UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

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Table of Contents

Report on the Audit of UNDP Ecuador
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Ecuador (the Office) from 13 to 28 November 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 30 September 2017. The Office recorded programme and management expenses of approximately $26.8 million. The last audit of the Office was conducted by OAI in 2012.

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 corporate guidelines for nationally implemented projects not being fully implemented, flaws in organizational structure, and weaknesses in the payment process.

Good practices

Under the tenure of the current management, the Office had engaged in several good business practices that could be replicated in other offices within the Latin America and Caribbean region. The following good practices were noted in the Office: (i) Information, Communications and Technology - ICT security awareness training; (ii) feedback mechanism established for unsuccessful bidders; (iii) induction procedure for service contract holders; (iv) onsite training, by subject matter experts from Headquarters units, on a cost recovery basis; and (v) innovative concept for staff meetings.

Key recommendations: Total = **11**, high priority = **3**

The 11 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
Reliability and integrity of financial and operational information	5	High
Effectiveness and efficiency of operations	3, 4, 6, 7, 8, 9	Medium
Safeguarding of assets	11	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	High
	10	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendations are presented below:

Flaws in organizational structure and conflicting roles (Issue 1)

The Office's overall functions and roles were aligned with the UNDP corporate guidelines; however, the audit identified weaknesses in the organizational structure and unclear roles and responsibilities among the various units within the Office, as follows:

- The Finance Unit operated with only one staff member, while in procurement one staff member was supported by two service contractors to undertake a wide range of procurement processes.
- The lack of sufficient human resources to provide operational support caused a significant burden on staff members within the Operations Unit, while the Office was forced to adopt some temporary measures to overcome the insufficient number of staff members in the Finance and Procurement Units, which resulted in conflicting roles and inadequate segregation of duties.

Recommendation: The Office should address the gaps in organizational structure so that roles and responsibilities could be adequately established among programme and operations units in line with the Internal Control Framework, and conflicts in roles and responsibilities could be timely addressed.

Corporate guidelines for nationally implemented projects not fully implemented (Issue 2)

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 using a non-standard Letter of Agreement. Even though in two instances the Letters were cleared by the Legal Office, there was one case where the Office included an arbitrage clause that was not cleared by the Legal Office, thus exposing the Office to legal risks. Furthermore, the Office did not include a list with the specific support services and the associated costs but rather described the services in general.
- In 4 of 10 projects reviewed, the Office used non-standard agreements. In addition, the Office used other agreements where the standard clauses were modified without the clearance of the Legal Office, thus exposing the Office to additional legal risks. Furthermore, the intellectual property and copyright

standards were not observed, as two projects agreed that at the end of the project the intellectual property was going to be transferred to the implementing partner, instead of remaining as UNDP property.

Recommendation: The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required, and ensure that only standard legal documents are used. In case of any deviation from standard agreements, the Office should seek clearance from the Legal Office through the Regional Bureau for Latin America and the Caribbean.

Weaknesses in the payment process (Issue 5)

Key controls established by the Internal Control Framework were not adequate in the way the Office had set the payment function. The pay cycle was processed using three different systems, namely Atlas (Corporate ERP), Atlas Bank (database locally developed) and Cash Management (local bank web application). None of these systems were automatically linked to each other. The main weaknesses noted were: inefficiencies due to incompatibility between the systems used; risk of inaccuracies due to manual inputs; and lack of proper approving authority for the release of funds. The processing of payments outside the Atlas system may lead to loss of funds.

Recommendation: The Office should improve the payment process by: (a) reassessing roles and responsibilities in the payment process, and processing payments only when vendor information is complete; and (b) expediting the possibility of changing the local bank to another one with an Atlas compatible e-banking web application.

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.

Low risk issues (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 Quito, Ecuador (the Country) had at the time of the audit, 19 staff members under fixed-term appointments, 22 service contract holders, and 6 United Nations Volunteers and was in the process of recruiting one fixed-term, two temporary appointments and one service contractor. The Office was implementing a Country Programme agreed with the Government for the period 2015-2018, which was aligned to the national priorities, the UNDP Strategic Plan 2014-2017 and the United Nations Development Assistance Framework 2015-2018. The Office was working with other United Nations agencies and the Government in the formulation of the new United Nations Development Assistance Framework for the cycle 2019-2022, which in turn will be the basis for the new Country Programme.

II. Good practices

OAI identified good practices, as follows:

Operations/Procurement:

- Rather than out-briefing unsuccessful bidders, the Procurement Unit developed an online survey whereby bidders, both successful and unsuccessful rate the procurement process, respond to questions and provide comments. As such, for each process (inclusive for IC's) the requesting unit obtains feedback.
- The Office carried out three onsite training sessions with subject matter experts from Headquarters and/or the Regional Centre Panama, focusing on key risk topics, Internal Control Framework and procurement. The trainings were offered to Office and project personnel on a cost recovery fee basis for programmes and project participants. The ample participation in these training sessions was an added value for the Office.

Operations/Human Resources Management:

- Senior management instituted as mandatory training, the ICT Security Awareness online course for all personnel who access Atlas (enterprise resource planning system of UNDP). At the time of the audit mission, the Office personnel had managed an 80 percent completion rate.
- An innovative concept was implemented in the staff meetings where staff took ownership of the staff meetings by developing the agenda and addressing an innovative topic to share with peers.
- As part of processing newly selected/recruited service contract holders, the Human Resources Unit required that the incoming service contractor sign a statement indicating if they were working for the Government and/or were involved in an outside activity. For each case, the Office's senior management solicited advice from the Ethics Office, prior to approval.

III. Audit results

Satisfactory performance was noted in the following areas and sub-areas:

(a) Governance/Corporate Direction. Adequate controls were in place to ensure the governance, risk management and control systems in the Office's programme and operations.

(b) Governance/Corporate External Relations and Partnerships. The Office established partnerships with different stakeholders including national institutions, donors and municipalities among the most relevant who expressed their appreciation for the quality of services received from the Office during OAI interviews.

(c) Operations/ICT and General Administrative Management. The Office was finalizing the installation of ICT equipment in the new premises, complying with corporate standards.

(d) Operations/Staff and Premises Security. The Office together with other United Nations agencies moved to new premises before the audit since the old building was not compliant with security standards for earthquakes. The new premises complied with the security requirements.

OAI made 3 recommendations ranked high (critical) and 8 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) Fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required, and ensure that only standard legal documents are used (Recommendation 2).
(b) Address the gaps in organizational structure so that roles and responsibilities could be adequately established among programme and operations units in line with the Internal Control Framework (Recommendation 1).
(c) Improve the payment process (Recommendation 5).

Medium priority recommendations, arranged according to significance:

(a) Seek support from the Office of Financial Resources Management through the Regional Bureau for Latin America and the Caribbean to correct inconsistencies in Atlas (Recommendation 6).
(b) Strengthen the monitoring and evaluation function (Recommendation 4).
(c) Strengthen project management (Recommendation 3).
(d) Improve the administration and management of common services (Recommendation 11).
(e) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 10).
(f) Improve human resources management (Recommendation 9).
(g) Improve procurement management (Recommendation 8).
(h) Improve the management of purchase orders (Recommendation 7).

The detailed assessment is presented below, per audit area:

A. Governance

1. Corporate Oversight and Assurance

Issue 1 Flaws in organizational structure and conflicting roles

The 'UNDP Operational Guide of the Internal Control Framework' stipulates that each head of office has the overall responsibility for establishing and maintaining adequate internal controls, and for ensuring documentation of their office's internal control procedures. Further, the 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system. The vision and mission of an office as well as its organizational effectiveness rely on the office's adequate organizational structure, which allows for clear roles and responsibilities, as well as reporting lines.

The Office's overall functions and roles were aligned with the UNDP corporate guidelines; however, the audit identified weaknesses in the organizational structure and unclear roles and responsibilities among the various units within the Office, as follows:

The Finance Unit operated with only one staff member, while in procurement one staff member was supported by two service contractors to undertake a wide range of procurement processes. The Office indicated that the structure was planned by management, as a means to invest in the capacities of the Programme Unit that would allow the Office to position itself and mobilize resources. Nevertheless, the Monitoring Unit was understaffed as further explained under Issue 5 of this report. OAI was also informed that two recruitments for finance and one for procurement were ongoing given that delivery for 2018 according to the Integrated Work Plan was expected to increase as compared to 2017.

The lack of sufficient human resources to provide operational support caused a significant burden on staff members within the Operations Unit, while the Office was forced to adopt some temporary measures to overcome the insufficient number of staff members in the Finance and Procurement Units, which resulted in conflicting roles and inadequate segregation of duties, as mentioned below:

- Two staff members were assigned the roles of HR and global payroll administrator, which were not in line with the Internal Control Framework.
- The Finance Assistant also held the HR profile of "leave monitor" in Atlas, but was not performing this function.
- One Programme Officer was granted with delegation of authority of approving manager (level 2) but did not hold this profile in Atlas.
- Two individuals who were no longer working for the organization but their profiles remained under 'active' status in Atlas.
- The Procurement Associate was also assigned the "disbursing officer" role, thus having conflicting duties.
- During the audit period 33,745 vouchers were mainly created by only four staff members; nevertheless, it was observed that 31 individuals had profiles of general users but were not creating payment vouchers. In order to balance workload in the Office, individuals with these profiles could have been considered for voucher creation roles, provided they had the appropriate knowledge and training on the system.
- The Information and Technology (IT) Associate was the administrator of systems and had the finance/treasury role and was also assigned to perform bank reconciliation entries. These profiles allowed the IT Associate to enter vouchers and run the pay cycle (261 times in the audit period). In addition, the IT Associate was the only one uploading the payment file in the "In-house" developed database (Atlas Bank interface) and uploaded the customized file to the e-banking platform. The IT Associate was also the back up in the payment process for the Finance Assistant.

An organizational structure without clear roles, responsibilities, and accountabilities, is not conducive to effectiveness and efficiency. In addition, inadequate segregation of duties may jeopardize the effectiveness of the entire internal control system, which can lead to the untimely detection of errors.

Priority	High (Critical)
Recommendation 1: The Office should address the gaps in organizational structure so that roles and responsibilities could be adequately established among programme and operations units in line with the Internal Control Framework, and conflicts in roles and responsibilities could be timely addressed.	
Management action plan: The Office agrees with the recommendation and has already started taking appropriate actions; worth to note that the current Office structure was planned by management to invest in the capacities that would allow the Office to position itself and mobilize resources. Senior management will liaise with the Regional Bureau in order to seek financial alternatives to strengthen its operations, though it should be noted that two recruitments for finance and one for procurement are already ongoing. Furthermore, the Office notes that all the Internal Control Framework related actions have been already undertaken. **Estimated completion date:** March 2018	
OAI Response: OAI acknowledges the action already taken by management regarding roles and responsibilities in the payment process. These will be reviewed at a later stage as part of the standard follow-up processes of OAI.	

B. Programme

1. Quality Assurance Process

Issue 2 Corporate guidelines for nationally implemented projects not fully implemented

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 using a non-standard Letter of Agreement. OAI reviewed 10 projects and found that in 4 of them, the Office used non-standard agreements. Even though in two instances the Letters were cleared by the Legal Office, there was one case where the Office included an arbitrage clause that was not cleared by the Legal Office, thus exposing the Office to legal risks. Furthermore, the Office did not include a list with the specific support services and the associated costs but rather described the services in general. Furthermore, one project agreement included a specific procurement framework where the milestones of a consulting contract were to be accepted or rejected by the implementing partner without any liability for the consulting firm since the contract was signed by UNDP. In addition, the Office used other agreements where the standard clauses were modified without the clearance of the Legal Office, exposing the Office to additional legal risks. Furthermore, the intellectual property and copyright standards were not observed as two projects agreed that at the end of the projects the intellectual property was going to be transferred to the implementing partner when it should have remained as UNDP property.

The lack of adherence to the corporate guidelines for nationally implemented projects and the use of non-standard contracts may result in unclear roles and responsibilities among the Office's staff and implementing partners, exposing UNDP to legal and reputational risks.

Priority	High (Critical)
Recommendation 2: The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required, and ensure that only standard legal documents are used. In case of any deviation from standard agreements, the Office should seek clearance from the Legal Office through the Regional Bureau for Latin America and the Caribbean.	
Management action plan: The Office will only use standard legal documents and request clearance from the Legal Office through the Regional Bureau if changes to standard documents are required/needed. **Estimated completion date:** March 2018	

2. Programme/Project Design and Implementation

Issue 3 Weaknesses in project management

As per the 'UNDP Programme and Operations Policies and Procedures', the project appraisal committee should assess the relevance in the development context, feasibility of achieving results, alignment with planning documents, costed monitoring and evaluation plan, etc. of all development projects. The procedures require a 12- month maximum duration of project initiation plans. Furthermore, risk registers for projects should be created when projects are approved and regularly updated.

OAI reviewed a sample of 10 ongoing projects that comprised 10 outputs out of a total of 39 projects comprising 44 outputs and found the following:

- Out of the 10 reviewed projects, the appraisal minutes of 2 projects were missing and 3 projects had virtual appraisals, which was only applicable to substantive revisions and not to initial project appraisals. In addition, the available meeting minutes had overall information about the appraisal meeting but lacked detailed information of the project scope to determine if it was realistic and if the implementing partner would effectively achieve the proposed outputs; details about the alignment to national priorities, the Country Programme, and UNDP's strategic plan were missing. There was no discussion about the monitoring and evaluation framework to determine if it was adequate; or there was no analysis of the capacity assessment of the implementing partner.
- Risk information was not regularly updated in Atlas for 5 of 10 reviewed projects. The risk registers were created when projects were approved but were not regularly updated. Risk management is a critical aspect of project management and failing to do it may expose the projects and the Office to different situations where there are no mitigating planned actions to respond to the risks.

Weak project management exposes the Office to the risk of not being able to achieve the agreed project results and might engage UNDP in projects that cannot be implemented, resulting in reputational damage to the organization.

Priority Medium (Important)
Recommendation 3: The Office should strengthen project management by: (a) strengthening the project appraisal as required by the 'UNDP Programme and Operations Policies and Procedures'; (b) ensuring that projects have adequate risk registers with proper risk management arrangements and are regularly updated in Atlas.
Management action plan: The Office agrees with the recommendation and will ensure that: (a) Project appraisal committee meetings will have an agenda and mandatory points to be discussed will be the assessment of project relevance and scope, the effective achievement of outputs, the alignment to national priorities, Country Programme Document and strategic plan, the monitoring and evaluation framework, the analysis of the capacity assessment of the implementing partner, the social and environmental standards, and the management of risks, among other things. (b) Programme clusters define an internal mechanism to ensure timely quality assurance and monitoring, backed up with a budget. All programme clusters have appointed a focal point to define a harmonized internal M&E mechanism and to ensure the team complies with monitoring and evaluation requirements according to UNDP and donor's policies. This will include regularly updating risk management in Atlas. **Estimated completion date:** December 2018

3. Knowledge Management

Issue 4 Weaknesses in programme monitoring and evaluation

Monitoring is driven by the need to account for the achievement of intended results and provide a factual base for decision-making. It is an essential management tool to support UNDP's commitment to accountability for results, resources entrusted to it, and organizational learning. Monitoring relates to pre-identified results in the development plan. Evaluation provides evidence that the intended results were achieved within the agreed time and budget.

OAI noted that the monitoring framework of 5 of 10 sampled projects described quarterly monitoring activities to be carried out during the project life cycle. Such activities entailed conducting quarterly risk assessments, preparing quarterly project progress reports including the financial monitoring of the annual work plan but those activities were not carried out on a quarterly basis as stated in the monitoring frameworks. In addition, the Monitoring Unit was insufficiently staffed given the size of the project portfolio and given the fact that programme cluster coordinators were not sufficiently involved in substantive monitoring activities (refer to Issue 1).

The average delivery of the project portfolio as of 24 November 2017 was 49 percent, which was half of what was planned for the year. Although the Office showed evidence of doing regular follow-ups with implementing partners and government counterparts, the delivery pace was still low.

Finally, the evaluation plan was not fully implemented. The Office explained that the two outcome evaluations scheduled for 2016 were postponed to 2017 and later agreed with the Government not to be conducted. Without the two outcome evaluations the Office may be unable to capture lessons learned that are critical for the planning of the new programme cycle.

Without an effective monitoring and evaluation function, the Office may be exposed to reputational risks with its partners.

Priority Medium (Important)

Recommendation 4:

The Office should strengthen the monitoring and evaluation function by:

(a) ensuring that project monitoring is conducted as per agreed monitoring frameworks; and
(b) conducting evaluations as agreed in the plans to adequately capture lessons learned.

Management action plan:

The Office agrees with the recommendation and will take the following corrective actions:

(a) Programme clusters will define an internal mechanism to ensure timely quality assurance and monitoring, backed up with a budget. All programme clusters have appointed a focal point to define a harmonized internal M&E mechanism and to ensure the team complies with monitoring and evaluation requirements according to UNDP and donor's policies.

(b) All Programme clusters have appointed a focal point to define a harmonized internal M&E mechanism and to ensure the team complies with monitoring and evaluation requirements according to UNDP and donor's policies. Monitoring visits will continue to take place and the team will ensure they are properly recorded. Budget will be ensured in order to comply with M&E plans described in PRODOCS.

(c) The Office will commission the outcome evaluations (as final evaluations) separately from the United Nations Development Assistance Framework evaluation currently ongoing.

Estimated completion date: September 2018

C. Operations

1. Financial Resources Management

Issue 5 Weaknesses in the payment process

The purpose of the Electronic Banking Interface is to facilitate the routing of payments to UNDP's disbursing banks and collection of bank statements from UNDP's reporting banks. This is the preferred mode of payment whenever possible as it is cheaper, more efficient and eliminates cheque usage. Sound business practice for dealing with confidential information or access to sensitive data/records is to ensure restricted access to information/data

Key controls established by the Internal Control Framework were not adequate in the way the Office set the payment function. The pay cycle was processed using three different systems, namely Atlas (Corporate ERP), Atlas Bank (database locally developed) and Cash Management (local bank web application). None of these systems were automatically linked to each other. Atlas payment information downloaded in a text file was uploaded in Atlas Bank to generate a new text file to be manually uploaded in Cash Management.

The following weaknesses in the payment process were found:

- The Atlas system was utilized to process payments; however, the text file generated (not password protected or encrypted) contained information on payments by each payee that was not compatible with the e-banking platform; as a result, a new text file had to be produced using the Atlas Bank database (locally developed) compatible with the e-banking platform (Cash Management) of the local bank. The IT Associate was designated to upload the text file to the Atlas Bank and then to the Cash Management applications.
- The Atlas Bank database allowed the IT Associate or Finance Associate running the pay cycle to manually modified payees´ bank account numbers before processing payments. A compensatory control was set by the Office to modify banking information only if the Operations Managers approved before executing changes. As a result, approval for changes to banking information was communicated by email to the Operations Manager prior pay cycle running.
- The Cash Management application allowed for uploading the same payment file twice. The control was done at the file name level, but not at the level of the data contained in the text file.

- The Cash Management was originally set to release funds after two approvers signed off on the payments. However, this setting was changed to one approver only because it was taking too long to release payments.
- The bank used two web applications: one for uploading payment information (Cash Management), which showed every single payment and another one (with the name of the bank) to view deposits, interest earned, commissions paid, and total payments value per batch processed, but lacked information on every single transaction. The Global Shared Services Unit, which prepared bank reconciliations on behalf of the Office, only had access to the latter banking web application, showing total payment value per batch but not the detail of each payment made (vendor name and bank account number).

The contract with the local bank expired in December 2017. The Office had contacted Treasury at Headquarters to explore the possibility of switching to an international bank (with an e-banking platform compatible with Atlas).

The processing of payments outside the Atlas system may lead to possible negative financial, legal and reputational consequences. The risk of unauthorized or unapproved payments may increase due to unauthorized changes that may go uncontrolled and untimely detected.

Priority High (Critical)
Recommendation 5: The Office should improve the payment process by: (a) reassessing roles and responsibilities in the payment process, and processing payments only when vendor information is complete; and (b) expediting the possibility of changing the local bank to another one with an Atlas compatible e-banking web application.
Management action plan: The Office agrees with the recommendation. The Office has already reassessed roles and responsibilities in the payment process and is taking the necessary steps to adjust them. The Office has also discussed the possibility of changing the local bank to another one and it has received positive confirmation. This being said, and while the preparation for this is completed in quarter three of 2018, the Office has renewed its contract with the current local bank for six months. **Estimated completion date:** September 2018
OAI Response: OAI acknowledges the action already taken by management in regard to roles and responsibilities in the payment process. These will be reviewed at a later stage as part of the standard follow-up processes of OAI.

Issue 6 Unreconciled items in bank reconciliation

According to the 'UNDP Programme and Operations Policies and Procedures', deposits must be accompanied by a proper bank deposit receipt form, which must be maintained by the cashier for control purposes and for possible audit questions. The Operations Managers in Country Offices should review the daily cash collection report supported by Atlas information to ensure proper control over deposits. Proper accounting for financial transactions requires the use of correct account codes when recording transactions in Atlas.

When the Finance Associate separated from the Office, a reconciliation process between bank transactions and accounting bookings was performed and differences were identified as incorrect. There were also pending entries in Atlas from 2015 and 2016, thus impacting mainly receivable accounts balances. These entries carried incorrect opening balances for some fund codes, forcing the Office to keep a parallel control of the correct opening and closing balances. The Office received funds amounting to $72,750 that were not recorded in the books. In 2016, the Office booked a government contribution received amounting to $13,000; however, when the Global Shared Services Unit performed the bank reconciliation, it requested the Office to remove it from the books since it corresponded to a prior accounting period. The clearing of these unreconciled items remained outstanding at the time of the audit.

The lack of reconciliation and the incorrect accounting for contributions may have a negative impact on the reliability of the information reported in the Office's financial statements and may be detrimental to the Office's reputation with counterparts.

Priority Medium (Important)

Recommendation 6:

The Office should seek support from the Office of Financial Resources Management through the Regional Bureau for Latin America and the Caribbean to correct inconsistencies in Atlas.

Management action plan:

The Office agrees with the recommendation. This was previously escalated to Headquarters during 2016. The Office has requested technical assistance to clean up outstanding accounts, but until now it has not had any technical support in that sense. A request for assistance has been sent to the Regional Bureau for Latin America and the Caribbean to intercede with the Office of Financial Resources Management in order to find the best solution for this issue.

Estimated completion date: June 2018

OAI Response:

OAI acknowledges the action already taken by management. These will be reviewed at a later stage as part of the standard follow-up processes of OAI.

Issue 7 Incorrect use of purchase orders and travel payments

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' indicate that during the definition stage of the project cycle, consideration must be taken for the acquisition of goods, services and works for the successful implementation of the project. All purchase orders must represent, at any given point in time, a genuine legally binding commitment to third parties. The amount and the extent of the commitment should be complete and properly stated in Atlas.

From the audit review of purchase orders, OAI found the following weaknesses:

- 18 purchase orders created at least 30 days after the date of the approval of the requisition valued at $0.5 million; and
- 64 purchase orders were approved at least 7 days after they were created (for a total value of $1.5 million).
- During the audit period, the Office paid a total of $480,000 to the travel agency of which only $40,000 was processed using purchase order vouchers. As per the practice in the Office, each project assistant requested the purchase of a travel ticket without first raising a purchase order but submitting the payment information after the ticket had been purchased. Additionally, payments to travel agencies were done once or twice a month leading to delays in processing travel payments. This practice was established to reduce the number of transactions.

The sample review of 25 purchase orders showed that:

- Five purchase orders were not created for the full amount of the procured goods or services due to budget restrictions. They were either created per calendar year, or for a lower value than the contract and the value of it was overridden at a later stage.
- Five purchase orders were created for the full amount of the contract in one purchase order line, but this practice did not follow the payment schedule stated in the contract and therefore was difficult to monitor timely delivery.

By not raising a purchase order at the time of contract signing and/or for the full contractual amount, the total funds needed to meet the obligation may not be available, creating a risk that the Office might not have sufficient funds at the stipulated time of payment to honor financial commitments.

Priority	Medium (Important)
Recommendation 7: The Office should improve the management of purchase orders as per the 'UNDP Programme and Operations Policies and Procedures' guidelines by: (a) ensuring purchase orders are issued and approved in a timely manner; and (b) issuing purchase orders based on the procured goods and services, and payment schedule.	

Management action plan:

The procurement framework does not only involve the Procurement Unit, but also the Office's management and the programme areas. Planning and compliance to the rules on these three levels is crucial to ensure proper management of procurement. This being said, the Office will refrain from the practice of creating non-purchase order vouchers or splitting purchase orders and reinforce already existing procurement practices.

The Office agrees that travel requests and payments to travel agencies should be timely performed through purchase orders and will review request and payments in order to raise a purchase order and process the payment to the supplier.

Estimated completion date: March 2018

2. Procurement

Issue 8 Weaknesses in procurement management

Procurement involves acquiring goods, works and services. The 'UNDP Programme and Operations Policies and Procedures' stipulate that all procurement actions are to be conducted in a fair and transparent manner and in the interests of UNDP. Procurement should be done through a competitive process to provide best value for money.

The review of a selected sample of procurement processes identified topics that would merit improvements, as follows:

- The Procurement Unit was composed of one staff member and two service contract holders. One of the service contract holders was selected for a Procurement Assistant post within the Green Climate Fund project. The post was categorized as a temporary appointment, yet the duration of a temporary appointment could not exceed 364 days. This was not aligned with the expected duration of the project, which would end in June 2022. The Office is a signatory of the Green Climate Fund project.
- The Office had not implemented the recommendations addressed by the Advisory Committee on Procurement, resulting from a post facto review of the three-month extension of the Long Term Agreement for travel services which was to expire at 31 December 2017. Specifically, at the time of the audit mission, the Office had yet to (i) launch a procurement process for a Long Term Agreement for travel services or (ii) make effective the draft standard operating procedure for travel services.
- The Procurement Unit had not implemented e-tendering and was not using the PROMPT procurement planning tool. Both corporate tools were developed and available to Offices for the efficiency and effectiveness of the procurement business function.

The Office's procurement activities, as previously described, may not improve efficiencies and enhance capacities to ensure the fairness, integrity, transparency and timeliness of the procurement business function.

Priority	Medium (Important)
Recommendation 8: The Office should improve procurement management by: (a) reviewing the contractual modality of the procurement post to ensure the best option for the duration of the Green Climate Fund project, and considering retaining the procurement post within the UNDP Office; (b) complying with the recommendations of the Advisory Committee on Procurement to ensure a travel service Long Term Agreement is awarded and signed, and standard operating procedure for travel services consumption control is effectively implemented; and (c) implementing e-tendering and fully utilizing the PROMPT procurement planning tool.	
Management action plan: (a) The Office agrees with the recommendation. Conversations will be held at the highest level (Resident Representative and government ministry) in this regard. The Office is also aware of the temporality of the contract. In line with the above, conversations will begin with the Regional Bureau for Latin America and the Caribbean in order to obtain the required resources to strengthen the critical areas of operations such as finance and procurement. (b) Once the new contract is signed, standard operating procedures will be effectively implemented for the use of the Long Term Agreement. (c) The Office agrees with the implementation of the e-tendering and full engagement in the use of PROMPT procurement planning tool. The Office will take the required steps to implement it. **Estimated completion date:** October 2018	

3. Human Resources Management

Issue 9 <u>Deficiencies in the management of Human Resources</u>

The management of human resources entails: (i) efficient recruitment processes so that the office has the right talent timely; (ii) appropriateness in the allocation of staff benefits; (iii) oversight of the human resources function in compliance with UNDP policies and procedures; and (iv) responsibility and accountability for the management of service contracts.

The audit identified the following weaknesses:

<u>Recruitment process of a Finance Associate:</u>

A recruitment and selection process is to be carried out in a competitive manner and timely in compliance with the selection criteria of the post. A Special Post Allowance is exceptional in nature and applicable when a staff member assumes the full responsibility and accountability of a post at least one level above.

- The recruitment of the Finance Associate post was delayed. The position had been vacant since October 2016; the recruitment process was only launched in April 2017. The delay was due to management's decision to reclassify the post from a GS 7 to a GS 6, and to the subsequent engagement of the Office of Human Resources in processing the reclassification.

- An English language proficiency test was not administered for weighing in the overall candidacy evaluation, despite the fact that the Finance Associate post required fluency in English.
- The Office's management suspended the recruitment process even though two external candidates met the criteria to continue on to the next phase of the recruitment and selection process. Instead, the Office's management decided to recruit two temporary appointments at the GS 4 and GS 3 levels, respectively, despite the capacity constraints within the Finance Unit, (refer to Issue 1).
- The Office provided a Special Post Allowance to a staff member at the GS 5 level, even though that staff member did not fully perform the supervisory role or assume the responsibilities of the vacant Finance Associate post. The total amount of Special Post Allowance paid in a two-year period amounted to approximately $9,880.

Inadequacies in leave management:

The leave management process is governed by the 'Staff Rules and Regulations of the United Nations' and the 'UNDP Programme and Operations Policies and Procedures'. OAI noted the following:

- A consolidated annual leave plan was not available; each area had their own annual leave plan. A leave monitor was assigned for the Office's personnel and another leave monitor was assigned for senior management, while the staff member with the leave monitor profile was not exercising the role.
- There was no mechanism in place to control the attendance of Office personnel. At the time of the audit, the Office was in the process of implementing an access control mechanism for entry and exit.
- Three staff members as of 31 March 2016 and six staff members as of 31 March 2017, transferred balances exceeding the maximum limit of 60 leave days, thus losing excess leave days totaling 11 and 20 days, respectively, in total for each year.

Inconsistencies in the management of holidays for service contract holders:

Any difference in the holiday schedule of a service contractor when compared to the UN official holiday schedule should be reflected in the signed service contracts.

The service contractors working at the Office premises honored the UN Holiday schedule, yet the service contractors hired for projects honored the national holiday schedule. This was not reflected in the contracts of the service contract holders supporting the Office's projects.

The weaknesses in the human resources management identified may put at risk the Office's oversight of recruitment processes and of service contractors.

Priority	Medium (Important)
Recommendation 9: The Office should improve human resources management by: (a) making a decision on the recruitment for the Finance Associate post;	

(b) ensuring that any request for Special Post Allowance is granted to a staff member who is performing in full responsibility and accountability at least one level above their post and not based on a temporary vacancy;
(c) planning for staff to take their leave days to ensure not having or losing excess leave days; and
(d) including any difference in the holiday schedule of service contract holders to the signed contracts.

Management action plan:

(a) As part of the planning for 2018 (IWP) the position of Finance Associate (GS 6) has been maintained, but frozen. Senior management will contact the Regional Bureau for Latin America and the Caribbean in order to discuss this issue based on the audit recommendation. Nevertheless, it is not for the Office to decide on the availability of financial resources.
(b) Any future request for Special Post Allowance will be granted to a staff member who is performing in full responsibility and accountability at least one level above their post and not based on a temporary vacancy and has taken note of the procedure that should be followed for future cases.
(c) An annual leave plan for 2018 will be requested and consolidated effective January 2018.
(d) The Office will adjust the clause of the holiday schedule of service contract holders in consultation with the Legal Office.

Estimated completion date: September 2018

D. United Nations Leadership and Coordination

Issue 10 Harmonized Approach to Cash Transfers not fully implemented

To lessen the burden caused by the multiplicity of the United Nations procedures and rules for its partners, the 'Framework for the Harmonized Approach to Cash Transfers (HACT) 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. According to the Framework, UN agencies will adopt a risk management approach and will select specific procedures for transferring cash based on the joint assessment of the financial management capacity of implementing partners. 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, HACT was pending to be fully adopted. A macro-assessment was not conducted for the current programming cycle; a new one will need to be carried out in 2018 for the new programming cycle.

Five micro-assessments of implementing partners were carried out of seven planned; three spot checks were conducted out of eight planned. Only one project visit out of five planned was conducted. In addition, OAI found that FACE forms were not used by the Office for direct payment requests. The Office was still using the Request for Direct Payments form, which was discontinued with the introduction of HACT.

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

Priority	Medium (Important)
Recommendation 10: The Office, in coordination with the government implementing partners and other participating United Nations agencies, should fully adopt the Harmonized Approach to Cash Transfers by completing the pending activities such as macro-assessments, micro-assessments and spot checks as well as instructing projects to use the FACE form when requesting for direct payments.	
Management action plan: The Office agrees with the recommendation and will work towards ensuring that pending activities such as pending macro- and micro-assessments as well as spot checks and project visits are completed and HACT will be fully adopted. **Estimated completion date:** December2018	

Issue 11 Inadequate management of common premises

According to the 'UNDP Programme and Operations Policies and Procedures' for effective management of common premises, participating agencies should sign a memorandum of understanding. The memorandum should set out the details and the types of services to be rendered, and the basis of apportionment of all the related costs.

Regular reporting on the status of actual expenditures, billing and collection from participating agencies facilitates the timely clarification of any queries or the resolution of any disagreements. In addition, the International Public-Sector Accounting Standards for reporting on year-end balances, with respect to common services, require offices to generate year-end reports for certification purposes that show amounts due to or from contributing agencies.

The Office, over the past 18 years, provided support to the functioning of the UN House. The UN Country Team agreed that the UN House was to be administered on a rotational basis (e.g. yearly) under the chairmanship of a representative of the selected agency in charge of managing the UN House. In 2016 the UN House was administered by UNDP and in 2017, the UN House was under the administration of UNICEF.

OAI identified the following issues in respect of the management of the UN House project:

Weaknesses in financial management:

One United Nations agency reported that there were delays in the UNDP 2016 year-end reports. Similarly, during meetings with representatives of United Nations agencies selected for testing, OAI was informed about discrepancies in figures reported to UN agencies in regard to income and expenses paid to/charged to them by the UN House administration corresponding to the period 2015 and 2016.

This was largely due to the financial management of the UN House project was undertaken through an Excel spreadsheet maintained outside of Atlas for the period 2015 to 2017; for this period, the Excel spreadsheet figures did not match the balances shown in Atlas.

Delays in clearing accounts in respect of cost of telecommunications:

Insufficient/inadequate controls over the management of the contract with the telecommunications company resulted in several unpaid invoices from 2017 and previous years with an outstanding balance due of $23,569 to the telecommunications company. The balance resulted from differences between amounts paid vis-à-vis the invoice amounts. At the time of the audit fieldwork, the UN House together with the Office were negotiating with the telecommunications company to settle the debt.

Inconsistencies in fixed assets controls:

The inventory list of items held at the UN House showed inconsistencies, such as:

- The list did not specify cost of items or date of acquisition.
- From the review of the list of items transferred to UNDSS it was observed that there were nine cameras transferred, but not recorded in the asset inventory list. There were also errors in the locations and tag numbers on the list.

The lack of reconciliation and the incorrect accounting for contributions and payments made for common services increases the risk that agency balances for common services may be incorrect.

Priority Medium (Important)

Recommendation 11:

The Office should improve the administration and management of common services by:

(a) reconciling the common services fund account balances shown in Atlas to the Excel spreadsheet to ensure that amounts reported on to agencies and shown in Atlas are accurate;
(b) identifying pending values to be paid and agree with the telecommunications company on a settlement of the debt; and
(c) taking an inventory count and preparing an inventory list following information presented in the Atlas Asset In-Service report.

Management action plan:

Consultations with the Regional Bureau for Latin America and the Caribbean on technical support are ongoing in order to find the best way to input the right balances in Atlas. The Office has already submitted the figures for years 2015, 2016, and 2017 to the agencies (income and expenditures). UNDP offered direct support to clarify any doubts or inconsistencies. Regarding pending values to be paid to the telecommunications company, support will be hired for the current UN House to clear the pending values pending to be paid and taking an inventory count and preparing inventory list.

Estimated completion date: June 2018

OAI Response:

OAI acknowledges the action already taken by management. These will be reviewed at a later stage as part of the standard follow-up processes of OAI.

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>.