

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

BRAZIL

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Report on the Audit of UNDP Brazil Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Brazil (the Office) from 7 to 18 October 2019. 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 2018 to 31 August 2019. The Office recorded programme and management expenses of approximately \$106 million. The last audit of the Office was conducted by OAI in 2016.

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 = 6, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are six 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."

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3	Medium
Effectiveness and efficiency of operations	6	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 4, 5	Medium

Management comments and action plan

The Resident Representative of UNDP Brazil 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 Osttveiten
2019.12.18
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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Brasilia, Brazil (the Country), consisted of 45 staff members, 258 service contract holders and 1 United Nations Volunteer at the time of the audit. In its 2017–2021 programme, the Office committed to support the Country in four main areas: (i) People: Inclusive and equitable society with extensive rights for all men and women; (ii) Planet: Sustainable management of natural resources for present and future generations; (iii) Prosperity: Prosperity and quality of life for everyone; and (iv) Peace: Peaceful, fair and inclusive society. The Office supported the Country with the implementation of its South-South cooperation programme with activities in several countries in different regions. The Office also supported the United Nations Global Compact Office in São Paulo, which had the third largest portfolio in the world, and the International Policy Centre for Inclusive Growth (IPC-IG), which translated into a diverse project portfolio. Finally, the Office managed the Joint Operations Facility (JOF), which provided procurement and travel services to a group of six UN agencies that signed the agreement.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. Key controls were in place. Staff were aware of the Office's priorities, challenges and control objectives. Implementing partners, United Nations agencies, and government counterparts with whom the audit team members met during the audit mission expressed their appreciation of the Office as a valued development partner.
- (b) Operations/Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately.
- (c) Operations/Staff and premises security. The UN House was well administered by the Office. Security was well managed; sound business continuity systems and security arrangements were in place.
- (d) United Nations leadership and coordination. No reportable issues were identified. The audit team noted that key controls were in place and the Resident Coordinator de-linking process had been properly managed.

OAI made six recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

- (a) Improve cash forecasting and management (Recommendation 3).
- (b) Work with the Investment Unit and the Treasurer to provide due diligence on the relevant investment funds to appropriately manage financial and reputational risks (Recommendation 2).
- (c) Ensure that the use of Engagement Facility follows UNDP policy (Recommendation 1).
- (d) Ensure that for the next ICSC DSA survey, the travel unit follows the ICSC requirements and conducts an inter-agency annual exercise (Recommendation 4).
- (e) Improve service contract management (Recommendation 5).
- (f) Review all staff job descriptions to ensure that reporting lines duties, roles and responsibilities are updated accordingly (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Programme

1. Programme/Project Design and Implementation

Issue 1 Incorrect use of Engagement Facility

According to the 'UNDP Programme and Operations Policies and Procedures', the Engagement Facility provides a rapid and flexible response mechanism to support upstream policy results, evaluations and assessments, crisis responses and the testing of innovations with scale-up potential. Terms of reference and concept notes, as relevant, are required to justify and detail expected results. All policies on corporate and country-level reporting, the Social and Environmental Screening Procedure, audit and risk management equally apply to the Engagement Facility.

The Office created 67 Engagement Facility projects from 2015 to 2019, 17 of which were financially closed and 50 of which were ongoing at the time of the audit. For the audit review period, the total budget of the ongoing Engagement Facility projects amounted \$13 million with expenditure of \$7.5 million.

The audit team reviewed three Engagement Facility projects as part of the project sample and found that the Office incorrectly used the Engagement Facility, as follows:

- One Engagement Facility project had a full project document, which indicated that the nature was a regular development project, and not an Engagement Facility.
- The Social and Environmental Screening Procedure was not conducted for any of the Engagement Facility projects sampled.
- From the total population, five separate Engagement Facility projects were created with a budget below \$20,000 instead of adding activities or outputs to the existing Engagement Facility projects.

The Office explained that they used the Engagement Facility mainly for the International Policy Centre for Inclusive Growth (IPC-IG) and that in some cases other instruments would have applied and that the Office was in the process of reviewing the existing projects to ensure that the correct instrument was used.

Incorrect use of the Engagement Facility may result in additional burden for the Office instead of being a rapid response mechanism. In addition, using the Engagement Facility when a development project is required exposes the project to risks of weaknesses in results and monitoring frameworks.

Priority	Medium (Important)
Recommendation 1:	
The Office should ensure that the use of Engagement Facility is in accordance with the policy, apply the Social and Environmental Screening Procedure as required, and refrain from using the Engagement Facility instead of a development project.	
Management action plan:	
Regarding the use of Engagement Facility, the Office will:	

- (a) Adopt the practice of applying the Social and Environmental Screening Procedure for all new Engagement Facility projects.
- (b) Analyse the Office's Engagement Facility portfolio and formulate a transition plan to identify: (i) current Engagement Facility projects that do not comply with policy and need to expedite activities in order to close them; and (ii) Engagement Facility projects that comply with policy.
- (c) Implement transition plan.

Meanwhile, the Office will adopt a Development Services Agreement for cases of provision of services, such as most of the activities under the IPC-IG project, by:

- (d) Translating the Development Services Agreement to Portuguese and elaborate a case to be the pilot DSA in the Country.
- (e) Submitting the pilot Development Services Agreement to the Brazilian Cooperation Agency (ABC) for clearance.
- (f) Regarding the use of Engagement Facility for the IPC-IG, the Office will explore the implementation of the portfolio approach as included in the 'UNDP Programme and Operations Policies and Procedures' (new Programme and Project Management).

Estimated completion date: December 2020

B. Operations

1. Financial Resources Management

Issue 2 Authority to manage local investments pending to be granted

The 'UNDP Programme and Operations Policies and Procedures' stipulate that all investments are held in US dollars. On an exceptional basis, Treasury may grant authority to an Office to invest excess local currency on a short-term basis. The policies and procedures explain that the principles for managing working capital investments are to preserve capital, provide liquidity, and earn income interest (in that order). The criteria for granting an office a Local Investment Authority include the following: there is a compelling business need, a slight mismatch exists between contributions received and project spending, a risk assessment has been completed, the invested funds are used within 45 days, and adequate competency exists within the finance function of the office.

The Office held a local currency time deposit investment account within a local bank. The purpose of the investment account was to obtain income for working capital. The amount invested could fluctuate, and during 2019, the account held a high balance of BRL 18,000,000 (\$5.5 million) in January and a low balance of BRL 2,800,000 (\$738,201) in August, based on the prevailing UN Operational Rate of Exchange.

The audit disclosed lapses in the internal controls governing the local investments, as follows:

- The Office had not been granted local investment authority. For all the transactions audited the audit team found that approval of investment transactions was sought and obtained by the Office from the

Investment Unit within the Office of Financial Resources Management, Bureau for Management Services in headquarters.

- The credit rating for the institution where the investment funds were held was BB+, Ba2, and BB-.¹ Similar ratings would fall in the 'speculative' category when compared to UNDP's investment guidelines for working capital, which would be unallowable since said guidelines dictate that UNDP's investments for working capital must adhere to more conservative risk parameters.
- Lastly, there was no evidence that local investments were consistent with UNDP's Socially Responsible Investments (SRI) criteria. Without a proper understanding of the different industries that invest and conduct their banking with the financial institution in the Country where the Office held its investments, there was no way of knowing if the SRI criteria, which were intended to shield UNDP from both financial and reputational risks, were met by the corporate social responsibility parameters of the financial institution.

This issue was shared with the the Treasurer at the the Office of Financial Resources Management, Bureau for Management Services. The comments received were as follows:

- Local investments by Country Office are an exception, not the rule; therefore, for any type of local investments, UNDP offices are required to seek Treasury approval in advance.
- In order to manage and mitigate the risks pertaining to local investments, Treasury runs a report each month to identify local currency investments. As of 1 December 2019, the Brazil investment has matured.

Investing, which is inherently a risky endeavour, should be carried out by professionals that can consider multiple factors in order minimize unnecessary exposure and losses to UNDP.

Priority	Medium (Important)
Recommendation 2:	
For future investments the Office should work with the Investment Unit and the Treasurer to provide due diligence on the relevant investment funds to appropriately manage financial and reputational risks.	
Management action plan:	
For any future investment opportunities, the Office will seek guidance from the Treasurer and the Investment Unit on the required due diligence activities required for the exceptional appraisal and approval to establish local investments.	
Estimated completion date: December 2020	

¹ Credit quality ratings can range from Superior (e.g., AAA) to Highly Speculative, (e.g., CCC), and that determines their investment grade. This information is used by institutions and individuals to determine their risk parameters when deciding on investments.

Issue 3 Weaknesses in cash forecasting leading to frequent exceptions to the assigned imprest level; reliance on local investments for cash

According to the 'UNDP Programme and Operations Policies and Procedures', the purpose of cash planning for Country Offices is to help finance/treasury managers to manage their liquidity requirements. Typically, UNDP pays staff, vendors, and projects, and advances funds to governments and agencies. By knowing how much, in what currency, and when it is needed, the financial obligations of the organization can be discharged in a timely fashion, and the unused funds managed by UNDP Treasury can be invested to generate interest income. If certain conditions are met, Country Offices can accept funding locally, most notably government local office contributions and government cost sharing. However, when authorized receipts substantially exceed the Country Offices' ability to quickly utilize funds, the office will be instructed to convert surplus local currency to US dollars and transfer these funds to UNDP'S contribution account in HQ.

The Office had received a new imprest level, effective 1 March 2019, of \$1,522,000 per month. Since then, it had requested and obtained five exceptions, ranging from an additional \$1.6 million (a 107 percent increase) in April 2019 to an additional \$4.7 million (or a 308 percent increase) in July 2019. From March to August 2019, the Office sought to obtain additional cash, either by requesting exceptions to the imprest level or by liquidating local investments. While the Office explained that these cash needs were largely unforeseen and driven by the needs of UN agencies being serviced, the Office was not able to fully explain why its cash needs were not commensurate with the imprest level assigned by UNDP Treasury, which should reflect this.

The risk for UNDP at large is that it may convert too many US dollars to local currency, and in doing so, be exposed to significant foreign exchange losses. The fact that the Office had excess cash, which it was able to invest, opened the door to additional risks (see issue 3 on local investments).

Priority	Medium (Important)
Recommendation 3: To improve its cash management, the Office should: <ul style="list-style-type: none"> (a) improve its forecasting by being more proactive in soliciting more accurate depictions of predictable cash needs with its serviced agencies and of UNDP internal units; and (b) seek to establish with UNDP Treasury an imprest level that is commensurate with the actual cash needs. 	
Management action plan: The Office has already submitted revision by UNDP Treasury, of the imprest level, based on the performance of the seasonality of delivery in previous years and the necessity for the exceptions. Treasury approved this revision on 24 October 2019 (OAI acknowledges this comment and will review the approval from Treasury at a later stage as part of the follow up process to the implementation of this recommendation). The Office agrees with the recommendation and establishes the actions below: <ul style="list-style-type: none"> (a) Improve the communications and its proactivity with Programme Unit and agencies serviced by UNDP, aiming to advance with its cash forecast. In addition, the Finance Unit will periodically conduct meetings with partners in order to collect more accurate information. (b) Prepare analyses and send the formal request to Treasury in advance to guarantee the appropriate cash management. 	

Estimated completion date: June 2020

2. ICT and General Administrative Management

Issue 4 Insufficient data collected for the preparation of the annual ICSC DSA Survey

The International Civil Service Commission (ICSC) is responsible for establishing Daily Subsistence Allowance (DSA) rates applicable within the United Nations common system. In order to ensure the adequacy of the DSA rate, a survey is to be carried out collectively by UN agencies, with presence in country and submitted to the ICSC on an annual basis.

The ICSC instructive stipulates that:

- The basis for the DSA rate for United Nations personnel travelling on official business is the average price for a single room and restaurant meals, including service charges and/or taxes, plus 15 percent for incidentals.
- The Office, responsible for coordinating the submission of the data to the ICSC, should visit the hotels and restaurants to collect the information.

The Human Resources Policy and Compensation Unit within the UN Secretariat provides advice on the variation of hotel rates for different travelers and stipulates that any situation that should be considered by the ICSC in determining the DSA rate, be properly documented.

The JOF travel unit was responsible for coordinating and carrying out the ICSC DSA rate survey. The JOF travel unit researched hotel ratings in travel websites to determine which hotels were selected to participate in the DSA rate survey. The unit indicated that resources were not available to conduct onsite visits of the hotels/restaurants selected. The information instead was requested from the selected venues via email. The data collected through the market research was found not to include sufficient coverage of the selected locations and due to the lack of onsite visits, the costs of hotels and meals assessed for the ICSC DSA rate survey could not be validated.

Visits to hotels and restaurants were required to ensure the accuracy of the rates and price information submitted. In addition, the hotel rates for single rooms submitted by the surveyed hotels were 'commercial rates', rather than negotiated rates for a UN traveller on official mission.

There is a risk that the information submitted to the ICSC for the calculation of the DSA rates for the Country may not be accurate.

Priority	Medium (Important)
Recommendation 4: The Office should ensure that for the next ICSC DSA survey, the travel unit: <ul style="list-style-type: none"> (a) follows the ICSC instructive; and (b) conduct an inter-agency annual exercise with the support of other UN agencies in the Country. 	

Management action plan:

The Office will take following actions:

- (a) Will review the ICSC guidance in detail and prepare a plan for the next exercise.
- (b) Will send a formal communication to the Operations Managers Team and propose to create an inter-agency group to conduct the annual exercise.

Estimated completion date: August 2020

3. Human Resources Management

Issue 5 Weaknesses in the management of service contracts

UNDP Country Offices are expected to comply with the 'Service Contract User Guide' in the management of service contracts. The Guide stipulates the roles and responsibilities to manage service contracts and a modality for hiring individuals under a non-staff contract. The following weaknesses in the management of service contracts were identified:

- A service contract roster was not developed. Candidates that had been 'fully recommended' in response to a generic vacancy announcement for a specific area of expertise, or from a specific vacancy announcement, or former service contract holders that were separated from UNDP with satisfactory service, were not included within a roster.
- Hiring managers were responsible for ensuring social security contributions were being processed on a monthly basis; this responsibility is stated in the 'Service Contract User Guide' as a Human Resource Unit function.

At the time of the audit mission, the Human Resource Associate had been recruited less than one year, from another UN agency under a temporary appointment. The Human Resources associate may not have been aware of the 2018 amendments to the 'Service Contract User Guide' (i.e., establishing a service contract roster and assurance of processing social security contributions).

The weaknesses identified above may contribute increased reputational risks for the Office.

Priority	Medium (Important)
Recommendation 5:	
To improve service contract management, the Office should:	
<ul style="list-style-type: none"> (a) develop a service contract roster; and (b) ensure the Human Resources Unit assumes responsibility of assurance that social security contributions are processed on a monthly basis. 	
Management action plan:	
The Office will undertake the following actions to address the recommendations:	

- (a) The Human Resources Unit will: i) analyze what positions could be rostered; ii) establish and agree with Programme Unit the appropriate generic TOR; iii) design and implement the recruitment and selection strategy; and, iv) define criteria for quality assessment and to update the roster.
- (b) The Human Resources Unit will monitor and control all confirmation of payments of social security dues and no renewal of contracts will be made before this confirmation is obtained.

Estimated completion date: December 2020

Issue 6 Job descriptions outdated

The Job Evaluation Policy stipulates that job descriptions of staff should accurately reflect the name and designation of whom the staff report to. An up-to-date job description should describe the functions including responsibilities, main results expected, and required competencies. The audit team noted that:

- All 17 of the job descriptions reviewed through testing were outdated, as they did not reflect the current supervisor designation.
- The roles and responsibilities of the Operations Manager were not aligned with the current reporting lines and responsibilities. With the change in senior management and additional responsibilities for the JOF, the job description of the Operations Manager was outdated.
- The responsibilities of the Procurement Analyst had changed to undertake the functions of JOF Manager ad interim since May 2019; these responsibilities had not been reflected in an updated job description or recognized through a Special Post Allowance.

The exceptions arose as changes to job descriptions were put on hold pending the appointment of the Resident Representative and Deputy Resident Representative in 2019.

Delays in updating the job descriptions with up-to-date roles and responsibilities, and incorrect reporting lines may create confusion in relation to staff accountabilities.

Priority	Medium (Important)
Recommendation 6:	
The Office should review all staff job descriptions to ensure that reporting lines duties, roles and responsibilities are updated accordingly.	
Management action plan:	
The job descriptions will be reviewed, and duties, roles and responsibilities will be updated accordingly to reflect the current organizational situation, including the delinking of the Resident Coordinator system and the changes in JOF service management.	
Estimated completion date: December 2020	

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.