UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MEXICO

Report No. 1755

Issue Date: 9 June 2017

Table of Contents

Executive Summary	**i**
I. About the Office	**1**
II. Good practice	**1**
III. Audit results	**1**
A. Governance	**2**
1. Corporate Oversight and Assurance	2
B. Programme	**3**
1. Quality Assurance Process	3
2. Programme/Project Design and Implementation	4
C. Operations	**5**
1. Financial Resources Management	5
2. Procurement	9
D. United Nations Leadership and Coordination	**11**
Definitions of audit terms - ratings and priorities	**12**

Report on the Audit of UNDP Mexico
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Mexico (the Office) from 20 to 31 March 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2015 to 31 December 2016. The Office recorded programme and management expenditures of approximately $62 million. The last audit of the Office was conducted by OAI in 2010.

OAI also included a performance audit segment focused on the review of the Office's practices for monitoring development projects. The audit work focused on whether the Office established: results-based planning at programme and project levels; (b) the use of corporate tools to track and report on results; and (c) an approach to capture lessons learned to improve performance. Overall, OAI concluded that the Office had effective monitoring practices of its performance. The detailed results of this audit work are presented under Section B of the report.

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 / some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in the payment process when using the E-banking web application, and lack of segregation of duties and conflicting roles and responsibilities.

Good practice

Operations/Human resources. The Office developed a video session explaining to prospective applicants how to apply online to a UNDP vacancy, which was recognized as a good practice by the Office of Human Resources.

Key recommendations: Total = **8** high priority = **2**

The eight recommendations aim to ensure the following:

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

Weaknesses in payment process when using E-banking web application (Issue 3)

The review of the online payments disclosed the following weaknesses:

- Prior to approval of the funds disbursement, the Office did not match payment information from Atlas against the information entered into the E-banking web application. The control was carried out with the bank reconciliation on a post-facto basis.
- Even though procedures for using the E-banking web application were submitted to UNDP Treasury in October 2016, approval for the use of these procedures remained outstanding at the time of the audit.

Recommendation: Match payment information from Atlas against the information entered into the E-banking web application prior to the approval of disbursement of funds.

Lack of segregation of duties in Office and conflicting roles and responsibilities (Issue 6)

There was a lack of segregation of duties and conflicting roles and responsibilities in the Office. For instance, The Delegation of Authority granted to the Operations Manager was limited to $30,000; however, the Atlas role for the Operations Manager allowed unlimited approval authority, as the Operations Manager acted as a substitute in the absence of the Office's senior management. In addition, the audit noted 31 vouchers paid with budget overrides, out of which 30 were performed by operational staff (25 by the Operations Assistant and 5 by the Finance Associate), which was not in line with the override policy. Furthermore, there were 10 requisitions where the associated purchase orders totalling $9,722 were approved by the same three staff members. Finally, five vouchers totalling $1,000 were identified where the beneficiary was also the approving manager.

Recommendation: The Office should review the roles and responsibilities in line with the Internal Control Framework principles to ensure adequate segregation of duties.

Empowered lives.
Resilient nations.

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Mexico City, Mexico (the Country) had 19 staff members under fixed-term appointments and 495 service contract holders at the time of the audit. The Office was implementing a Country Programme agreed with the Government for the period 2014-2018, which was aligned to both the national priorities as confirmed by interviewed government officials, and to the UNDP Strategic Plan 2014-2017. The United Nations Assistance Development Framework and the Country Programme Document were approved before the introduction of the Sustainable Development Goals (SDGs) and the Office was working with the Government to align both planning documents to the SDGs.

II. Good practice

OAI identified a good practice, as follows:

Operations/Human resources. The Office had developed a video explaining how to apply online to a UNDP job vacancy, which was recognized as a good practice by the Office of Human Resources. The video was accessible online on the Office's website.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance/Leadership. Overall, staff members were aware of the Office's priorities, challenges and objectives regarding ethical behavior. No reportable issues were identified.

(b) Governance/Corporate external relations and partnerships. The Office established partnerships with different stakeholders including private sector, civil society, local, and central Government among the most relevant.

(c) Operations/ICT and general administrative management. Controls over ICT and general administration activities as well as travel management, were found to be adequate.

(d) Operations/Staff and premises security. Staff and premises security were found to be well managed.

OAI made two recommendations ranked high (critical) and 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.

High priority recommendations, arranged according to significance:

(a) Match payment information from Atlas against the information entered into the E-banking web application prior to the approval of disbursement of funds (Recommendation 3).
(b) Review the roles and responsibilities in line with the Internal Control Framework principles to ensure adequate segregation of duties (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) Adhere to the corporate guidelines for nationally implemented projects (Recommendation 1).
(b) Strengthen project risk management by assessing risks at least once a year and using Atlas to capture, assess and update identified risks (Recommendation 2).
(c) Improve the management of cash advances (Recommendation 4).

(d) Review the use of the Chart of Accounts to comply with International Public Sector Accounting Standards requirements (Recommendation 5).
(e) Improve the procurement function (Recommendation 7).
(f) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1 Insufficient 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 procurement guidelines for nationally implemented projects 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 the contract expiration shall be the same entity that shall take full accountability and responsibility for the contract.

The audit identified the following with respect to the Office's use of corporate guidelines for nationally implemented projects:

- The Office did not conduct the required capacity assessments of implementing partners.
- The Office was providing support to national implementation without the required Standard Letter of Agreement, where the list of services and the associated costs are clearly specified. Instead of having such a Letter of Agreement, the Office was using project document management arrangements. As a consequence, unclear roles between the Office and the implementing partners were noted and the audit exercise of the nationally implemented projects was impacted since all 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 projects audited by external auditors covering Office's expenses, thus contravening the single audit principle. Furthermore, the Direct Project Costing policy was not fully implemented because the Office was providing support to national implementation without formal arrangements.
- As part of the support to national implementation, the Office carried out most of the procurement activities where the terms of reference, evaluation committees and assessment of goods and services were performed jointly with national counterparts. While the contract was signed by the Office, 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 assessment of goods and services).

- The UNDP logo was used in the project documentation signed by the implementing partners.

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	Medium (Important)
Recommendation 1: The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required, and fully implement the Direct Project Costing policy.	
Management action plan: The Office will execute the national projects according to the corporate guidelines for nationally implemented projects. The Office staff will be trained by UNDP experts regarding this matter. **Estimated completion date:** December 2017	

B. Programme

1. Quality Assurance Process

The audit team reviewed the Office's practices for monitoring development projects. The audit work focused on whether the Office established: (a) results-based planning at programme and project levels; (b) the use of corporate tools to track and report on results; and (c) an approach to capture lessons learned to improve performance.

The Office had 40 ongoing projects with total expenditures of $21.2 million in 2015 and $21 million in 2016. OAI selected 7 out of 40 projects to gain an understanding of project design and to determine how the project results contributed to the achievement of programme results and how the Office monitored project activities and performance. The seven projects covered the three thematic areas of the Office's programme with total expenditures of $11.6 million (or 55 percent) and $13.2 million (or 63 percent) of the Office's programme expenditure in 2015 and 2016, respectively.

To assess the effectiveness and efficiency of programme and project management, monitoring and quality assurance practices, the audit team reviewed the Office's programme and project documents as well as the records of seven selected projects, surveyed the Office's personnel, and held interviews with the Office's senior management, other key staff, and the partners implementing the projects reviewed.

Overall, the audit showed that programme and project management monitoring practices were effective and that the Office was likely to achieve the Country Programme Document results. Nevertheless, the efficiency of some projects could have been improved, mainly in the areas of providing support to national implementation, as presented under issue 2, and of risk management (refer to issue 3).
Based on the review of documents and interviews conducted, OAI noted the following:

- *Establishing results-based objectives at programme and project levels*

Outputs in the annual work plans were consistent with the approved project documents and linked to the Country Programme, which in turn was aligned to national priorities and to UNDP's Strategic Plan 2014-2017. The three programme units had the authority to manage their respective programme portfolios, coordinating with the Strategic Planning Unit for the definition of results. With regards to the annual work plans of the sampled projects, the Office established performance indicators (i.e., baselines, indicators, and targets) for the planned outputs of the projects. OAI also reviewed the Integrated Work Plan where the Office captured the risks related to the programme, entered the delivery targets agreed with the Regional Bureau for Latin America and the Caribbean (RBLAC), and tracked results on a quarterly basis. In 2015, the Office's Results Oriented Annual Report (ROAR) obtained the highest rating in the region, and in 2016, although the rating was lower it was still among the best rated.

- *Implementing projects, tracking and reporting on results using corporate tools*

The Office conducted regular meetings to discuss project implementation and the achievement of annual targets, as a result of monitoring activities. The Office, in coordination with national counterparts, decided to appoint monitoring specialists at the project level for the more complex projects. These specialists were coordinating the tracking of results in terms of quality together with the Strategic Planning and Monitoring Specialist and the programme officer-in-charge of the oversight of the project. Monthly, the Country Director led meetings with programme and operations personnel to discuss Office results, and the status of project implementation. The results were entered in Atlas and the Corporate Planning System.

The Office had also developed Excel spreadsheets to monitor project results and assess its contribution to the Country Programme and Strategic Plan. This information was used as input when preparing the ROAR.

Due to the devaluation of the local currency, the delivery of some projects was affected when calculated in US dollars, thus they fell below the target. Nevertheless, the Office in coordination with national counterparts adjusted the annual work plans to ensure that the results were achieved.

- *Approach to capture lessons learned to improve performance*

The projects prepared quarterly monitoring reports and submitted them to the project board. These reports specified the project achievements, lessons-learned, and actions taken to improve performance. This was captured to adjust the current year annual work plan or to introduce changes in the next year's annual work plan.

2. Programme/Project Design and Implementation

Issue 2 Weaknesses in risk management

UNDP has implemented an enterprise risk management policy, which indicates that risks and opportunities should be identified, with appropriate plans and actions defined to be taken to mitigate and manage risks.

The audit reviewed risk management activities for the Integrated Work Plan, and a sample of 7 ongoing projects out of a total of 40. OAI found that two out of the seven reviewed projects had yearly updated risks in Atlas; the remaining five projects had risks identified during the project formulation phase that were not updated on a yearly basis.

The lack of adequate risk management practices may result in risks not being identified and not being addressed in a timely manner. In addition, failure to meet expected results may negatively affect the reputation of UNDP, and may reduce donor interests in funding future projects.

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project risk management by assessing risks at least once a year and using Atlas to capture, assess and update identified risks.	
Management action plan: The Office will address in a timely manner risk management practices with appropriate plans and actions defined to be taken to mitigate them. With this aim, the Office will share with the programmatic personnel an internal memo requesting their commitment on this topic. Also, the Office will lead random reviews to be performed by the local monitoring area. **Estimated completion date:** December 2017	

C. Operations

1. Financial Resources Management

Issue 3 <u>Weaknesses in payment process when using E-banking web application</u>

The review of the online payments disclosed the following weaknesses:

- Prior to the approval of the disbursement of funds, the Office did not match payment information from Atlas against the information entered into the E-banking web application. The control was carried out with the bank reconciliation on a post-facto basis.
- Even though procedures for using the E-banking web application were submitted to UNDP Treasury in October 2016, approval for the use of these procedures remained pending at the time of the audit fieldwork.

In case the information from the E-banking web application and Atlas is not reconciled, there is the risk of unauthorized use of funds.

Priority	High (Critical)
Recommendation 3: The Office should match payment information from Atlas against the information entered into the E-banking web application prior to the approval of disbursement of funds.	
Management action plan: (a) The Office will incorporate controls in E-banking to reduce the risk of misuse of funds. A reconciliation between databases used for bank transfers will be done before processing each payment. (b) The SOP will be modified accordingly by Treasury requirements. (c) The Atlas bank reconciliation will be done weekly. (d) The Office has confirmed to Treasury its commitment to move into implementation of Host-to-Host ('H2H'). **Estimated completion date:** First three actions in July 2017, fourth action in November 2017.	

Issue 4 Cash advances for nationally implemented projects incorrectly managed

According to the 'UNDP Programme and Operations Policies and Procedures', the approval of a request for a cash advance by an implementing partner for a particular project is subject to verification by the Office. Nationally implemented projects can either choose managing funds by opening a dedicated bank account to process payment for project activities, or request the Office to make payments on their behalf. Once the advance is used by the implementing partner, expenses are recognized when reported to UNDP on the Funding Authorization and Certificate of Expenditures (FACE) forms after delivery of goods or services. FACE forms are now mandatory for all offices and replace all other documentation used by implementing partners for requesting funds and reporting expenditures.

From the review of cash advances granted to implementing partners (sample value $675,000 out of $1.3 million), OAI noted the following:

- Roles and responsibilities of implementing partners were unclear as the Office took responsibility for payments effected by implementing partners.
- Similarly, even though the implementing partners contracted professional services, it was the Office that approved and reviewed the deliverables/products prepared by the contractors.
- FACE forms were not used by the Office for granting cash advances or for direct payment requests. The Office was still using the Request for Direct Payments form, which had been discontinued with the introduction of the Harmonized Approach to Cash Transfers to Implementing Partners (HACT).

Non-compliance with cash management principles may lead to financial mismanagement or losses and could have a negative impact on the Office's reputation and finances.

Priority	Medium (Important)
Recommendation 4: The Office should improve the management of cash advances by: (a) clarifying roles and responsibilities vis-a-vis implementing partners when providing cash advances; and (b) enforcing the use of the FACE form to request cash advances and justify expenses.	
Management action plan: (a) The Office will send a memorandum with guidelines to implementing partners with roles and responsibilities. The Office will meet with implementing partners for training and to clarify roles. (b) The Office will train implementing partners for using the FACE form to request cash advances and justify expenses. **Estimated completion date:** August 2017	

Issue 5 Incorrect use of account codes

Proper accounting for financial transactions requires the use of correct account codes when recording transactions in Atlas. The very nature of the transaction itself, with the use of the Chart of Accounts, should guide the creator of the accounting entries, as well as the approver, prior to posting the transaction in Atlas. The use of the Chart of Accounts should be in line with the International Public Sector Accounting Standards.

The audit noted the following weaknesses:

Account "Transfers to/from - Funds/Donor" incorrectly used to book unapplied deposits. In July 2016, the Office was requested by the Global Shared Service Unit to clear outstanding balances under account 14075 "Unapplied deposits Non-Receivables." To respond to the request, the Office started booking unapplied deposits using account 51035 "Transfers to/from - Funds/Donor" fund 30084, which was not the correct account, instead of account 14070. As a result, the traceability of every single unapplied deposit was lost as the tracking was not possible through Atlas, but an Excel spreadsheet. From July to December 2016, the total value of bookings recorded in the 51035 account amounted to $1.2 million. The latest bank reconciliation (as at the time of the audit) corresponding to February 2017 reported outstanding unidentified deposits for $370,000 since March 2016.

Incorrect booking of the value added tax (VAT)/Sales Tax. The account 14056 "VAT/Sales Tax" was only used when assets were purchased by the Office. For all other purchases that included VAT and were eligible for VAT refund, the total value of the expenses including VAT was booked against projects. OAI was unable to determine the unrecovered VAT corresponding to the period covered by the audit.

The incorrect use of account codes may lead to incorrect accounting of transactions and misleading financial reporting.

Priority	Medium (Important)
Recommendation 5: The Office should review the use of the Chart of Accounts to comply with International Public Sector Accounting Standard requirements.	
Management action plan: (a) The Office has already transferred unapplied deposits non-receivable to account 14075 in Atlas. This account will continue to be used from now on as in the past. (b) The Office will inform Project Managers to use account 14056 for purchases that include VAT and are eligible for VAT refund. **Estimated completion date:** July 2017	

Issue 6 Lack of segregation of duties in Office and conflicting roles and responsibilities

The vision and mission of an office as well as its organizational effectiveness rely on the office's adequate organizational structure, which allows for clear roles and responsibilities, as well as reporting lines and segregation of duties. As per the Internal Control Framework, the second authority, referred to herein as the 'approving manager', acts as an independent check and must be a UNDP staff member. The third authority, referred to as the 'disbursing officer' role in the process from raising a requisition to executing a payment, should be exercised by (a) authorizing pending disbursements, and (b) exercising the role of 'bank account signatory' as it relates to the method of payment. The third authority must be separate from first and second authorities and must be exercised by a UNDP staff member. The 'bank account signatory' role refers to staff members who sign cheques or approve payments electronically through E-banking. The staff member who approves the release of the file to the bank should be the Operations Manager or the Country Director, as bank signatories. The number of bank account signatories should be kept to a minimum. The 'finance' role refers to staff members in the Finance Unit with the Atlas user profile of 'finance.' Among their functions is the permission to override exceptions, and the vendor approval right, which is recommended to be granted to two staff members.

The audit noted the following:

- The Operations Manager performed conflicting roles. The Delegation of Authority granted to the Operations Manager was limited to $30,000; however, the Atlas role for the Operations Manager allowed unlimited approval authority, as the Operations Manager acted as a substitute in the absence of the Office's senior management.
- The Finance Associate was acting as revenue focal point, thus applying deposits and serving as the backup for the preparation of bank reconciliations. In addition, the Finance Associate acted as the disbursing officer for payments done through the E-banking web application, which contravened the Internal Control Framework that enforces segregation between bank reconciliation preparation and electronic approval of payments via the local bank's software.
- The Office kept two local bank accounts with access to online banking – one used to transfer funds and the other to make electronic payments. Three staff members had access to both E-banking web

applications, namely, the Operations Manager, the Finance Associate, and the Treasury Associate. They were able to make payments and transfers; however, none of them was a designated bank signatory. At the same time, none of the eight bank signatories appointed by the Office had access to the E-banking web applications.

- The audit noted 31 vouchers paid with budget overrides, out of which 30 were performed by operational staff (25 by the Operations Assistant and 5 by the Finance Associate), which was not in line with the override policy.
- The vendor approver role was limited to only one staff member.
- 10 requisitions and the associated purchase orders totalling $9,722 were approved by the same three staff members, which was not in line with the principle of segregation of duties. Although not in line with the Internal Control Framework, the cases were considered isolated.
- Five vouchers totalling $1,000 were identified where the beneficiary was also the approving manager.

Conflicting roles and inadequate segregation of duties may jeopardize the effectiveness of the entire internal control system, which can lead to inefficiencies as well as the untimely detection of errors and to financial losses for the organization.

Priority	High (Critical)
Recommendation 6: The Office should review the roles and responsibilities in line with the Internal Control Framework principles to ensure adequate segregation of duties.	
Management action plan: The Office will ensure adequate segregation of duties in line with the Internal Control Framework and if necessary, the corresponding exceptions will be submitted to the Comptroller. **Estimated completion date:** November 2017	

2. Procurement

Issue 7 Weaknesses in procurement processes

Procurement involves acquiring goods, works and services. General procurement principles of best value for money, and fairness, integrity and transparency, must be applied to all types of UNDP procurement modalities. The 'UNDP Programme and Operations Policies and Procedures' require buyers to undertake procurement processes through the creation of purchase orders, which shoud follow the approval of the corresponding requisitions in Atlas. Purchase orders should be approved within seven days from their creation.All purchase orders in UNDP must represent, at any given point in time, a genuine legally binding commitment to third partiesThe amount and the extent of the commitment should be complete and properly stated in Atlas. Individual contracts are to be awarded competitively through a fair and transparent selection process. The requesting unit shall establish an ad hoc three-member evaluation team of which at least one member must be a UNDP staff person, who shall take the role of chairperson of the team. Non-staff members may be voting members of the panels, if the majority of the evaluation team is UNDP/UN staff.

The audit identified the following shortcomings:

- Incorrect creation and use of purchase orders was identified, as follows:
  - There were 208 purchase orders created more than 30 days after the requisition approval date, amounting to $330,834.
  - 22 purchase orders were approved more than seven days after their creation amounting to $53,198. According to the Office management, these cases were due to missing documentation.

- Purchase orders were not prepared for the full amount of the contract, but were instead created for each payment within a contract. Consequently, the full value of contracts was not reflected as commitments in Atlas, thus distorting the balance of pending obligations and affecting the availability of funds.

- The review of the recruitment process of 10 individual contractors amounting to $240,000 out a total of $1.8 million during the audit period noted the following:
  - Five contracts were signed by the Office, but the Office did not participate in the Evaluation Committee.
  - Three contracts were signed by the Office, but the Office was not adequately represented in the Evaluation Committee.
  - In the case of nine contracts, individual scoring sheets to support the process were not provided.
  - Nine payments to individual consultants were effected based on a self-certification but did not correspond to a legal invoice. Such payments amounted to $221,000.

The incorrect creation and use of purchase orders may lead to the total funds needed to meet the obligation not being available to honor financial commitments. Weaknesses in the management of individual contracts may result in the organization not achieving best value for money, and may result in the Office not achieving its objectives.

Priority	Medium (Important)
Recommendation 7: The Office should improve its procurement function by: (a) correctly creating and using purchase orders; and (b) complying with UNDP policies and procedures for hiring individual contractors and effecting payments based on legal invoices.	
Management action plan: (a) UNDP staff will be trained in the use of the new platform PROMPT 2. In addition, the Office will monitor the procurement plan. (b) The Office will be issuing a purchase order at the time of contract signing and/or for the full contractual amount. In the active contracts, the Office will be issuing only one purchase order for pending payments. (c) The Office will require individual contractors to present legal invoices instead of receipts. In the new contracts, a clause that will be confirmed with Legal Office will specify these requirements.	

Estimated completion date: August 2017

D. United Nations Leadership and Coordination

Issue 8 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' has been established. 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.

The readiness HACT indicator showed an 89 percent completion rate for the Office, while the expected rate of completion for 2016 was 100 percent.

Unless all HACT requirements are fulfilled, the objectives of harmonizing practices among United Nations agencies may not be achieved.

Priority	Medium (Important)

Recommendation 8:

The Office, in coordination with the government implementing partners and other participating United Nations agencies, should fully adopt the Harmonized Approach to Cash Transfers in 2017.

Management action plan:

The HACT Committee, which includes UNDP and other United Nations agencies, will train implementing partners accordingly.

Estimated completion date: December 2017

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in negative consequences for UNDP.

- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.