate software, with risks of duplication of activities and data integrity breaches. There were no controls established between Atlas and the software used for payments to validate that payment information transmitted to the bank was in line with Atlas.
- In six instances, payments amounting to \$200,000 were processed without a physical invoice.

Recommendation: The Office should review the payment process and incorporate controls to reduce the risks of misuse of funds and effect payments based on appropriate legal documents.

Insufficient cost recovery and resource mobilization strategy lacking action plan (Issue 2)

The Office faced challenges, which included: (a) increased operational costs; (b) reduced inflow of core resources; and (c) untimely collection of Government Contributions to Local Office Costs. The financial situation was further impacted by the low projects expenditure as of 30 September 2016, which was below 40 percent when compared with the \$2.1 million target for 2016.

Regarding its extrabudgetary reserves, a deficit of \$154,599 for 2015 and a projected deficit of \$178,800 for 2016 were reported in Atlas. In addition, Government Contributions to Local Office Costs of \$1.8 million remained uncollected since 2010. Even though the Office increased its portfolio of projects, a required Resource Mobilization Strategy was not available even though the deadline set by the Regional Bureau was set to 30 September 2016. Instead, the version shared with OAI was still in draft form. The draft version lacked the required action plan as described in the new Resource Mobilization Toolkit showing resources needed, potential donors, and measurable objectives, the most important being to ensure Office sustainability.

Recommendation: The Office should improve its financial sustainability with the guidance of UNDP Headquarters by: (a) reviewing the cost recovery charges for project activities and applying Direct Project Costing; (b) establishing a strategy to recover outstanding Government Contributions to Local Office Costs; and (c) finalizing the Resource Mobilization Strategy and its related Action Plan considering the required elements described in the new Resource Mobilization Toolkit introduced by the Bureau for External Relations and Advocacy.

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.



Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Paramaribo, Suriname (the Country) had nine staff members under fixed-term appointments at the time of the audit. The Office was implementing a Country Programme agreed with the Government for the period 2012-2016. The Country Programme Document for 2017-2021 was conceived under the new 'United Nations Multi-Country Sustainable Development Framework' (MSDF) and the 'UNDP Strategic Plan 2104-2017'. The MSDF was formulated jointly in 2015 by the United Nations system and the Governments of the Caribbean sub-region. National consultations in 15 countries ensured that the development challenges identified in the Common Multi-Country Assessment were consistent with national development needs through the following four key priority areas that would inform the national and regional actions of the United Nations system and partners until 2021: (a) a sustainable and resilient Caribbean; (b) a safe, cohesive and just Caribbean; (c) a healthy Caribbean; and (d) an inclusive, equitable and prosperous Caribbean.

II. Audit results

OAI made four recommendations 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 recommendations, arranged according to significance:

- (a) Adhere to the current guidelines for nationally implemented projects (Recommendation 4).
- (b) Strengthen programme and project monitoring, risk management and reporting activities (Recommendation 1).
- (c) Review the payment process and incorporate controls to reduce the risks of misuse of funds (Recommendation 7).
- (d) Improve financial sustainability (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Improve the use of Atlas by providing training to staff members (Recommendation 5).
- (b) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 3).
- (c) Ensure compliance with the 'UNDP Service Contract User Guide' (Recommendation 6).
- (d) Improve management of information and communication technology (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Risk management, planning, monitoring and reporting

Issue 1 Weaknesses in monitoring, risk management and reporting activities of programme and projects

Programme and project monitoring is driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making purposes. 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 that they are timely closed to capture the lessons learned.

The audit of the Office's programme and project monitoring, risk management and reporting activities framework, identified the following:

- The review of a sample of 4 ongoing projects that comprised 14 outputs (representing 60 percent of total programme delivery for the review period) out of a total of 17 projects comprising 32 outputs showed that two out of the four project documents contained a monitoring framework 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. Those monitoring activities were not carried out as stipulated in the project documents. In addition, the Office carried out risk assessments when formulating the projects as required; however, the risk assessments were not updated and recorded in Atlas as required. Furthermore, projects under the governance portfolio lacked standard annual work plans, leaving project implementation to the agreed results with implementing partners, without any results-based information such as SMART indicators, baselines and targets for each output.
- The Office recorded the lowest score across UNDP (9.8 out of 30 possible points) in the 2015 ROAR evaluation due to weaknesses in programme monitoring and results reporting. For 2016, the Corporate Planning Tool reflected that 11 out of 12 results were indicated as likely to be achieved, but given the low programme expenditure (40 percent at the time of the audit) and the insufficient project monitoring activities, it was uncertain whether the Office would be able to achieve its planned programmatic results for 2016.
- The monitoring function was assigned to Programme Officers who in their oversight roles did not ensure that the evidence and supporting documentation existed and was reflected in the Quality module of the Corporate Planning System, which had no monitoring information entered.

The Office explained that although the monitoring and evaluation function was assigned to a focal point, the workload did not allow for better oversight over all projects and that the recruitment of a Monitoring and Evaluation Associate was in the process of being approved.

The lack of effective monitoring may impede the Office from determining whether intended programme and projects results are being achieved and reported to main stakeholders, and whether corrective actions are necessary to ensure the delivery of intended results.

Priority	High (Critical)
Recommendation 1:	
The Office should strengthen programme and project monitoring, risk management and reporting activities by:	
(a) carrying out the activities described in the project monitoring frameworks and performing project risk assessments as stipulated in the project documents and recording them in Atlas;	
(b) gathering the evidence of programme monitoring and improving the ROAR exercise; and	
(c) ensuring that the monitoring information of projects is entered in the Quality module of the Corporate Planning System.	

Management action plan:

- (a) The Office will enhance its project monitoring and risk management capacity by recruiting a Monitoring and Evaluation and Risk Management Associate (at the G7 level) whose primary responsibility will be support to the programme team to meet all monitoring and risk assessment responsibilities as described in the project monitoring framework.
- (b) Management also commits to ensuring quarterly reviews of projects and adequate updating of project progress reports in accordance with the Corporate Planning System.
- (c) In addition, management will conduct a ROAR review and targeted capacity-building of Office staff to contribute to an improved ROAR.

Estimated completion date: June 2017

2. Financial sustainability

Issue 2 Insufficient cost recovery and resource mobilization strategy lacking action plan

Recovering project costs, including the application of Direct Project Costing, to programme/project activities enhances financial sustainability. To that effect, direct project costs that directly contribute to the achievement of development results of projects and programmes become a key component of any business unit's budget. In addition, 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.

The Office faced challenges, which included: (a) increased operational costs; (b) reduced inflow of core resources; and (c) untimely collection of Government Contributions to Local Office Costs. The financial situation was further impacted by the low projects expenditure, as of 30 September 2016, that when compared to the approved budget in Atlas was less than 25 percent, and when compared to the Integrated Work Plan target of \$2.1 million for 2016 was below 40 percent, compromising the break-even point of the Office.

A reduction in the extrabudgetary reserves was observed. In 2015, the deficit of \$154,599 and a projected deficit of \$178,800 for 2016 were reported in Atlas. In addition, the Office was not recovering costs for activities it undertook for nationally implemented projects. Regarding the Government Contributions to Local Office Costs, \$1.8 million remained uncollected since 2010.

The Office increased its portfolio of projects. However, a required Resource Mobilization Strategy was not available and instead a draft version dated September 2016 was shared with OAI. The Resource Mobilization Strategy was requested by the Regional Bureau with a deadline of 30 September 2016, but the version shared with OAI was still in draft form. The draft version lacked the required action plan as described in the new Resource Mobilization Toolkit showing resources needed, potential donors, and measurable objectives, the most important being to ensure Office sustainability.

The audit took note of the Office's already small structure and transfer to new premises shared with another United Nations agency in order to reduce costs, and did not make a recommendation regarding operational costs reduction.

The lack of financial resources may negatively impact the achievement of UNDP's overall mandate in the Country.

Priority	High (Critical)
Recommendation 2: The Office should improve its financial sustainability with the guidance of UNDP Headquarters by: <ul style="list-style-type: none"> (a) reviewing the cost recovery charges for project activities and applying Direct Project Costing; (b) establishing a strategy to recover outstanding Government Contributions to Local Office Costs; and (c) finalizing the Resource Mobilization Strategy and its related Action Plan considering the required elements described in the new Resource Mobilization Toolkit introduced by the Bureau for External Relations and Advocacy. 	
Management action plan: The Office will perform the following: <ul style="list-style-type: none"> (a) The Office will comply with the guidelines on the application of Direct Project Costing and will work towards agreements with implementing partners on the need to apply it for services provided in nationally implemented projects. (b) Office management is already in discussions with the Government of the Country to agree on an action plan for reducing the Government Contributions to Local Office Cost arrears. (c) The Office has not received any official feedback from the Bureau for External Relations and Advocacy on its Resource Mobilization Strategy. Be that as it may, the Office will review its Strategy to improve the action plan. 	
Estimated completion date: June 2017	

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 the HACT; and (d) development and implementation of an assurance and audit plan for implementing partners. Implementing partners may opt to request direct payments to be processed by the Office and this is possible if its HACT micro-assessments were carried out. For direct payments, expenses are recognized when reported to UNDP using the Funding Authorization and Certificate of Expenditure (FACE) forms, after delivery of goods or services.

At the time of the audit mission, full HACT implementation was pending despite the efforts placed for its full adoption. A macro-assessment had been carried out along with micro-assessments of most implementing partners; however, the use of FACE forms had not been fully adopted. The Office was still using the Request for

Direct Payments form, which was discontinued with the introduction HACT and it was replaced by the FACE form. In addition, a comprehensive assurance plan and spot checks had not been defined for all United Nations agencies involved. The Readiness HACT indicator showed a 78 percent process completion rate for the Office as of October 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 considering the context in which the UN system of agencies operate in the Country.

Priority	Medium (Important)
Recommendation 3:	
The Office should fully adopt HACT by using FACE forms for direct payment requests and developing an assurance plan and conducting spot checks as required.	
Management action plan:	
The Office will ensure that it is 100 percent HACT compliant.	
Estimated completion date: March 2017	

C. Programme activities

1. Programme management

Issue 4 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 for nationally implemented projects), 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 outputs and carry out all activities towards the achievement of those outputs; or (b) national implementation, in which the national implementing partner assumes full responsibility for the related outputs, 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 audit identified the following with respect to the Office's use of corporate guidelines for nationally implemented projects:

- The Office was providing support to national implementation without the required standard Letter of Agreement where accountabilities are clarified and the list of services along with associated costs are specified. Instead of having such a Letter of Agreement, the Office was using generic letters from implementing partners. As a consequence, unclear roles and accountabilities between the Office and the implementing partners were noted, and the audit exercise of the nationally implemented projects was impacted since all of the expenses were reported as if they were incurred by the implementing partners. As

a result, project activities and expenses carried out by the Office were comingled with those of the implementing partners, which resulted in external auditors also covering the Office's expenses when auditing the partners, thus contravening the single audit principle.

- As part of the support to national implementation, the Office carried out most of the procurement activities, except for the signature of the awarded contract; this contravened the procurement guidelines, which prescribe that every procurement activity must be undertaken by the same entity (government or UNDP) from sourcing to contract signing and contract management. While the guidelines foresee the collaboration and consultation between and among the parties during the management of the said procurement process, they also state that the entity managing the process and the contract until contract expiration shall be the same entity that shall take full accountability and responsibility for the contract. This was not the case with the Office, as for instance, in one procurement case, part of the procurement process (sourcing of vendors, participation of UNDP in the Evaluation Committee) was conducted by the Office, and part of the process by the implementing partner (drafting terms of reference, evaluation and signing of the contract). Whenever the Office conducts procurement services for a nationally implemented project, it constitutes Country Office support to national implementation, and therefore the Office must have a Letter of Agreement. During the period covered by the audit, the Office undertook procurement activities of \$892,000. Out of this amount, approximately \$580,000 corresponded to nationally implemented projects.
- The audit also identified contracts signed between the project managers/coordinators and contractors that did not follow any of the standard templates to be used by implementing partners. Despite the fact that contracts established that the individual contractor was not linked to UNDP, these contracts established UNDP as being responsible for the payment of salaries. This raises the risk of liabilities (legal, financial, etc.) for UNDP in cases where the national institution fails to pay salaries or when consultants may seek indemnifications or compensations from UNDP. It was also noted that salaries were agreed upon in US dollars and not in the local currency as stipulated by UNDP for local consultants. Furthermore, one implementing partner was paying salaries higher than comparable functions under national and UNDP salary scales. The explanation given was that the implementing partner was a foundation that did not follow the national salary scale and did not have a scale of its own.
- The UNDP logo was used in the project contracts signed by the implementing partners.

The Office not being aware of all national implementation guideline requirements caused these discrepancies. The lack of adherence to the corporate guidelines for nationally implemented projects may result in unclear roles and responsibilities among the Office's staff and implementing partners, exposing UNDP to legal and reputational risks. The use of non-standard contracts for nationally implemented projects that involve UNDP could expose the Office to legal consequences and/or reputational damage, while the incorrect use of the UNDP logo could have legal implications for the Office as well.

Priority	High (Critical)
Recommendation 4:	
The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, by:	
(a) refraining from using nonstandard contracts; and	
(b) discontinuing the use of the UNDP logo in project documentation.	

Management action plan:

The Office commits to fully implementing the current guidelines for nationally implemented projects and will standardize the use of Letters of Agreement for services provided to nationally implemented projects:

- (a) The Office will revise the current situation regarding the use of non-standard contracts and salary scales and will work towards agreements with implementing partners.
- (b) The Office will take the necessary actions to ensure the UNDP logo is used in accordance with the 'UNDP Programme and Operations Policies and Procedures'.

Estimated completion date: December 2017

2. Project management

Issue 5 Weaknesses in use of Atlas for project management

Atlas is the enterprise resource planning system of UNDP. It comprises a management information system used for project management and for processing financial and operational data for reporting to donors and other stakeholders, and as such, users are required to make good use of the system. In addition, the information entered in Atlas is used in other corporate systems, such as the Corporate Planning System as well as for results-based management reporting purposes. Atlas project financial information should be regularly maintained to ensure that project closure is timely and in line with 'UNDP Financial Regulations and Rules'.

The audit reviewed a sample of 4 ongoing projects that comprised 14 outputs (representing 60 percent of total programme delivery for the review period) out of a total of 17 projects comprising 32 outputs. All projects were nationally implemented, the following weaknesses were noted:

- risks and monitoring activities were not entered or updated in Atlas consistently for all four projects;
- output targets, baselines and indicators were not entered or updated in Atlas on an annual basis as required for all four projects;
- incorrect use of the implementing agent code to identify responsible parties was noted in two of four projects;
- the names of the former project managers of four active projects remained in the Atlas project profiles; and
- Two projects were operationally closed for over 12 months, but had not been financially closed as required by the 'UNDP Programme and Operations Policies and Procedures'.

The above weaknesses occurred mainly due to the limited time dedicated to updating Atlas, which was a result of the workload of some Office personnel.

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 correctly and completely entered in Atlas impacts the Corporate Planning System, which is used for results-based management at the country, regional and corporate levels.

Priority	Medium (Important)
Recommendation 5: The Office should improve the use of Atlas by: <ul style="list-style-type: none"> (a) entering and updating risks, output targets, indicators and baselines on a yearly basis for all active projects; (b) updating project manager names and correcting Atlas data with regard to project information; and (c) ensuring the financial closure of projects within 12 months after their operational closure. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) ensure that all projects in Atlas are updated with relevant risks and monitoring requirements, as well as that baselines, targets and indicators are updated on an annual basis; (b) review projects in Atlas and ensure that any outdated information is updated, including project manager names; and (c) continue its efforts to timely close projects. One project (Output 84540) will be financially closed by the end of 2016. The Office has commenced the process of financially closing projects; worth to note nine projects have been financially closed in the past three months. 	
Estimated completion date: March 2017	

D. Operations

1. Human resources

Issue 6 Weaknesses in service contract management

Service contract management is governed by the 'UNDP Service Contract User Guide'. A Resident Representative delegates responsibility and accountability for the management of the service contractors to the responsible officer who manages the planning and contracting of human resources in compliance with human resources policies. Regarding annual leave for service contractors, the 'UNDP Service Contract User Guide' recommends that offices should either grant 1.5 days per month or otherwise follow the local practice.

The audit team reviewed the human resources business process of the Office with respect to a total of six service contractors, and identified the following issues that merited further attention:

- Offices may select the lump sum option when there is no pension scheme in place or when there is only a national scheme that does not permit the direct participation of the service contract holder. The lump sum option is granted by the Director, Office of Human Resources, on an exceptional basis, for the period when no pension scheme is in place, and it is subject to review on an annual basis. The Office opted for the lump sum payment option in lieu of the pension fund for all service contractors; the modality of lump sum payments, equivalent to 8.33 percent of the monthly remuneration rate, was not

evaluated on an individual basis. In addition, exceptional approval was not requested from the Director of the Office of Human Resources. Furthermore, there was no evidence that the service contractors paid contributions to a pension fund scheme. This presented reputational and financial risks for the Office.

- The audit team noted that 2.5 days of leave per month was stipulated in the six contracts, contrary to the 'UNDP Service Contract User Guide'. In addition, the Office had recently transitioned to an e-service module for leave management and the same number of 2.5 leave days remained. Granting one additional day per month increases the financial liability of the Office.
- During the period reviewed, the Office approved a salary advance equivalent to \$1,000 to a service contractor. The salary advance benefit is available to staff members under specific criteria, and is not available to non-staff personnel, such as service contractors.

The discrepancies identified may present financial risks for the Office.

Priority	Medium (Important)
Recommendation 6:	
The Office should ensure compliance with the 'UNDP Service Contract User Guide' by:	
<ul style="list-style-type: none"> (a) adhering to the requirement of the lump sum equivalency for the pension fund scheme; (b) modifying the service contracts and correctly allocating the number of leave days per month to 1.5 days in the e-service module; and (c) refraining from setting precedent in approving salary advances for non-staff and comply with the salary advance policy. 	
Management action plan:	
The Office will ensure compliance with the 'UNDP Service Contract User Guide' and perform the following:	
<ul style="list-style-type: none"> (a) Review the lump sum arrangement for service contractors and it will ensure that it operates within the requirements set by the guidelines. (b) Continue to liaise with the Bureau for Management Services and the Office of Human Resources on the entitled leave days for service contractors, and it will act in accordance with instructions. (c) The approval of salary advances for service contractors is not a practice in the Office. Management will ensure that this incident is not repeated in the future. 	
Estimated completion date: March 2017	

2. Finance

Issue 7 Weaknesses in payment process

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. According to the Treasury Advisory sent to all Operations Managers and Deputy Resident Representatives as of 13 May 2016, a list of requirements to be in place in Country Offices: (a) there must be segregation of duties among staff who have access to the system,

always with dual controls; (b) payment instructions may never be entered manually in the bank's system; and (c) procedures for use of the interface should be documented through a Standard Operating Procedure (SOP) reviewed and cleared by Treasury. As per the 'UNDP Financial Regulations and Rules', electronic funds transfer is the preferred mode of payment whenever possible, as it is less expensive and more efficient, and all payment transactions must be substantiated with supporting documents that assess the authenticity of payments, so that they can be verified and an audit trail can be established.

During the audit period, payments effected by the Office amounted to \$2.5 million. Inefficiencies and lack of controls in the payment process were identified, as described below:

- The daily paycycle process started by selecting all approved vouchers in Atlas to be included in the paycycle without verifying the supporting documentation of those vouchers. It was assumed that if a voucher was approved for payment, the related invoice was in the Office. In order to pay through bank transfers, the Office was not using an online banking application. Instead, the Office used different software installed on two computers only, which thus produced a summary document containing payment information that was then sent to the bank to process bank transfers to suppliers. The information for each payment voucher was typed from scratch on the software, so that the staff member needed to retype the vendor name, bank account number, choose the bank name, and write a reference for the payment. By doing so, preventive controls such as using an approved vendor, and approving purchase orders and payments in line with appropriate levels of authority and roles and responsibilities were overridden. Further, the retyping of payment details increased the risk of discrepancies and clerical errors.
- Once all of the information for each voucher was entered in the software, the information was saved on a USB stick to be sent to the bank. A summary sheet with the payment information was printed out and signed by bank signatories (two signatures required). No control checks between Atlas and the software for payments was done to validate that the payment information transmitted to the bank was in line with Atlas, thus increasing the risk of misuse of funds.
- The Office requested approval from UNDP Treasury for setting payments through the e-banking web application in August 2016. However, this request was not approved because, as per the procedure described, payment instructions were supposed to be manually uploaded and an SOP was supposed to be developed and approved by Treasury as well.
- Out of a sample of 10 payment vouchers reviewed totalling \$417,000, in 6 instances, payments amounting to \$200,000 were processed without being supported by a physical invoice. As per the practice in the Office, payments were effected based on the certification of payment (internal document) instead of being paid based on invoices (legal document).

Managing payments in this way undermined the effectiveness of the oversight exercised by senior management and/or corporate units. The risk of unauthorized or unapproved payments may increase due to unauthorized changes or amendments to payees' information that may not be detected. In addition, the lack of supporting documents for payments may increase the risk of fraud or the inappropriate use of UNDP resources.

Priority	High (Critical)
Recommendation 7:	
The Office should review the payment process and incorporate controls to reduce the risk of misuse of funds and effect payments based on appropriate legal documents.	
Management action plan:	
UNDP Treasury has not approved the request by the Office for online banking. The current procedures will be discussed with Treasury and a solution will be found. The Office will rely on UNDP Treasury for an acceptable approach that does not violate the fundamental principles of accountability, risk and control.	
Estimated completion date: June 2017	

3. Information and communication technology

Issue 8 Weaknesses in information and communication technology management

Information systems operated by UNDP are critical assets for the organization to fulfil its mission. There are always threats, both natural and man-made, which can damage or disable critical information systems. Therefore, adequate planning, management, data backup, equipment replacement and disaster recovery planning becomes fundamental for any Country Office.

There were weaknesses in the management of information and communication technology services, as described below:

- The corporate firewall was not connected to the network, thus leaving the server and network access unprotected to possible external unauthorized users. The Office of Information Management and Technology (OIMT) conducted a remote assessment of the ICT infrastructure of the Office at the same time of the audit. The assessment confirmed that the firewall was not connected and that the Office had two separate networks with some elements not in compliance with the corporate standards, such as the Dynamic Host Configuration Protocol service that was not internally managed but provided and controlled by the Internet Service Provider (ISP).
- The Office had set up the file server under a workgroup, since user accounts and access to client computers were not centrally controlled.
- The Office had recently updated the Disaster Recovery Plan to the latest standard template required by OIMT, but the Disaster Recovery Plan was not tailored to the possible threats to the ICT equipment and had incomplete information. In addition, the Disaster Recovery Plan was not tested on an annual basis as required, which caused a delay in the testing of the Business Continuity Plan.
- The corporate antivirus was not in use since the Office had purchased new computers that came with an antivirus from a different provider. The antivirus used by the Office was protecting the laptops and not the servers, and it was increasing the use of the internet bandwidth for the updates that would be optimized with the corporate solution.

- UNDP introduced 'OneDrive for Business' in order to rely less on the local server storage by gradually moving data to the cloud. Although the Office was aware of the tool, and both the Operations Associate and the ICT consultant encouraged its use by staff, the Office was not using it as required.

Without adequate management of information and communication technology, the Office is exposed to possible interruptions of service and data loss, which may affect the ability to use corporate systems and resources.

Priority	Medium (Important)
Recommendation 8:	
The Office should improve the management of its information and communication technology by undertaking appropriate action to address the weaknesses noted.	
Management action plan:	
The Office will engage in the following:	
<ul style="list-style-type: none"> (a) Action has been taken to install the firewall. This will be tested with the support of OIMT every six months. (b) The Office agrees to comply with all corporate standards in regards to the server Active Directory and domain use and already completed the Disaster Recovery Plan; testing to follow. (c) The Office commits to implement the corporate antivirus solutions by installing it on each client computer and servers. (d) 'One Drive for Business' will be implemented. 	
Estimated completion date: December 2017	

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.