AUDIT

OF

UNDP COUNTRY OFFICE

IN

ARGENTINA

Report No. 2183
Issue Date: 20 August 2020
# Table of Contents

Executive Summary  
I. About the Office  
II. Audit results  
A. Governance  
   1. Planning and Risks Management  
B. Development Activities  
   1. Projects Administration  
C. Operations/Procurement  
   1. Goods and Services  
D. Operations/Human Resources  
   1. Personnel Development & Training  
Definitions of audit terms - ratings and priorities
Report on the Audit of UNDP Argentina
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Argentina (the Office) from 14 May to 3 June 2020. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2019 to 31 March 2020. The Office recorded programme and management expenses of approximately $146 million. The last audit of the Office was conducted by OAI in 2017.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team’s understanding of the Office’s working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe and petty cash contents were not verified.
(f) The Information Communication and Technology area was not reviewed on-site.

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 weaknesses in project management.

Key recommendations: Total = 4, high priority = 1

The four recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>2</td>
<td>High</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>3, 4</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and</td>
<td>1</td>
<td>Medium</td>
</tr>
<tr>
<td>rules, policies and procedures</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 recommendation is presented below:
Weaknesses in project management (Issue (2))

(a) **Project design (Direct Project Costing):**
   - At the time of the audit, full Direct Project Costing requirements had not been implemented.

(b) **Project implementation:**
   - For two of six projects sampled, the annual project board meeting did not take place.
   - Two of the six projects reviewed experienced low delivery as compared to the approved budget for 2019.

(c) **Project closure:**
   - Two projects were operationally closed for more than 12 months but not financially closed.

**Recommendation:** The Office should improve project management by: (a) fully implementing the Direct Project Costing policy; (b) ensuring that project budgets are realistic, project board meetings are conducted at least once a year, and project revisions are realistic; and (c) completing project closures within the stipulated timeframe.

**Implementation status of previous OAI audit recommendations:** Report No. 1756, 21 August 2017.
   - Total recommendations: 4
   - Implemented: 4

**Management comments and action plan**

The 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.

---

Helge Osttveiten  
2020.08.20  
14:09:29 -04'00'  
Helge Osttveiten  
Director  
Office of Audit and Investigations
I. About the Office

The Office, located in Buenos Aires, Argentina (the Country) and its Country Programme covered the period 2016–2020 (extended in agreement with the Government and the United Nations Country Team until 2021 due to the economic crisis in the Country and the change of Government). The programme included the following development priorities:

- Inclusive, sustainable development
- Social protection and universal access to good-quality basic services.
- Citizenship and human rights.
- Sustainable environmental management.

The Country has one of the largest economies in Latin America. The Argentine peso (ARS) lost 60 percent of its value since 2018. Annual inflation rose to 50 percent in 2019 and after a 2.5 percent fall of Gross Domestic Product in 2018, the economy contracted an additional 2.2 percent in Gross Domestic Product in 2019. In addition, the Country's consumer prices rose 53.8 percent in 2019, the biggest increase in 28 years.

The US dollar is the reporting currency in UNDP; however, the majority of funding (90 percent of the Office's financial resources in 2019) is received in local currency through government cost sharing. In 2018, the Office recorded delivery in US dollars of $151.9 million, equivalent to ARS 4.3 billion; in 2019 the Office recorded $125.4 million in delivery, equivalent to ARS 6.3 billion. The latter means that after an increase of 47 percent in delivery in 2019 in local currency as compared to 2018, delivery in US dollars fell 17 percent within the same period. This was largely attributable to the impact of local currency devaluation.

The largest sources of funding of the Office’s development activities for the period covered by the audit were:

<table>
<thead>
<tr>
<th>Donor</th>
<th>Funding for the period $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Argentina</td>
<td>$102.60</td>
</tr>
<tr>
<td>Global Environment Facility</td>
<td>$5.00</td>
</tr>
<tr>
<td>Multi Partner Trust Funds</td>
<td>$2.40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$110.00</strong></td>
</tr>
</tbody>
</table>

II. Audit results

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

(a) Development Activities – Country Programme. Implementing partners, government counterparts and donors with whom the audit team members met via videoconference during the audit mission expressed their appreciation of the Office as a valued development partner.

(b) Operations – Finance. The Office adequately monitored the level and use of financial resources, managed risk of financial loss, and maintained accurate accounting records. It also adequately controlled commitments and disbursements and followed up on outstanding receipts.

(c) Operations – Administrative Services. The governance, risk management and control systems within administrative services, which include travel and common services, were adequate and effective.
(d) **Operations – Information, Communication and Technology (ICT).** The governance, risk management and control systems in ICT were adequate, operating and effective.

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

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

**High priority recommendation:**
(a) Improve project management (Recommendation 2).

**Medium priority recommendations,** arranged according to significance:
(b) Revise and finalize the NIM guidelines for incorporation within the new Country Programme Document (Recommendation 1).
(c) Strengthen procurement within NIM projects (Recommendation 3).
(d) Ensure compliance with UNDP guidelines on detail assignments and Special Post Allowances (Recommendation 4).

The detailed assessment is presented below, per audit area:

### A. Governance

#### 1. Planning and Risks Management

**Issue 1** Outdated national implementation modality (NIM) guidelines

Following revisions to the Programme and Project Management section of the ‘UNDP Programme and Operations Policies and Procedures’ in 2018, the Bureau for Management Services, BMS in UNDP requested each UNDP office in the region to update the locally developed NIM guidelines to ensure alignment with the ‘UNDP Programme and Operations Policies and Procedures’, country legislation, and specific requirements of the implementing partners.

At the time of the audit, the Office was still in the process of drafting the NIM guidelines for incorporation in the new Country Programme covering the period 2021–2025.

Without updated NIM guidelines, there is a misalignment between the processes followed by the implementing partners and UNDP policies and procedures.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td></td>
</tr>
</tbody>
</table>

The revised NIM guidelines should be finalized and agreed with the Government, shared with the Bureau for Management Services for validation, and incorporated within the new Country Programme Document.
Management action plan:

The Office will finish updating the NIM guidelines and work with the Government to obtain their approval and seek the endorsement of the Bureau for Management Services through the Regional Bureau for Latin America and the Caribbean.

Estimated completion date: March 2021

B. Development Activities

1. Projects Administration

Issue 2  Weaknesses in project management

The ‘UNDP Programme and Operations Policies and Procedures’ state that direct project costs are levied for costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes). These costs are included in the project budget and charged directly to the project budget for the development activity and/or service. The Direct Project Costing guidelines indicate that services that will result in direct project costs need to be disclosed transparently, agreed to by all concerned parties, and included in the project document and annual work plan.

The audit team reviewed a sample of six ongoing projects with eight outputs (all under NIM), out of a total of 65 projects with 113 outputs, representing 54 percent of total programme delivery for 2019 and 75 percent of programme delivery in 2020 (first quarter). In addition, five Engagement Facility projects (programme instruments to support upstream policy results) were reviewed. The following weaknesses were noted:

(a) Project design (Direct Project Costing):

- In 2016, the Bureau for Management Services granted exceptional flexibility for a period of two years (2016 and 2017) for implementing Direct Project Costing. However, at the time of the audit (Q2 of 2020), full Direct Project Costing requirements had not been implemented. The Office explained that due to the change in Government in 2019 and the economic situation in the Country in 2018 onwards, the negotiations were delayed while the waiver granted by Office of Financial Resources Management expired.

(b) Project implementation:

- The six projects reviewed required, as part of the monitoring activities in their project documents, one project board meeting per year. For two of six projects sampled, the annual project board meetings did not take place. The Office explained that during 2017 and 2018 the meetings were regularly held, but during 2019 the meetings were not held since it was an election year and there was a change of Government.

- Two of the six projects reviewed experienced low delivery as compared to the approved budget for 2019. One project achieved 20 percent of total delivery while the other project achieved 10 percent. The project budgets were not adjusted despite confirmation that the majority of the funds...
would not be received. The Office explained that lowering the budget amount would affect the annual fund allocation.

(c) Project closure:

Two projects were operationally closed for more than 12 months but not financially closed; the Office confirmed actions were being taken to close them. The delay in closing the projects related mainly to pending assets transfers.

Weaknesses in project management weakens the internal control structure and could impact the overall delivery of the Office.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 2:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should improve project management by:</td>
<td></td>
</tr>
<tr>
<td>(a) fully implementing the Direct Project Costing policy;</td>
<td></td>
</tr>
<tr>
<td>(b) ensuring that project board meetings are conducted at least once a year, and that project budgets are realistic; and</td>
<td></td>
</tr>
<tr>
<td>(c) completing project closures within the stipulated timeframe.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

The Office will:

(a) negotiate the full implementation of the Direct Project Costing policy within the process of formulation of the Country Programme Document 2021–2025; however, there is no assurance the Government will accept the implementation of the policy for the NIM projects;

(b) intensify its efforts to adjust annual project budgets and conduct project board meetings more frequently; and

(c) reiterate to the implementing partners to complete pending assets transfers to close the two above mentioned projects.

**Estimated completion date:** June 2021

C. Operations/Procurement

1. Goods and Services

**Issue 3** UNDP procurement principles not upheld by implementing partners in NIM projects

NIM guidelines signed between the Office and the Government provide specific information on the implementation of NIM projects within the Country, including the requirement to follow UNDP procurement policies and procedures.

A review of solicitation documents found that some of the UNDP procurement principles were not upheld in NIM projects where implementing partners were signatories and responsible for the procurement process. Specifically, the audit disclosed the following:
- **Procurement notices.** The procurement notices stipulated that the framework of the project was between the Government and UNDP; however, procurement notices did not include a disclaimer outlining that the Office was not responsible for the procurement process.

- **Performance guarantees.** The solicitation documents stipulated that the performance guarantees were to be issued on behalf of the Office. However, this was incorrect since the Office cannot exercise a performance guarantee for a procurement process managed by the Government.

- **Disputes.** The dispute clause stipulates that any of the parties (NIM project or offeror) can request the Resident Representative to designate an arbitrator. However, the Office should not be involved in conflict resolution for procurement processes that have not been carried out by the Office.

- **Thresholds.** The procurement thresholds for the different procurement methods had not been updated to reflect the revised UNDP thresholds. Specifically, the request for quotation for readily available products threshold was up to $100,000, whereas the UNDP threshold had increased to $149,999. In addition, the request for proposal quotation for products that are not readily available threshold was established at $100,000 and above, whereas the UNDP threshold had increased to $150,000.

Unclear responsibilities in the procurement process creates a fiduciary risk for the organization.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 3:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should strengthen procurement within NIM projects by:</td>
<td></td>
</tr>
<tr>
<td>(a) ensuring that a disclaimer is included describing the role of UNDP prior to their posting on the UNDP website;</td>
<td></td>
</tr>
<tr>
<td>(b) ensuring information in the procurement notices and procurement clauses relating to guarantees and dispute resolution are in accordance with UNDP policy; and</td>
<td></td>
</tr>
<tr>
<td>(c) aligning the procurement thresholds within the NIM guidelines with the ‘UNDP Programme and Operations Policies and Procedures’.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

The Office will finish updating the NIM guidelines and address the issues pointed out by the audit team and work with the Government to obtain their approval and the endorsement of the Bureau for Management Services through the Regional Bureau. Specifically, the Office will:

| | |
| (a) | engage in consultations with the Legal Office to confirm if the clauses on guarantees and disputes need to be revised; |
| (b) | complete a quality check to ensure a disclaimer is included on procurement notices received from the implementing partner(s) prior to publication on the UNDP website; and |
| (c) | adjust thresholds in the new update of the NIM guidelines. |

**Estimated completion date:** March 2021
D. Operations/Human Resources

1. Personnel Development & Training

Issue 4  Discrepancies in Special Post Allowances

A staff member who is temporarily (i.e., for a period not exceeding one year) assigned to a higher level post or is temporarily required to perform higher level functions while remaining on his/her current post may be granted a non-pensionable Special Post Allowance.

During the audit period, six Special Post Allowances were granted due to the absence/separation of staff members. The audit team noted the following weaknesses in the application of the Special Post Allowance:

- In two instances staff members were temporarily assigned to a post more than one level above their grade. In these cases, the approval was granted by the Resident Representative and not the Regional Bureau Director as stipulated in the ‘UNDP Programme and Operations Policies and Procedures’.

- For two other cases, the Special Post Allowance justification was to cover the maternity and annual leave of a staff member. In these cases, the functions of the post did not merit a Special Post Allowance as the post should have been filled through a detail assignment or temporary appointment as stipulated in the ‘UNDP Programme and Operations Policies and Procedures’.

- In one case, the salary re-calculation was performed by a subordinate of the staff member who was receiving the Special Post Allowance. The salary calculation should have been conducted and reviewed by the Human Resources Analyst at the Regional Bureau for Latin America and the Caribbean.

Incorrect use of Special Post Allowances may lead to reduced staff capacity and may impact the achievement of programmatic objectives.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
</table>

Recommendation 4:
The Office should comply with the policies on detail assignments and Special Post Allowance by ensuring the policies for the approval, application, and calculation of Special Post Allowance are adhered to.

Management action plan:
The Office will strengthen its internal procedures and controls to ensure compliance with corporate policies.

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.