UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP TREASURY MANAGEMENT

Report No. 2120

Issue Date: 21 June 2019

Subsequent to the issuance of this audit report on 21 June 2019, UNDP management took immediate corrective actions. These actions included expediting the recruitment of the Chief Investment Officer, updating UNDP policies governing treasury management, managing the number of local bank accounts, and developing Atlas queries to improve controls over Country Office cash levels.

The original audit report, as issued on 21 June 2019, has not been modified.

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Table of Contents

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Report on the Audit of UNDP Treasury Management
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Treasury Management from 5 to 28 March 2019. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes. In particular, the audit aimed to:

1. Determine whether: a) governance processes are well designed and functioning; b) UNDP financial assets were safeguarded; c) investment portfolio returns were optimized; d) sufficient liquidity was maintained for the day-to-day operations.

2. Provide reasonable assurance that policies and procedures: a) exist to guide the establishing of bank accounts, corporate credit cards, cash availability to Country Offices and investment management operations; and b) are implemented consistently.

3. Determine whether controls have been established by the Treasury Division to mitigate against significant operational or financial exposure of UNDP.

The audit covered the UNDP treasury operations and activities from 1 January 2017 to 31 December 2018. The audit did not cover the electronic funds transfer infrastructure and processes directly managed by the Treasury Division, nor the applicable host-to-host applications implemented at the Country Office level since these will be covered in a separate audit, by OAI, in 2019. The last audit of the Treasury Division was conducted by OAI in 2007.

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

Overall audit rating

OAI assessed UNDP Treasury Management as **partially satisfactory/major improvement needed**, which means, "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." This rating was mainly due to weaknesses in governance arrangements and risk management, and weaknesses in cash management and treasury operations.

Key recommendations: Total = **7**, high priority = **3**

The seven recommendations aim to ensure the following:

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

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. All high (critical) priority recommendations are presented below:

Key posts in Investment Section vacant (Issue 1)

The audit team noted that two of three posts in the Investment Section of the Treasury Division were vacant. One of those posts, that of the Chief Investment Officer, had been vacant since April 2018. At the time of the audit, UNDP had extended an offer of employment to a candidate for the Chief Investment Officer post, which ultimately did not materialize, and the recruitment had, once again, been initiated.

Recommendation1: The Treasury Division should ensure that the recruitment of the Chief Investment Officer is conducted without delay.

Inadequate oversight and monitoring of Country Office funding (Issue 7)

There was inadequate oversight and monitoring of Country Office funding. The audit team noted the following:

(a) Weak management of imprest cash level in Country Offices

There was a surplus of cash with Country Offices, above their needs. The audit identified at least 26 Country Offices that had approved deals (replenishment of Country Offices' local bank accounts) that exceeded their set imprest levels for a total amount of $31.2 million. In all cases, these deals (replenishments) would have required prior Treasury authorization. Treasury Division could not provide evidence that these Country Offices had sought approval for exceeding their imprest levels. This limited the opportunities for UNDP to invest the excess cash. Further, Country Offices and the Treasury Division need better and more refined Atlas reports/monitoring tools to monitor the imprest level or identify instances of excess cash held by Country Offices.

(b) Inadequate management of deals

In general, deals are deactivated when there are mistakes/errors made in relation to the settlement instructions. For 2018, the audit identified 110 transactions valued at $350 million that were deactivated – including 9 transactions (with a total value of $24 million) related to direct replenishments which were controlled and performed by HQ. Further, the audit identified 1,014 incomplete deals for a total amount of $668 million with a status "pending", ageing for more than six

months. In addition, 67 investment-related deals for about $2.8 billion were identified with the pending confirmation status in Atlas (enterprise resource planning system of UNDP) which need to be completed by Country Offices and the Treasury Division.

Recommendation 5.
The Treasury Division should strengthen its monitoring and oversight over the management of imprest levels and deals by: (a) refining its monitoring tools available to the Country Offices in order to track insufficient or excess cash on hand as well as pending and deactivated deals; and (b) setting Atlas controls to prevent offices from completing deals of large amounts above a set limit defined by the Treasurer; and organizing training sessions to build Country Office capacity in managing deals.

Discrepancies between the bank accounts in Atlas and the Bank Administration Report (Issue 8)

The Treasury Division used a Bank Administration software to maintain the database of bank accounts and authorized bank signatories. The audit compared the list of active bank accounts in Atlas as of 8 March 2019 with the data from the Bank Administration report as of 12 December 2018, along with actual records filed with the Treasury Division, and found the following:

- There were 68 bank accounts that appeared as active in Atlas which were not included in the Bank Administration report, including 32 accounts that were closed by the banks.
- There were 35 accounts listed in the Bank Administration report that were not in the list of Atlas active bank accounts.
- There were 12 bank accounts with discrepancies in the account number recorded in Atlas and in the Bank Administration Report.
- The signatory panel for 21 out of 37 bank accounts (covering 25 Country Offices) had inconsistencies between the report from Bank Administration and records submitted by Country Offices to the Treasury Division. Some staff who had already left the Country Offices were still appearing as part of the signatory panel in the Bank Administration database.

Recommendation 6: The Treasury Division should reconcile the list of bank accounts in Atlas with the list of bank accounts maintained in the Bank Administration Report, including by comparing the data of bank accounts in Atlas and their corresponding signatory panel members.

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Management comments and action plan

The Director of the Bureau for Management Services and the Treasurer accepted the seven recommendations and are 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 UNDP Treasury Management

Treasury management in UNDP aims in general to ensure that adequate cash is available for the organization to meet its obligations as they become due. At the same time, Treasury contributes to optimizing how funds are managed by ensuring that just enough cash is held by Country Offices to match their planned expenditures, which facilitates the centralized investment of funds for working capital needs.

UNDP's Treasury Division is part of the Office of Financial Resources Management (Bureau for Management Services). At the time of the audit, it was comprised of 14 staff all based in New York responsible for two units: Cash and Treasury Operations, and the Investment Section.

In particular, the Treasury Division in UNDP performs the following functions:

- Oversees cash and currency exchange risks, and the investment of excess cash balances;
- Maintains HQ banking relationships;
- Establishes and disseminates treasury and cash management policies for the entire organization
- Supports procurement of banking services globally;
- Oversees the HQ operations unit, and provides payment support services to Country Offices and HQ units utilizing HQ bank accounts;
- Manages the business interruption plan and systems including Atlas (enterprise resource planning system of UNDP), bank and SWIFT (Society for Worldwide Interbank Financial Telecommunication) interfaces; and
- Implements Treasury Controls.

Some treasury functions are also performed in the Regional Hubs and Country Offices (e.g., bank reconciliation and operating local bank accounts).

II. Audit results

Satisfactory performance was noted in the following area:

(a) Governance/Business continuity planning. The Bureau for Management Services conducted in April 2018 a business continuity simulation and the Treasury Division updated its Business Continuity Plan in February 2019, in addition to taking additional IT-related steps to enhance operational response. The audit found that the controls put in place to manage business continuity were adequate.

OAI made three recommendations ranked high (critical) and four recommendations ranked medium (important) priority.

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

High-priority recommendations, arranged according to significance:

(a) The Treasury Division should strengthen the monitoring and oversight over the management of imprest levels (Recommendation 5).
(b) The Treasury Division should ensure that the recruitment of the Chief Investment Officer is conducted without delay (Recommendation 1).
(c) The Treasury Division should reconcile the list of bank accounts in Atlas with the list of bank accounts maintained in the Bank Administration Report (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) The Treasury Division should improve the monitoring over bank accounts and their closing (Recommendation 7).
(b) The Treasury Division should ensure completeness and consistency of policies and procedures (Recommendation 2).
(c) The Bureau for Management Services should improve the management of advances made to United Nations agencies (Recommendation 4).
(d) The Treasury Division should reinforce the governance of investments and stewardship of management of service level agreements with UN agencies (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance arrangements and risk management

Issue 1 Key posts in Investment Section were vacant

The audit team noted that two of three posts in the Investment Section of the Treasury Division were vacant. One of those posts, that of the Chief Investment Officer, had been vacant since April 2018. At the time of the audit, the Treasury Division had extended an offer of employment to a candidate for the Chief Investment Officer post, which ultimately did not materialize, and the recruitment had, once again, been initiated.

Regarding the second position in the Investment Section and subsequent to the audit, BMS indicated that a reorganization of the Investment function was conducted and the P4 position was re-purposed, to help leverage the emerging opportunities on new financing modalities and instruments in keeping with UNDP's move away from 'funding' to 'financing' development interventions per its 2018 – 2021 Strategic Plan.

Given the responsibilities of investing funds for UNDP (over $7 billion) and other UN agencies, in addition to the relationship management with investment firms for the After-Service Health Insurance funds, the under-staffing of the Investment Section poses risks ranging from financial to reputational and may negatively impact organizational effectiveness.

Priority High (Critical)
Recommendation 1: The Treasury Division should ensure that the recruitment of the Chief Investment Officer is conducted without delay.
Management action plan: Management has already made efforts to complete this ongoing recruitment. **Estimated completion date:** September 2019

Issue 2 Gaps and outdated treasury policies, procedures and processes

UNDP's main policy and procedures repository is the 'UNDP Programme and Operations Policies and Procedures'. Procedures serve as a blueprint for policy implementation and as step-by-step instructions on how to implement a policy and state who will implement it. Bureaux with prescriptive content in the 'UNDP Programme and Operations Policies and Procedures' are accountable for regularly reviewing them in a timely manner, for amendment and adjustment of existing policies, and publishing them on the 'UNDP Programme and Operations Policies and Procedures' platform. Content owning units are responsible for reviewing policies every three years at least, or more frequently as required.

The audit noted the Treasury Division Manual, comprising the Investment Guidelines, had been updated in June 2018 and most recently in November 2018, responding to a UN Board of Auditors audit recommendation.[1] The document had no version control and it was unclear who had approved the 2015 and subsequent updates. Despite the recent update, the audit found that at least four procedures prescribed in the Manual were outmoded. For example, limits concerning petty cash funds and project cash advances to service contract holders were outdated because of newer guidance on streamlined business processes issued by the Bureau for Management Services.

The lack of clarity, missing guidance, outdated policies and inadequate application of procedures will weaken Treasury Division's stewardship role in achieving the organizational objectives

Priority	Medium (Important)
Recommendation 2: The Treasury Division should ensure completeness and consistency of policies and procedures by: (a) conducting a comprehensive review of its Treasury Manual and ensuring that updates to the 'UNDP Programme and Operations Policies and Procedures' are properly reflected in its content; and (b) establishing a version control and seeking approval from the Treasurer of all future versions of the Treasury Division Policies and Procedures Manual.	
Management action plan: Management accepts this recommendation and commits to ensuring that a comprehensive review of the Treasury Manual will be made on an annual basis, and its contents will be fully aligned with the 'UNDP Programme and Operations Policies and Procedures' and future versions of the Manual will be approved and circulated by the Treasurer for use strictly within the Treasury Division. **Estimated completion date:** December 2019	

[1] Refer to UNDP financial report and audited financial statements for the year ended 31 December 2017 and the Report of the Board of Auditors, page 39. Available at https://undocs.org/en/A/73/5/Add.1

B. Investments management

UNDP's Treasury Division has the authority for managing investments of UNDP, Trust Funds, and agencies based on Investment Guidelines approved by the Investment Committee.

The objectives of the UNDP Investment Guidelines are safety, liquidity, return, and compliance with socially responsible investment requirements. The working capital funds which are held-to-maturity financial assets with credit ratings of AA- and above.[2] As of 31 December 2018, the investment in the commingled (combined) working capital was $5.5 billion (including funds from other UN agencies on whose behalf the Treasury Division manages their banking and investment activities) which was held in the following instrument types, as provided in the table below:

Table 1: Investment breakdown as of 31 December 2018

Holding type	Amount in US dollars	Percentage of total portfolio (working capital)
Bonds	3,951,263,000	72
Time deposits	690,000,000	13
US Treasury Notes	305,000,000	5
Money Market funds	260,971,079	5
Commercial papers	200,000,000	4
Certificates of deposit	75,000,000	1

Source- UNDP Treasury Division

The Treasury Division had also engaged two investment managers to manage the After-Service Health Insurance available-for-sale financial assets amounting to $654 million, which are held in equities, fixed income and cash. As of 31 December 2017, the actuarial valuation of the After-Service Health Insurance liabilities was $1.3 billion based on the discount rate of 3.85 per cent. As of the audit, an Asset Liability Study for After-Service Health Insurance was underway.

The audit team reviewed the terms of reference of both the UNDP Investment Committee and the inter-agency After-Service Health Insurance Investment Management Committee; held meetings with various members of the Treasury Division responsible for Investments; held meetings with members of the inter-agency After-Service Health Insurance Investment Management Committee; and reviewed actions taken by the Treasury Division to manage the credit, liquidity, market and operational risks. While the audit team reviewed the management of investment services conducted by UNDP and those handled by external investment management firms, the audit team did not conduct independent tests and financial attestations of any of those transactions recorded by Treasury to provide assurance to the financial statements, a role that would be performed by the UN Board of Auditors.

Issue 3 Challenges associated with the transition from held-to-maturity to available-for-sale process

Available-for-sale financial assets are purchased with the intent of selling before they reach their maturity, while held-to-maturity financial assets are purchased with the intent to hold to maturity.

[2]. An AA- rating is a financial indicator and represents the quality of a bond.

The ICT Project Document for the mark-to-market accounting interface indicates that the Treasury Division wanted to use this tool to facilitate treasury deals including the calculation the foreign exchange gain or loss on available-for-sale investments.

The audit team was informed that the mark-to-market interface ICT project costing $29,510 had been finalized and released to the Treasury Division in December 2018, and the testing in the Atlas environment had commenced. However, during the testing, the Treasury Division noted that the current version of Atlas did not support all functionality required. The required functionality would be available as part of the Atlas 9.2 upgrade.

Successful implementation of the mark-to-market process is needed for the transitioning from the held-to-maturity to available-for-sale investments. Held-to-maturity investments have fixed returns, and it is not possible to obtain higher returns on investments even if the market becomes more favorable.

OAI Comment:

OAI is not issuing a recommendation as the Treasury Division was still working on the full transition from held-to-maturity to available-for-sale investments, scheduled for completion by the end of the second quarter of 2019.

Issue 4 Delays in finalizing the contracting process with investment managers

According to the general consideration of contracting in the 'UNDP Programme and Operations Policies and Procedures', business units shall award contracts within the period of the offer's validity to the offeror that meets the requirements defined by the solicitation and whose bid has been determined to be substantially responsive to the solicitation documents, and to offer the best value for money.

The audit team noted that the Chief Procurement Officer approved the case submitted to the Advisory Committee on Procurement to retain the services of two investment management firms on 19 September 2013. The contracts were only signed on 5 April 2016, or 2.5 years after their approval.

Contracting based on old vendor capability information/outdated market research exposes UNDP to risks of using inefficient services.

OAI Comment:

OAI is not issuing a recommendation since the Treasury Division was not planning to renegotiate the contracts with the investment management firms in the short term.

Issue 5 Weaknesses in policies and processes governing investments

In service level agreements and memorandums of understanding signed with individual UN agencies, UNDP agrees to provide an assortment of services for operational support, including investment management services. According to the UNDP Treasury Division Policies and Procedures Manual, the Investment Section holds quarterly meetings with partner UN agencies and biannual meetings with the Multi-Partner Trust Fund Office as per the meeting schedule as part of its investment management reporting. The Investment Guidelines dictate

that UNDP will pursue socially responsible investments. Terms of reference govern the work of the Investment Committees and should establish clear duties and responsibilities.

- The terms of reference for the After-Service Health Insurance Investment Management Committee had not been updated to include Committee decisions reflecting a change in the asset classes ranges.
- The terms of reference for the Investment Committee (working capital) did not contain a conflict of interest disclosure provision for those elected to serve as observers on the Committee.

Weaknesses in policies and processes governing investments create expectations that might not be delivered.

Priority Medium (Important)
Recommendation 3: The Treasury Division should reinforce the governance of its investments and stewardship of its management of the service level agreements with UN agencies by ensuring that terms of reference for Investment Committees are up to date, in respect of asset classes ranges and conflict of interest disclosures.
Management action plan: Updates to the After-Service Health Insurance and working capital documents will be made for the change in asset classes and conflict of interest clauses, respectively. **Estimated completion date:** September 2019

C. Cash management

In UNDP, the Treasury Division is responsible for Headquarters (HQ) cash management, which includes overseeing Country Office cash management practices. However, each UNDP Country Office's finance function is responsible and accountable for its own cash management activities. The Cash Management Unit's primary responsibility is to oversee and monitor cash flows in Country Offices and to ensure adequate and timely funding of UN agencies acting as executing and implementing agencies for UNDP'S projects. The Cash Management Unit's main goal is to ensure timely funding of all UNDP Country Offices, and to prevent the accumulation or holding of excess cash balances.

The audit team reviewed the relevant sections of the 'UNDP Programme and Operations Policies and Procedures' (cash management and arrangement) to ensure their clarity and completeness and assessed the alignment and consistency between those policies and the Treasury Division's Policies and Procedures Manual. It also discussed with Treasury Division the mechanisms in place to ensure that their staff were up-to-date in terms of changes in policies and procedures to provide adequate guidance to Country Offices. Further, the audit team reviewed the existing tools to manage the levels of cash kept It also reviewed the latest cash arrangement monitoring report to identify Country Offices that have recurring issues.

Issue 6 Weaknesses in funding UN agencies implementing UNDP projects

UNDP is required to fund UN agencies that are implementing UNDP projects worldwide to ensure adequate liquidity for these agencies. There are two modalities for providing these funds, either through the Project Clearing Account at the HQ level or locally by UNDP Country Offices.

The audit noted that:

- While the 'UNDP Programme and Operations Policies and Procedures' provide guidance for the recording of advances made to UN agencies through the Project Clearing Account, there was no policy guidance in 'UNDP Programme and Operations Policies and Procedures' for the management of cash advances made locally by Country Offices to UN agencies.

- The provision of financing for programmatic activities is determined through the payment schedules within funding agreements. However, for 2018 and 2017, 46 offices made local cash advances to United Nations agencies (not under the Project Clearing Account arrangement) for $25.7 million and $18.1 million, respectively; and the net unliquidated local cash advances made to UN agencies (not under Project Clearing Account arrangement) was of $15.5 million and $10.3 million, respectively. The audit team also noted that in one Country Office, there were unliquidated advances of $2.2 million given to a UN agency for about a year. OFRM will invite the country offices and the regional bureaux to review and clear outstanding/unliquidated local cash advances as of December 2018.

- There was no corporate monitoring dashboard to enable Country Offices to monitor local advances to United Nations agencies. The audit noted that Country Offices were making advances to United Nations agencies under different vendors names/IDs, thus making it difficult to track and liquidate the advances. Between 2017 and 2018, six UN agencies were provided local advances of up to $35.8 million with at least four different vendor names per agency. Subsequent to the fieldwork, the Office of Financial Resources Management indicated that it was developing an indicator on the local Project Clearing Account, which would be in the new integrated finance dashboard.

Lack of guidance and tools to monitor the accumulation of unliquidated advances with United Nations agencies locally exposes UNDP to a risk of cash being accumulated for long periods of time.

Priority	Medium (Important)
Recommendation 4: The Bureau for Management Services should improve the management of advances made to United Nations agencies by: (a) updating the 'UNDP Programme and Operations Policies and Procedures' content with guidance on local advances to United Nations agencies not under Project Clearing Account arrangement; and (b) finalize and roll out the integrated financial dashboard to support Regional Bureaux and Country Offices to monitor local advances made to United Nations agencies.	
Management action plan: (a) The Bureau for Management Services agrees with recommendation and has already taken steps to update the 'UNDP Programme and Operations Policies and Procedures' content on local advances.	

(b) The Bureau for Management Services will finalize and roll out the integrated financial dashboard to support Regional Bureaux and Country Offices to monitor local advances made to United Nations agencies.

Estimated completion date: December 2019

Issue 7 Inadequate oversight and monitoring of Country Office funding

According to the Programme and Operations Policies and Procedures, the objectives of the Country Office Funding is to (a) ensure country offices have adequate but not excessive liquidity for their own operations and requested disbursements on UN Agencies' behalf; (b) identify and utilize a funding mechanism that will deliver timely funding at minimum costs; (c) consolidate excess cash resources and invest surplus cash where possible; and (d) minimize exchange rate risk.

(a) Weak management of imprest cash level in Country Offices

There was a surplus of cash with Country Offices, above their needs. The audit identified at least 26 Country Offices that had approved deals (replenishment of Country Offices' local bank accounts) that exceeded their set imprest levels for a total amount of $31.2 million. In all cases, these deals (replenishments) would have required prior Treasury authorization. Treasury Division could not provide evidence that these Country Offices had sought approval for exceeding their imprest level. This limited the opportunities for UNDP to invest the excess cash. Further, Country Offices and the Treasury Division need better and more refined Atlas report/monitoring tools to monitor the imprest level or identify instances of excess cash held by Country Offices.

(b) Inadequate management of deals

In general, deals are deactivated when there are mistakes/errors made in relation to the settlement instructions. For 2018, the audit identified 110 transactions valued at $350 million that were deactivated – including 9 transactions (with a total value of $24 million) related to direct replenishments which were controlled and performed by HQ. Further, the audit identified 1,014 incomplete deals for a total amount of $668 million with a status "pending", ageing for more than 6 months. In addition, 67 investment-related deals for about $2.8 billion were identified with the pending confirmation status in Atlas which need to be completed by either Country Offices and the Treasury Division.

In addition, Atlas has no controls to prevent offices completing deals of large amounts above a set limit by Treasury. Weak or insufficient oversight over Country Office funding exposes UNDP to missed opportunities to invest excess cash balances.

Priority High (Critical)

Recommendation 5:

The Treasury Division should strengthen its monitoring and oversight over the management of imprest levels and deals by:

(a) refining its monitoring tools available to the Country Offices and Treasury Division in order to track insufficient or excess cash on hand as well as pending and deactivated deals; and
(b) setting Atlas controls to prevent offices completing deals of large amount above a set limit defined by the Treasurer; and organizing training sessions to build country office capacity in managing deals.

Management action plan:

Management of Imprest level

A tool currently exists for Treasury to monitor imprest level. The tool can be further optimized for which automation opportunities will be explored. With the currently available tools, Treasury tracks, monitors and follows-up with e-mails the authorizations to exceed manually in a excel file and follows up with countries by email on their bank balances. Treasury also tracks and highlights the risks to the Bureaus during Bureau Reviews or from periodic cash management reviews, which were made available to OAI.

The excess in 2018 and that of 2017 after adjustment as above represents 1.12% and 0.46% respectively, of total amount of imprest level established for the country offices in 2018 (2.8 billion) and 2017 (3.2 billion).

Management of Deals

Deactivated deals:
Deal deactivation is a legitimate control process to manage inaccurate or incomplete deals in Atlas and to ensure that UNDP's books correctly represent investment transactions. The deactivation of deals process reinforces the strength of this control and follows the prescribed segregation of duties in accordance with UNDP ICF. A staff member who creates a deal does not have the function in Atlas to deactivate the deal.

Pending confirmation deals:
The deal confirmation feature in Atlas is not functional to confirm transactions with counterparties. Therefore, this feature in Atlas does not have the ability to create accounting entries or control the cash settlement. As a compensating control, prior to the disbursement of funds, confirmation in HQ is completed in accordance with the procedure established in Treasury Manual.

There are 4,443 deals with total value of $17.94 billion recorded globally by UNDP in 2018 of which HQ recorded 938 deals for $15.42 billion and CO recorded 3,505 deals for $2.52 billion. The size of deactivated deals was 1.95% and pending confirmation was 19.33% during the period.

Response to recommendations

a) Refined monitoring reports will be developed for the country offices. Monitoring tools are currently available, however additional monitoring tools will be developed and made available to the Country Offices to track pending and deactivated deals. In addition to the current monitoring performed by Treasury, an escalation process within OFRM will be exercised for Country Offices with chronic non-compliance.
b) Treasury agrees with the recommendation. Treasury will explore an Atlas solution to establish controls to prevent offices from completing deals of large amount above a set limit. If Atlas solution is not possible, a compensating control will be implemented. Treasury will organize webinars and/or training sessions for regional bureaus/COs to educate on the risks and control measures.

Estimated completion date: June 2020

D. Treasury operations

Issue 8 Discrepancies between bank accounts in Atlas and Bank Administration Report

The Treasury Division creates and maintains all UNDP bank account information in Atlas. While the Resident Representative of UNDP in any given Country Office is responsible for designating and maintaining the bank signatory panel up to date, the Treasurer retains the responsibility to maintain a central database with current information of signatories to all UNDP accounts.

The Treasury Division used a Bank Administration software to maintain the database of bank accounts and authorized bank signatories. The audit compared the list of active bank accounts in Atlas as of 8 March 2019 with the data from the Bank Administration Report as of 12 December 2018, along with actual records filed with the Treasury Division, and found the following:

- There were 68 bank accounts that appeared as active in Atlas including 32 accounts that were closed by the banks, which were not included in the Bank Administration Report.
- There were 35 accounts listed in the Bank Administration Report, which were not in the list of Atlas active bank accounts.
- The signatory panel for 21 out of 37 (or 57 percent) of bank accounts (covering 25 Country Offices) had inconsistencies between the report from Bank Administration and records submitted by Country Offices to the Treasury Division. Some staff who had already left the Country Offices were still appearing as part of the signatory panel in the Bank Administration database.

Having inaccurate records of bank accounts and signatory panel members may expose UNDP to a risk of fraud and misuse of resources.

Priority	High (Critical)
Recommendation 6: The Treasury Division should reconcile the list of bank accounts in Atlas with the list of bank accounts maintained in the Bank Administration Report, including by comparing the data of bank accounts in Atlas and their corresponding signatory panel members.	
Management action plan: Management would like to state that Financial Regulation and Rule 125.01 and 125.02 do not require the Treasurer to maintain all UNDP bank account information in Atlas. It should be noted that in accordance with the 'UNDP Programme and Operations Policies and Procedures', the Treasurer has delegated to the Resident Representative the responsibility to designate and maintain the panel of signatories for locally domiciled bank accounts. It is the responsibility of the Resident Representative to inform the Treasurer of any changes he/she has made. The purpose of Bank Administration software is to supplement the data of bank accounts, more specifically, the list of signatory panel which is also available in hard copies. Bank Administration software does not	

replace or override the banking data available in Atlas. Treasury always informs the bank of any changes on the signatory panel through an exchange of letters upon verification of the signatory panel with hard copies.

Based on the above, management agreed with this recommendation and has already addressed the recommendations made in the Bank Administration software. Considering the purpose of the use of the Bank Administration software, management does consider this to have been a considerable risk.

Estimated completion date: June 2019

Issue 9 Weaknesses in monitoring and deactivating bank accounts

In accordance with UNDP Financial Rule 125, the Administrator has delegated to the Treasurer the authority to manage and operate UNDP's bank accounts. Only the Treasurer has the authority to open and close UNDP bank accounts, except in cases of local emergencies when a Representative may act to open or close a bank account. Further, Treasury "shall create and maintain UNDP bank accounts (both HQ and Country Office bank accounts) information in Atlas."

The audit compared the Bank-to-Book Atlas Reports with the list of bank accounts maintained in Atlas and noted:

(a) Inactive bank accounts: UNDP had 25 inactive bank accounts with $5.3 million of unreconciled balances and 14 inactive bank accounts with $2.6 million in bank balances.

(b) 75 active bank accounts with no activity in 2017 and 2018 (dormant bank accounts):

A total of 75 bank accounts were identified as having no transactions (no payments, no deposits) in 2017 and 2018. The audit noted:

- A total of 42 bank accounts needed to be inactivated; however, they were still listed as active in Atlas as of 8 March 2019. Thirty-nine of these accounts had been closed for more than 12 months.
- A total 16 bank accounts could not be closed because of Bank-to-Book reconciliation issues.
- A total of 12 bank accounts needed further investigation prior to closure.
- A total of 5 accounts needed to be discussed with UNFPA.
- Two bank accounts were never opened at the bank but appeared as being active in Atlas as of 8 March 2019.

Further, the audit sampled 23 bank accounts from 11 Country Offices and noted that 7 of the 23 bank accounts, which were closed between 2007 and 2012, were still active in Atlas as of 8 March 2019. Of these, two accounts were subsequently deactivated by the Treasury Division. According to the Treasury Division, the reason for the delay was due to Bank-to-Book reports still having unreconciled items of $669,797.

The audit noted that the 'UNDP Programme and Operations Policies and Procedures' do not contain specific procedures on how to close bank accounts. However, the Treasury Division developed a checklist of seven steps to be followed by UNDP Country Office and Treasury Division staff when closing a UNDP bank account.

Weaknesses in the monitoring of bank reconciliations and non-compliance with the closing of bank account procedures can lead to incorrect financial statements and potential losses.

Priority	Medium (Important)
Recommendation 7: The Treasury Division should improve its monitoring over bank accounts and their closing by: (a) Updating the 'UNDP Programme and Operations Policies and Procedures' to include procedures to close bank accounts at the bank and in Atlas; (b) investigating, along with Country Offices, all outstanding unreconciled items; and (c) determining which bank accounts have been reconciled and have no cash balance and proceed to close them without delay.	
Management action plan: (a) Management will update the 'UNDP Programme and Operations Policies and Procedures' to reflect the procedures currently in place for closing bank accounts at the bank and in Atlas. (b) Management agrees that the Office of Financial Resources Management will investigate and follow up the clearance of unreconciled items in inactive bank accounts noting that operating Country Office bank accounts, including performing bank reconciliations, is the responsibility of Country Offices with oversight from the Regional Bureaux. The Office of Financial Resources Management has corporate monitoring responsibility for Country Office bank accounts. (c) Management agrees that the Office of Financial Resources Management will close bank accounts that have no cash balance when they are fully reconciled by their respective offices. **Estimated completion date:** September 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.