

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

TURKMENISTAN

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Report on the Audit of UNDP Turkmenistan Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Turkmenistan (the Office) from 22 May to 2 June 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 2016 to 31 March 2017. The Office recorded programme and management expenditures of approximately \$10 million. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Office as **satisfactory**, which means “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.”

Key recommendations: Total = 3, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to address outstanding Government Contributions to Local Office Costs, numerous cancelled payments, and weaknesses in the use of Atlas procurement module.

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendation 2), and (c) effectiveness and efficiency of operations (Recommendation 3).

Management comments and action plan

The Resident Representative accepted all three 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

A handwritten signature in blue ink, appearing to read 'B G Simpson', is enclosed within a rectangular box.

Brett Simpson
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Ashgabat, Turkmenistan (the Country), comprised, at the time of the audit, of 17 staff members and 36 Service Contract holders. The Office was undergoing a restructuring process of its programme section to align it to the new country programme priorities. The 'Country Programme Document for 2016-2020' focused on the following priorities: (i) energy efficiency and its management; (ii) adaptation to climate change; (iii) rule of law and economic diversification; and (iv) quality of statistics. The Office portfolio comprised of 19 projects, 16 of which were nationally implemented, with full administrative support provided by the Office.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance: Adequate controls were established and there were no reportable issues.
- (b) Programme: Controls on programme activities were found to be effective and no issues were noted.
- (c) Operations/Human Resources Management: Adequate controls were established and the review of recruitment and separation processes did not identify reportable issues.
- (d) Operations/ICT and general administrative management: ICT systems managed by the Office, including hardware, software and systems security were operating effectively. General administration controls were well established and functioning adequately. The management of assets were found to be in line with UNDP policies and procedures and no reportable issues were noted.
- (e) Operations/Staff and premises security: The Office was compliant with the Minimum Operating Security Standards updated and approved as at February 2017. The Country Security plan and the Security Risk Assessment plan were also endorsed. There were no reportable issues.
- (f) United Nations leadership and coordination: Adequate controls were established by the Office to manage and lead the United Nations coordination role in the Country.

OAI made three recommendations ranked medium (important) priority.

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

Medium priority recommendations:

- (a) Continue to actively pursue with the Government the settlement of the Government Contributions to Local Office Costs arrears (Recommendation 1).
- (b) Strengthen financial oversight and controls over the manual payment process (Recommendation 2).
- (c) Improve the use of the Atlas procurement module (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Operations

1. Financial resources management

Issue 1 Outstanding Government Contribution to Local Office Costs

In accordance with the provisions of the Standard Basic Assistance Agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the cost of country offices. Such contributions are called Government Contributions to Local Office Costs (GLOC) and are calculated on an annual basis. The annual GLOC cash targets are communicated to the Country Offices by the Office of Financial Resources Management. Government in-kind contributions are considered as part of the total GLOC target and are excluded from the calculation of cash targets.

During the period from 2008 to 2016, the Government had made in-kind contributions of approximately \$3.9 million. However, no payments had been made against the cash targets, and as at 31 March 2017, the GLOC arrears for the Country Office was \$1.3 million. The Office raised this issue during meetings with the Government, but was not successful in collecting the outstanding GLOC amounts, which continued to accrue.

Insufficient recovery of GLOC contributions may negatively impact the financial resources available to support local office costs.

Priority	Medium (Important)
Recommendation 1:	
The Office should continue to actively pursue with the Government the settlement of the Government Contributions to Local Office Costs arrears, and, if necessary, escalate this issue to the Regional Bureau for Europe and the Commonwealth of Independent States.	
Management action plan:	
The Office will undertake the following actions:	
<ul style="list-style-type: none"> provide the Government once again with the methodology on GLOC calculation, complemented by detailed explanations; meet with responsible staff in the Government to answer all the questions in relation to GLOC; use the current on-going negotiation process of the Memorandum of Agreement between UNDP and the Government on the provision of a new UN House to continue advocating for the issue of GLOC arrears; include the GLOC issue as a standing item into the agenda of all meetings between the Resident Representative and responsible government officials; use visits of high level UNDP officials to raise the GLOC issue with the high level Government officials; and in the case the Government does not start making any payments by January 2018, will escalate the issue to the Regional Bureau for Europe and the Commonwealth of Independent States. 	
Estimated completion date: August 2018	

Issue 2 Numerous cancelled payments

A payment may be cancelled in Atlas (the enterprise resource planning system of UNDP) in case of a rejection or return by the bank, (i.e., the payment needs to be re-processed or in case of a cancelled cheque, the payment needs to be cancelled permanently). If the payment needs to be reprocessed, the related voucher is put on hold in Atlas and can be used, once the reason for rejecting the payment has been addressed. When a payment is cancelled, Atlas will create a correction entry, cancelling the previous payment entry.

There was no banking interface between Atlas and the local bank. Local payments were done through issuance of cheques to the vendor or through a payment order to the bank to make the electronic transfer to the vendor's bank account. During the period under review, there were 111 cancelled payments (vouchers approved in Atlas but payment orders were rejected or returned by the bank) totalling \$190,000. There were also 25 deleted vouchers totalling \$29,000 and 9 payments that were cancelled and reissued totalling \$11,000.

The audit team reviewed a sample of 11 cancelled payments, amounting to \$99,710, 10 deleted vouchers amounting to \$30,418, and 9 vouchers cancelled and reissued. The audit noted weaknesses in the financial oversight as follows:

- Six of the 11 cancelled payments were rejected by the bank because the vendor's bank accounts were closed, or because the vendors provided wrong banking details. In one payment, the bank temporarily ceased accepting payments made through the electronic funds transfer system. Three payments were cancelled because of misspelled name of the payee or incorrect date. The remaining payment was cancelled as it was found to be a duplicate payment.
- Ten vouchers were deleted as they had errors such as incorrect purchase order dates, not approved by the management, or vouchers created corresponding to the same purchase order.
- The cancellation of nine vouchers were due to incorrect amounts and incorrect spelling on the corresponding cheques, which were corrected and later reissued.

The cancelled payments resulted in increased workload and unnecessary costs. Inadequate controls in the preparation of vouchers may lead to misuse of funds.

Priority	Medium (Important)
Recommendation 2:	
The Office should strengthen financial oversight and controls over the manual payment process by minimizing errors through enforcing oversight from the Operations Unit.	
Management action plan:	
<p>The Office will undertake the following action:</p> <ul style="list-style-type: none"> ▪ introduce a more stringent procedure for deleting vouchers, which will be subject for approval by Deputy Resident Representative; ▪ introduce monitoring on an on-going basis of all suggested vouchers for cancellation, and provide analysis of reasons for cancellation and agree on follow-up actions; ▪ conduct learning sessions with voucher creators to address human errors; and ▪ reinforce the submission procedures of request for payments with the aim to decrease the number of urgent cheques, and minimize human errors. 	

Estimated completion date: September 2017

2. Procurement

Issue 3 Weaknesses in the use of Atlas procurement module

According to the 'UNDP Programme and Operations Policies and Procedures', the procurement of goods, civil works, and services begins with an e-requisition. This is a formal request originated by a business unit or project staff, and it updates the Commitment Control (KK) module. The e-requisition is shown as a pre-encumbrance in Atlas, and when a purchase order is issued, Commitment Control (KK) allows the Approving Manager to verify whether resources are available. At the purchase order stage, this process confirms the transaction against the appropriate budget(s) and posts the amount as an "encumbrance" within a Commitment Control ledger, which then sets aside resources for the procurement process and subsequent transactions.

The Office raised e-requisitions in Atlas only when the requesting unit required the purchase order/contract to be issued to vendors. Initial procurement requests were done through emails and the budget availability process was carried out manually.

The audit team reviewed nine procurement cases totalling \$525,000 relating to civil works and noted that contracts were signed before issuing purchase orders in Atlas, ranging from 1 to 18 days with an average of 9 days. Consequently, the posting of amounts as "encumbrance" within the Commitment Control ledger were carried out after the legal commitment was already in effect.

Initiating the procurement process without an approved e-requisition, may compromise the proper documentation of the approval level as defined by the 'UNDP Internal Control Framework'. Signing contracts prior to the issuance of a purchase order in the Atlas system, may lead to legal commitments without having available funds for the transaction.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve the use of the Atlas procurement module by:	
<ul style="list-style-type: none"> (a) raising e-requisitions at the beginning of the procurement process; and (b) approving purchase orders in Atlas prior to signing and sharing the contract with the vendor. 	
Management action plan:	
The Office will perform the following:	
<ul style="list-style-type: none"> (a) introduce the practice of creating and approving e-requisition for all new procurement cases at the beginning of the procurement cycle; and (b) create purchase order in Atlas prior to signing the contract. 	
Estimated completion date: August 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 not included in this report.