

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ARMENIA

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Report on the Audit of Armenia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Armenia (the Office) from 30 April to 11 May 2018. 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 2018. The Office recorded programme and management expenses of approximately \$39.6 million. The last audit of the Office was conducted by OAI in 2013.

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.”

Good practice

The Office had developed software to charge cost recovery from projects for activities carried out by the Office. The software was linked to Atlas (the enterprise resource management system of UNDP) and it collected information on each transaction per project and per UN agency, as applicable. At the end of each quarter, all accounting charges were transferred from the software to Atlas, where all the accounting entries were automatically recorded, thus allowing for an effective recharge of costs borne to projects.

Key recommendations: Total = 4, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are four 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: the low completion rate of UNDP mandatory training courses, weaknesses in project monitoring and risk management, weaknesses in the payment cycle, and projects with deficits.

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	4	Medium
Safeguarding of assets	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1,2	Medium

Implementation status of previous OAI audit recommendations: Report No. 1131, 25 October 2013.

Total recommendations: 2

Implemented: 2

Management comments and action plan

The Resident Coordinator / Resident Representative accepted all four 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.



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I. About the Office

The Office, located in Yerevan, Armenia (the Country), at the time of the audit fieldwork, consisted of 23 staff members, 5 service contract holders and 1 United Nations Volunteer. The Country Programme Document corresponding to the period 2016-2020 was under implementation covering the following main areas in response to country needs and in alignment to the United Nations Development Assistance Framework: (i) inclusive and sustainable economic growth; (ii) democratic governance; and (iii) environmental sustainability and resilience. The Office was working with the Government on an innovation laboratory to implement the Sustainable Development Goals.

II. Good practice

OAI identified a good practice, as follows:

The Office had developed a software to charge cost recovery from projects for activities carried out by the Office. The software was linked to Atlas and it collected information on each transaction per project and UN agencies, as applicable. The software automatically calculated the cost to be recorded per each transaction using the standard fees. It also allowed users to create transactions for non-standard activities, such as recruitment processes. At the end of each quarter, all accounting charges were transferred from the software to Atlas where all the accounting entries were automatically performed thus allowing for an effective recharge of costs borne to projects.

III. Audit results

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

- (a) United Nations Leadership and Coordination. Implementing partners, United Nations agencies, and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner. Regarding the Resident Coordinator function, key controls were in place.
- (b) Operations/Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately.
- (c) Operations/Procurement. Records and controls over procurement activities were overall found effective. Management of individual contractors were properly undertaken.
- (d) Operations/General administration. Records and controls were adequate for asset management. The Office was well administered.
- (e) Operations/Staff and premises security. No reportable issues were noted.

OAI made four recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

- (a) Ensure the completion of mandatory courses (Recommendation 1).
- (b) Strengthen project monitoring and risk management (Recommendation 2).
- (c) Improve the payment cycle (Recommendation 3).

- (d) Limit budget overrides and follow up with the Regional Bureau on the pending commitments (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Low completion rate of UNDP mandatory training courses

According to the UNDP training policy, mandatory training courses are necessary tools to ensure that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. All staff members should complete the mandatory courses and obtain their certificates of completion no later than six months after commencing duties.

At the time of the audit, out of a total of 24 staff members, the following staff had not completed the respective mandatory courses on time:

- 2 staff had not completed the 'The Gender Journey' course.
- 2 staff had not completed 'United Nations Course on Prevention of Harassment, Sexual Harassment and Abuse of Authority'.
- 10 staff had not completed 'Advanced Security in the Field'.
- 4 staff had not completed 'Basic Security in the Field'.
- 2 staff had not completed 'Ethics and Integrity at UNDP'.
- 6 staff had not completed 'UNDP Legal Framework: What Every Staff Should Know'.
- 12 staff had not completed 'Prevention of Sexual Exploitation and Abuse'.
- 9 staff had not completed 'UN Human Rights and Responsibilities'.

The Office's management acknowledged that the 100 percent completion rate had not been achieved, despite the fact that a learning plan was put in place.

Not completing the mandatory training courses may lead to staff members not being aware of important policies that are relevant to their roles and responsibilities.

Priority	Medium (Important)
Recommendation 1:	
The Office should ensure the completion of mandatory courses in a timely manner.	
Management action plan:	
Since the audit fieldwork, more staff have completed the mandatory courses. Nevertheless, staff members have been informed that they should complete all mandatory courses by the end of June 2018. Non-compliance will be registered in the Performance Management and Development system during the mid-year performance review, and no trainings involving travel will be authorized for staff who have not completed the mandatory courses.	

Estimated completion date: June 2018

B. Programme

1. Programme/Project Design and Implementation

Issue 2 Weaknesses in project monitoring and risk management

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

The audit reviewed a sample of 8 projects with 8 outputs (representing 78 percent of total programme delivery for the audit review period), out of a total of 28 projects containing 29 outputs. The following weaknesses in project monitoring and risk management were identified:

- The monitoring framework of six projects was not adjusted to project needs as required. The Office used the minimum suggested monitoring actions from the project document template, without considering the size or complexity of the projects.
- The monitoring framework of five projects stipulated quarterly project board meetings that were not conducted. Starting in 2017, the Office aimed to have at least one project board meeting per year.
- The project risk registers of all eight projects were entered in Atlas when the project was formulated and they were not updated, even though project documents required quarterly risk updates.
- In five projects, the annual work plans submitted to the project boards were limited to the project budget lacking basic results-based information, such as baseline, indicators and targets for the year. Although the review showed progress from 2016 to 2018, full adherence to required corporate quality standards was still pending at the time of the audit fieldwork.
- Field visits conducted for six projects were either not documented or insufficiently documented containing one paragraph with narrative information lacking a clear purpose of the visit and results-based information.
- In five projects, the project progress reports were mostly narrative, and did not include the results oriented information that would allow the validation of the progress towards agreed targets. Although overall financial performance at the Office level was monitored, three projects were delayed and did not reach the annual work plan targets.
- Lessons learned for six projects were not consistently captured and documented, thus impairing learning and preventing adjustments needed to correct course of action.

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

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project monitoring and risk management by: <ul style="list-style-type: none"> (a) adjusting the monitoring framework according to the complexity and needs of each project; (b) conducting monitoring activities and project board meetings with the frequency stipulated in the project documents; and (c) establishing annual work plans and project progress reports, so as to include results-based information, monitor performance and capture lessons learned. 	
Management action plan: The Office takes note of applicable elements of the recommendation that are in line with the new Programme and Project Management procedures prescriptive content and will strengthen its project monitoring framework along the afore mentioned points by preparing a roadmap (by October 2018) and ensuring its full-cycle implementation (by December 2019).	
Estimated completion date: December 2019	

C. Operations

1. Financial Resources Management

Issue 3 Weaknesses in the payment cycle

As stated in the 'UNDP Financial Regulations and Rules', all disbursements shall be made by cheque or bank transfer, except to the extent that cash disbursements are authorized by the Treasurer. 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. According to the UNDP's Treasury Advisory to all Operations Managers and Deputy Resident Representatives, issued 13 May 2016, procedures for use of the interface should be documented through a Standard Operating Procedure, and reviewed and cleared by Treasury. According to the Internal Control Framework, no single person can exercise both second authority (verifying officer) and third authority (disbursing officer) when approving transactions. As second authority, approving managers must be independent from the disbursing officer.

During the audit period, the Office processed 16,874 payment vouchers amounting to \$26.9 million. The following shortcomings were observed when running the payment cycle:

- There was no interface between Atlas and the E-banking web application to automatically transfer data from Atlas to effect payments. The E-banking web application allowed manual changes to payment

information when inconsistencies were found before processing the payments; as a result, the Office was undertaking the final review of payment vouchers when payment information was uploaded in the E-banking web application, rather than prior to running the payment cycle in Atlas. At the time of the audit, based on advice received from OAI, the Office modified the process of verifying vendor information when running the payment cycle.

- The second and third levels of authority when releasing payments were exercised by two designated staff members (Finance Analyst and Operations Manager), as required by the corporate policy. However, they were both authorizing payments (61 and 7 percent respectively) and acting as bank signatories for the same transactions.

At the time of drafting the report, a new banking agreement was established, containing provisions on the use of the E-banking web application, which was under review by UNDP Treasury.

Insufficient controls to validate that payments approved in Atlas match those sent to the bank for release may result in unauthorized payments effected, while inadequate segregation of duties may jeopardize the effectiveness of the internal control system, which can lead to undetected errors.

Priority	Medium (Important)
Recommendation 3:	
The Office should improve its payment cycle by:	
<ul style="list-style-type: none"> (a) developing an application to automatically transmit and verify payment information from Atlas to the E-banking web application avoiding manual inputs; and (b) addressing any conflicts in authoriser and bank signatory roles and responsibilities. 	
Management action plan:	
To apply the points of the audit recommendation, the following actions will be taken:	
<ul style="list-style-type: none"> ▪ The Office will have an application developed which will automatically transmit the payment information from Atlas to the E-banking web application. ▪ A control mechanism will be established for all approvers to verify that payment information between Atlas and the E-banking web application matches. ▪ When the Treasury approves the new banking agreement, the Office will prepare a Standard Operating Procedure on the E-banking process and will request approval thereof from the Treasury. ▪ The release of any payment through E-banking requires two different signatories. Thus, the requirement of the Internal Control Framework to segregate second and third authorities is respected. The Office will design a procedure to ensure that for a given transaction the authorizing person does not act as signatory. 	
Estimated completion date: November 2018	

Issue 4 Projects with deficits

According to the 'UNDP Financial Regulations and Rules', Offices do not have the authority to enter into commitments in the absence of available cash. Where an override has been exercised (transaction approved without enough funds to be executed), the responsibility of the head of office is to ensure that funds are received within 30 days. In the cases where the 30 days are exceeded, Office of Financial Resources Management approval is required. For projects funded by the European Union (EU), the head of office has a blanket authorization to utilize a budget-override to address the withheld amounts of EU funded projects, under specific conditions.

The Office entered into commitments via-a-vis to suppliers before having received the full amount of funds to carry out related project activities. As a result, disbursements were processed in Atlas using the override feature. During the period covered by the audit, 16 purchase orders were approved with a budget override of \$12 million; and 44 payment vouchers were paid with a budget override of \$3 million.

This practice resulted in four projects with deficits amounting to \$441,430 as of May 2018, exceeding the 30-day period. Three of the four projects were EU funded and the overrides were consequently justified. The override for the fourth project was not justified as no approval from Treasury/Office of Financial Resources Management was obtained, but the funds were expected to be received after the end of the audit fieldwork. In one of the three EU funded projects, an amount of \$175,801 outstanding was considered ineligible by the EU (according to communication received by the Office in December 2017), and therefore unrecoverable.

In addition, OAI found another project with pending contract commitments amounting to €689,720, for which there would be no available funds upon the expiry of the contract in October 2018. This issue was already addressed by the Office and escalated to the Regional Bureau management, pending resolution.

The practice of processing payments without available project funds may lead to financial losses for the organization.

Priority	Medium (Important)
Recommendation 4:	
The Office should limit budget overrides to very exceptional cases and seek advice from the Office of Financial Resources Management on a write-off for the unrecoverable amount, as well as follow up with the Bureau on the pending contract commitments.	
Management action plan:	
The Office will limit the budget override authorizations to very exceptional cases. As recommended, the Office will seek advice from the Office of Financial Resources Management on a write-off for the unrecoverable amount.	
The Office has already approached to the Regional Bureau with a request to provide resources for the pending commitments.	
Estimated completion date: November 2018	

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.