



FOLLOW UP AUDIT

OF

UNDP'S GLOBAL ENVIRONMENT FACILITY MANAGEMENT

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Report on the Audit of UNDP's Global Environment Facility Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a follow up audit of UNDP's Global Environment Facility (GEF) management from 1 to 26 November 2021. This is the second OAI follow up audit of the OAI 2020 audit of UNDP's GEF portfolio.

The objectives for this audit were to:

- (a) determine if recommended corrective actions were implemented as scheduled and have addressed the risks noted during the 2020 audit;
- (b) assess those recommendations that remain outstanding and obtain from the Bureaux a revised timeframe for full implementation;
- (c) in the process of reviewing the implemented recommendations, identify new risks that may negatively affect UNDP's implementation of the GEF portfolio; and
- (d) provide UNDP with an overall assessment of the implementation status, as well as provide advice and support should there be any issues arising from the implementation process.

The audit covered the UNDP's activities from 1 January to 30 September 2021.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, OAI was also unable to perform onsite verification and interviews with the various units.

A. Audit Results

OAI issued 12 recommendations in the 2020 audit of UNDP's GEF portfolio, including five High Priority recommendations for which prompt action is needed to avoid that UNDP is exposed to significant risks. The below table indicates in detail OAI's assessment of the status of implementation of the audit recommendations as of 7 December 2021.

FOLLOW-UP AUDIT (RECOMMENDATIONS)				
Recommendation	Priority	Implemented	In progress	Total
1	High	1		1
2	Medium	1		1
3	High	1		1
4	Medium	1		1
5	Medium		1	1
6	Medium	1		1
7	High	1		1
8	Medium	1		1
9	High	1		1
10	Medium	1		1
11	High		1	1
12	Medium	1		1
Total Recommendations		10 (83%)	2 (17%)	12

In the first follow up audit, OAI assessed 7 of 12 recommendations (58 percent) as in progress while the remaining 4 recommendations as implemented.

The outstanding recommendations are as follows:

High priority recommendations:

- Ensure that Country Office financial transactions charged to GEF projects are valid, and adequate supporting documentation is maintained (Recommendation 11).

Medium priority recommendations:

- Centralize and upload all GEF-related guidance, policies, and procedures into the UNDP POPP and update them regularly; and (b) develop and implement a stand-alone Anti-Money Laundering and a Combatting Financing Terrorism policy (Recommendation 5).

The detailed implementation status of the 12 recommendations has been updated by OAI in CARDS.

Sections II and III summarize the recommendations that are in progress and implemented. OAI will continue to monitor the progress of the implementation of the recommendations as and when updates are provided by the business units.

Helge S. Ostveiten
Director
Office of Audit and Investigations

I. About GEF and UNDP

The Global Environment Facility (GEF) was established in October 1991 as a \$1 billion pilot programme in the World Bank as the financing mechanism for global environmental conventions. The United Nations Environment Programme, the World Bank and United Nations Development Programme were the three initial partners (GEF-Agencies) implementing GEF projects; there are now 18 GEF Agencies in total. The GEF Trust Fund is administered by the World Bank. UNDP has managed a portfolio of GEF projects with a total value of \$7.08 billion since it started in 1991.

UNDP's primary role as a GEF Agency is to work with on-the-ground implementing partners to design and implement GEF-eligible projects and programs. The GEF purchases project cycle management services and corporate services, via a fee, to cover UNDP's costs of providing these services for each project.

From 3 March to 28 August 2020, OAI conducted a performance audit of GEF (Report No. 2210, issued on 1 December 2020). The objective was to assess whether UNDP was effective in managing and implementing the GEF portfolio and whether the organization at the corporate, regional, and local levels had put in place adequate governance and controls in the form of an organization structure, operational support, quality assurance and oversight.

OAI assessed UNDP's performance as "partially satisfactory/major improvement needed", which means that "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." The rating was mainly due to insufficient oversight over GEF projects, limited monitoring of audit recommendations of implementing partners, weak internal Control Frameworks, weaknesses within project management, and weaknesses in financial resources and procurement management. The GEF audit report raised 12 issues and provided 12 recommendations (five high priority and seven medium priority).

From 19 April to 7 May 2021, OAI conducted a follow-up audit (Report No. 2331, issued on 4 June 2021). The follow-up audit was undertaken as per OAI's risk assessment and at the request of UNDP senior management. The objectives were to: (1) determine if recommended corrective actions were properly taken to address the issues noted in the audit; (2) assess those recommendations that remained outstanding and obtain a revised timeframe for full implementation; and (3) provide UNDP with an assessment of the implementation status, as well as provide advice and support to UNDP management on the implementation process. Out of 12 recommendations, OAI assessed that five (42 percent) had been implemented and seven (58 percent) were in progress.

OAI conducted another follow-up audit of UNDP's implementation of the recommendations from the GEF audit from 3 to 19 November 2021, including identifying any new risks that may negatively affect UNDP's implementation of the GEF portfolio. The details of the audit are provided below.

II. Details of recommendations implemented

Issue 1 Insufficient oversight over GEF projects

Priority	High (critical)
Recommendation 1: <p>To improve UNDP's management and oversight over GEF projects, the Bureau for Policy and Programme Support and the Regional Bureaux should: (a) strengthen the oversight over GEF funded projects at the local, regional, and corporate level; (b) strengthen the governance around GEF-funded projects to clarify and delineate the oversight and implementation roles and responsibilities of the Bureau for Policy and Programme Support and the Regional Bureaux and update the Programme and Operations Policies and Procedures (POPP) accordingly; and (c) amend the project document management arrangements to clearly assign oversight roles to UNDP.</p>	
OAI Assessment: Implemented <p>OAI assessed the following management actions as implementation of the recommendation:</p> <ul style="list-style-type: none"> ▪ Revised Delegation of Authority (DOA) template, Roles, Accountability, Consult, and Inform (RACI) matrix, Pre-Investment Steering Committee (PISC), and revised project document template were available in the POPP. ▪ The review of 21 DOAs issued by the Bureau for Policy and Programme Support subsequent to the follow-up audit in April-May 2021 did not find any reportable audit issues. ▪ OAI conducted surveys of Country Offices and Regional Technical Advisors (RTAs), and the following responses were received: <ul style="list-style-type: none"> - Country Offices (97 percent) and RTAs (88 percent) responded "fully" or "to a large extent" that the revised DOA from the Bureau for Policy and Programme Support and the RACI matrix provided clear oversight responsibilities of the Country Offices over GEF projects. The other Country Offices (3 percent) and RTAs (12 percent) responded "to some extent" only. - RTAs (77 percent) responded "fully" or "to a large extent" that corrective actions such as additional guidance, revised DOA, and training to Country Offices that the Bureau for Policy and Programme Support provided in 2021 clarified the role of Country Offices in the management of GEF projects. The other RTAs (23 percent) responded "to some extent" only. 	

Issue 2 Country Offices lacking capacity to implement GEF projects

Priority	Medium (important)
Recommendation 2: <p>The Bureau for Policy and Programme Support, in coordination with the Regional Bureaux and the Bureau for Management Services should develop a stand-alone capacity assessment tool to reflect Country Office key performance indicators, capacity issues, and risks impeding the implementation of</p>	

GEF-funded projects. This should be complemented by an annual assertion by Country Office leadership confirming the internal capacity to implement GEF projects is sufficient and capable.

OAI Assessment: Implemented

OAI assessed the following management actions as implementation of the recommendation:

- The Bureau for Policy and Programme Support developed standard operating procedures for project origination and integrated programming of environmental and climate vertical fund supported projects. The procedures outlined the criteria which requests for programming by governments to UNDP may or may not be accepted.
- The Vertical Funds Needs Assessment Tool and the roll-out plan are available in the POPP and in PIMS+. The tool is designed to assess the adequacy of current resources and provisions needed (i.e., capacity issues and associated risks) at the Country Office level to effectively perform its oversight responsibilities when deciding to take on request for development of additional Vertical Funds projects. The results generated by the tool are aimed at i) identifying potential risks, ii) providing general recommendation for consultations between Country Offices, the Regional Bureaux and BPPS; iii) development of an action plan to mitigate risks - to be monitored by BPPS in consultation with the Regional Bureau.
- The result of the needs assessment is used by the Pre-Investment Screening committee (PISC) during the review process for new programming requests received from country offices. Specifically, PISC weighs risks involved in accepting or deciding to undertake new projects within a country.
- The review of supporting documents (e.g., Pre-Assessment Screening Committee assessments and meeting minutes) to 13 project ideas disclosed a good application of the tool to assess COs capacity, and flag critical risks. As such, OAI was satisfied with the tool.
- BPPS further rolled out an online tool to record time spent by all staff involved in the oversight over GEF projects. For example, all PTAs/RTAs were recording the time used in overseeing GEF projects. OAI reviewed the tool and found it to be relevant. The data generated from the system would help:
 - Improve management of UNDP's oversight functions across the organization (between CO, Regional Hubs, Regional Bureaus and Central Bureaus)
 - Inform on services that staff perform in practice including on additional functions related to planned or unplanned implementation support functions
 - Help improve UNDP's overall organization of staffing to fulfill obligatory oversight functions as well as, when necessary and subject to all necessary approvals, implementation support functions.

Issue 3 Limited monitoring of audit recommendations of implementing partners

Priority	High (critical)
<p>Recommendation 3:</p> <p>The Bureau for Policy and Programme Support, in coordination with the Bureau for Management Services should: (a) update the capacity assessment tool for implementing partners and ensure that the assessments are regularly updated in line with all capacity issues and risks noted throughout the lifecycle of the projects; and (b) strengthen the monitoring and implementation of audit recommendations resulting from the HACT audits of implementing partners, including closer oversight of financial transactions of implementing partners with “modified audit /adverse audit opinions” on their financial statements.</p>	
<p>OAI Assessment: Implemented</p> <p>OAI assessed the following management actions as implementation of the recommendation:</p> <ul style="list-style-type: none"> ▪ UNDP undertook efforts to upgrade and tighten systems to assess and monitor implementing Partners. In June 2021, Partner Capacity Assessment Tool (PCAT) was improved to further streamline UNDP’s approach to capacity assessments of project implementing partners and responsible parties and should be available in the HACT SharePoint platform. In March 2021, the POPP was updated to include the requirement to Country Offices to upload into the HACT SharePoint platform the (1) findings from micro-assessments and assurance activities and actions taken; and (2) semi-annually upload approved micro-assessment and assurance plans in the HACT SharePoint platform to reflect any adjustments. ▪ Status of compliance with HACT Framework (i.e., micro-assessments and assurance activities) and audit results (DIM and HACT audits) for Country Offices was included in the Integrated Financial Dashboard (audit performance indicator of nationally implemented projects). The Dashboard was established to allow Country Offices to take timely corrective measures, as applicable. ▪ Action Brief for the Organizational Performance Group (OPG) (28 April 2021) on audit matters incorporated the need to monitor and address NIM audit observations and that this would be a recurring agenda item. It also recommended that Regional Bureaux coordinate with Country Offices to address NIM audit observations in a timely manner. ▪ The Bureau for Policy and Programme Support had provided evidence of follow-up with Regional Bureaux and Country Offices concerned on actions taken to implement audit recommendations from the 2021 HACT financial audit exercise. 	

Issue 4 Weak monitoring of key UNDP/GEF deadlines

Priority	Medium (important)
Recommendation 4: The Bureau for Policy and Programme Support, in coordination with the Regional Bureaux, should ensure that timely action is taken to support Country Offices facing challenges in meeting UNDP/GEF deadlines.	
OAI Assessment: Implemented OAI assessed the following management actions as implementation of the recommendation: <ul style="list-style-type: none"> ▪ The review of 12 out of 231¹ GEF projects from 12 Country Offices disclosed that PIMS+ was used to track important milestones in the project and it flagged key deadlines that were past due. Further, PIMS+ had the capability of sending out reminders on the dashboard on overdue project deadlines and upcoming milestone events. ▪ There were three joint GEF portfolio meetings that were held in January, May and October 2021. Meeting minutes between the Bureau for Policy and Programme Support/Nature, Climate and Energy and Regional Bureaux were provided to the audit team. The PowerPoint presentations detailed the points of discussion between the Bureau for Policy and Programme Support and the Regional Bureaux. The presentations covered progress updates on action plans on the GEF audit management actions, reflections on key issues of concern, programming priorities for the region including capacity needs for design and implementation, risk management, new programming, Country Office environment and sensitization and the results of the Country Office survey that had been undertaken and the follow-up action points. The presentations demonstrated that the Bureau for Policy and Programme Support was actively engaging with the Regional Bureaux with respect to the performance of the GEF projects implemented in the Country Offices under their purview. ▪ For 4 of 12 sampled projects, deadlines for operational and financial closures, (RBA/Mali Project ID 4903 and RBLAC/Jamaica Project ID 4900) and mid-term reviews (RBAP/China Project 5689 and RBA/Djibouti Project 5560) were not adhered to. OAI assessed these four exceptions as not significant (33% of sampled projects) and did not affect the overall conclusion on the implementation of Recommendation 4. 	

Issue 6: Weaknesses in the management of co-financing from government counterparts

Priority	Medium (important)
Recommendation 6: The Bureau for Policy and Programme Support should adequately monitor co-financing and ensure that partners are honoring their co-funding commitments.	

¹ Number of GEF projects with moderate, high, or substantial risk ratings and under implementation stage as of 30 September 2021.

OAI Assessment: Implemented

OAI assessed the following management actions as implementation of the recommendation:

- The review of 12 sampled projects noted that all co-financing agreements had been provided and uploaded into PIMS+. Further, 2021 PIRs of 12 sampled projects, and mid-term reviews and terminal evaluations (where applicable) reported on in-cash co-financing balances.
- BPPS updated its guidance on co-financing, which has been incorporated in the revised GEF project document template. The guidance included procedure for reporting co-financing amounts during the annual PIR, and mid-term and final evaluations.
- It was not clear how 11 of 12 sampled projects (RBA/Kenya Project ID 5468, RBA/Mali Project ID 4903, RBA/Mauritius Project ID 4843, RBA/Uganda Project ID 5783, RBAP/China Project ID 5689, RBAS/Djibouti Project ID 5560, RBAS/Sudan Project ID 5324, RBEC/Kazakhstan Project ID 5490, RBLAC/Argentina Project ID 6281 and RBLAC/Jamaica Project ID 4900) were tracking and reporting on the in-kind component of the co-financing received from the government counterparts. These in-kind co-financing contributions were received in the form of personnel's time spent on project related activities, office space, and infrastructure costs. The project document for the remaining sampled project (RBAP/Philippines Project ID 6254) had not been signed as of the audit fieldwork.

In response to the draft report, BPPS provided evidence of additional webinars organized on the new co-financing requirements. Accordingly, OAI assessed the above exceptions as not significant and did not affect the overall conclusion on the implementation of Recommendation 6.

Issue 7 Indication of irregularities due to weak ICF and poor accountability

Priority	High (critical)
Recommendation 7:	
The Regional Bureaux should hold the Country Offices accountable for: (a) establishing and implementing Internal Control Frameworks, including maintaining adequate segregation of duties; and (b) maintaining and securely filing each delegation of authority issued to a staff member including his/her signature confirming understanding and acceptance.	
OAI Assessment: Implemented	
OAI assessed the following management actions as implementation of the recommendation:	
<ul style="list-style-type: none"> ▪ The review of implementation of controls relating to internal control frameworks of Country Offices during the audit period under review did not result in any reportable issues. For example, the review of the automated preventive controls put in place did not result in any reportable issues on segregation of duties when performing various roles in Atlas. ▪ The audit team reviewed evidence of monitoring of compliance with the Internal Control Framework provided by the Regional Bureaux. Overall, the oversight undertaken by the Regional Bureaux during the audit period was satisfactory. For example, one Regional Bureau sent out a comprehensive guidance to Country Offices in the region on the implementation and required 	

actions to ensure requirements were met, including compliance with the Internal Control Framework. Another Regional Bureau was using an internally developed system in monitoring compliance of Country Offices with UNDP's policies and procedures.

Issue 8: Weaknesses in risk management practices

Priority	Medium (important)
Recommendation 8: The Regional Bureaux should develop and implement a plan to ensure that Country Offices and Regional Technical Advisors include the review of risk management when conducting oversight of GEF projects.	
OAI Assessment: implemented OAI assessed the following management actions as implementation of the recommendation: <ul style="list-style-type: none"> ▪ The project-level risk dashboard embedded in PIMS+ was launched in December 2020. The audit team found evidence that Country Offices and RTAs were using the PIMS+ risk dashboard for monitoring risks. ▪ The DOA template included a requirement for Resident Representatives to maintain up-to-date project risk registers. ▪ Meeting minutes (between Bureau for Policy and Programme Support and Regional Bureaux) held in January, May, and October 2021 included discussions of risks. These meetings were attended by the Regional Bureaux management, Deputy Director/ Bureau for Policy and Programme Support, and/or the Executive Director of the Bureau's Nature, Climate and Energy team. ▪ As of 16 November 2021, UNDP Projects Risk Profile showed that GEF projects (fund code 62000) had 94 percent completion rate (480 of 510 projects) on projects with risk entries. There were only 30 projects flagged without risk entries. ▪ The review of 12 sampled GEF projects disclosed that RTAs provided comments and suggestions in the 2021 PIRs of four projects (RBA/Kenya Project ID 5468, RBA/Mauritius Project ID 4843, RBA/Sudan Project ID 5324, and RBA/Uganda Project ID 5783) on how to address risks relating to project low delivery and project safeguards. Specifically, for two projects (RBA/Kenya Project ID 5468, RBA/Mauritius Project ID 4843), RTAs recommended to update project risk registers. For the other project (RBA/Uganda Project ID 5783), the RTA recommended to take immediate actions to boost project implementation. For the remaining project (RBA/Sudan Project ID 5324), the RTA recommended closer oversight and involvement of the Bureau for Policy and Programme Support in-house project safeguard experts to discuss needs of the project. ▪ The audit team did not find documented actions planned or taken to address comments or suggestions of RTAs to address risks flagged. <p>OAI assessed the above four exceptions (33% of sampled projects) as not significant and did not affect the overall conclusion on the implementation of Recommendation 8.</p>	

Issue 9 Weaknesses within project management

Priority	High (critical)
Recommendation 9:	
<p>The Bureau for Policy and Programme Support, in collaboration with Regional Bureaux, should improve project design, implementation, and monitoring by: (a) providing clarification on the role, composition, and functioning of the project steering committees (project boards), including special guidance for global and regional projects; (b) ensuring project design and budget deviations are duly authorized per UNDP and GEF rules and regulations; and (c) comprehensively documenting the selection of private sector companies and maintaining asset inventory reports.</p>	
OAI Assessment: Implemented	
<p>OAI assessed the following management actions as implementation of the recommendation:</p> <ul style="list-style-type: none"> ▪ OAI noted that the Bureau for Policy and Programme Support issued the “<i>Guidance and procedures for GEF project revisions during implementation</i>”, which took effect on 31 January 2021. The Guidance included requirement for BPPS’ to review and conduct quality assurance on project revisions and changes in budget allocations. The guidance note which is linked to GEF’s guidelines titled “<i>Guidelines on Project and Program Cycle Policy</i>” issued on 20 July 2020 was also uploaded into UNDP POPP. ▪ The revised project document template includes requirements to be fulfilled when engaging private sector, including using the private sector due diligence tool in the assessment. ▪ OAI took note of the various trainings that were delivered to Country Offices by the Regional Bureaux. The trainings and useful links were also shared with the Country Offices. ▪ OAI did not come across any exception relating to deviation from the project budget or workplan that were not cleared and approved. ▪ The audit team had been provided draft copies of Terms of Reference of the Project Boards and Frequently Ask Questions document. 	

Issue 10 Project reporting needs improvement in substance and accuracy

Priority	Medium (important)
Recommendation 10:	
<p>The Bureau for Policy and Programme Support, in coordination with the Regional Bureaux should strengthen the reporting of results, including accuracy and completeness.</p>	
OAI Assessment: Implemented	
<p>OAI assessed the following management actions as implementation of the recommendation:</p>	

- The Project Implementation Report module in PIMS+ had been updated to include a file library, which would facilitate uploading of evidence to the reported project results.
- The Project Implementation Report module required project managers to confirm that evidence supporting the reported progress of project implementation had been uploaded. Otherwise, project managers should select a “not applicable” option in PIMS+ if there is no implementation progress to report.

Issue 12 Weaknesses in procurement management

Priority	Medium (important)
Recommendation 12:	
The Regional Bureaux should strengthen the procurement management of GEF projects by requiring Country Offices to complete adequate oversight of GEF projects for the procurement of goods and services.	
OAI Assessment: Implemented	
OAI assessed the following management actions as implementation of the recommendation:	
<ul style="list-style-type: none"> ▪ The Bureau for Policy and Programme Support included procurement management in the updated DOA template. Specifically, the “Resident Representative shall ensure compliance with UNDP policies and procedures on procurement, including but not limited to proper procurement planning, adequate sourcing, and proper managing of contracts.” <p>All Regional Bureaux perform oversight of transactions through relevant corporate dashboards and monitoring platforms. One Regional Bureau reported that its memos continuously underscore the importance of procurement planning, the development of procurement strategy at programme and project levels, and the use of the corporate procurement planning platform (PROMPT). Another Regional Bureau reported that GEF project-level procurement issues were discussed, wherein it was agreed to strengthen practices of preparing procurement plans, updating standard operating procedures in each country, and building capacity of implementing partners.</p> <ul style="list-style-type: none"> ▪ The Bureau for Management Services reported that the design and testing of the new ERP system, “Quantum”, was completed. The new system offers an end-to-end integrated platform from procurement planning to payment. The updated evaluation process (designation of evaluation team in the system, integrated scoring system, opening of bids) is well noted. The system will provide integration of the procurement planning and the generation of the procurement plans in the system, and the linking of requisition to the purchase orders. ▪ The review of a sample of 51 purchase orders from GEF projects in 12 sampled Country Offices disclosed weaknesses in the management of procurement based on the review of supporting documents made available to the audit team. Specifically, 11 of 51 purchase orders (totaling \$187,483.42) did not include evidence that either vendor due diligence (7 cases) or reference checks had been conducted when hiring consultants under individual contracts (4 cases) were performed. Further, 6 of 51 (totaling \$41,882.33) purchase orders had supporting documents either unsigned or not evident on who signed them. Furthermore, OAI’s Data Analytics Dashboard showed that 18 purchase orders (valuing \$421,725) had not sourced to corresponding requisitions. 	

OAI assessed the above exceptions as not significant and did not affect the overall conclusion on the implementation of Recommendation 12.

III. Details of recommendations in progress

Issue 5: GEF/UNDP policy and guidance not easily accessible and lack of a stand-alone Anti-Money Laundering policy (AML)

Priority	Medium (important)
Recommendation 5:	
The Bureau for Policy and Programme Support, in consultation with the Bureau for Management Services should: (a) centralize and upload all GEF-related guidance, policies, and procedures into the UNDP POPP and update them regularly; and (b) develop and implement a stand-alone Anti-Money Laundering and a Combatting Financing Terrorism policy.	
OAI Assessment: In Progress	
OAI assessed the recommendations as implemented:	
<ul style="list-style-type: none"> ▪ Project Information Management System+² (PIMS+) had a compilation of guidance notes, templates, standard operating procedures, webinar recording, training, etc. relating to the work of the Bureau for Policy and Programme Support on GEF projects. ▪ BPPS has centralized new/revised policies and procedures relating to management of GEF projects in POPP. ▪ The Anti-Money Laundering/Counteracting the Financing Terrorism (AML/CFT) Policy was approved by the OPG in May 2021. ▪ The OPG endorsed the AML/CFT Policy Implementation Plan in September 2021. The Plan included establishing a vetting process, drafting guidelines, assessing current corporate policies, and developing training materials. ▪ The AML/CFT Policy requires, as part of risk-based due diligence, screening of potential counterparts against lists of sanctioned/suspended vendors maintained by UN organizations. The vendor management audit recently conducted by OAI noted, among other things, the lack of consolidated vendor performance tracking to identify and prevent a vendor on the vendor sanctions list from being used or paid. The Bureau for Policy and Programme Support indicated that the implementation plan anticipates the full rollout to take place within a period of one year. ▪ The Bureau for Management Services launched a consultancy on 17 December 2021 for a Risk/Compliance Expert to, <i>inter alia</i>, draft internal processes, procedures and communications to guide UNDP's decision-making process to become fully compliant with the new AML/CFT Policy. 	

² Project Information Management System+ was established to support the oversight of projects funded by the Global Environmental Facility, Green Climate Fund, Adaptation Fund, and other cost-sharing resources.

The Risk/Compliance Expert will (i) draft UNDP's internal processes and procedures, including the AML/CFT vetting process and identify gaps in / linkages required to existing policies, contractual arrangements, informational content, and standard operating procedures (SOPs), (ii) support UNDP with selecting and procuring additional tools, including third-party software, needed to close the existing gaps, (iii) develop an internal communication plan and training strategy, including full consultation with each Regional Bureau and select Country Offices, (iv) formulate and provide training on AML/CFT screening, to build capacity and support the policy's effective deployment, and (v) provide advice and assistance to UNDP Headquarters to establish a framework for ongoing AML/CFT screening advisory and support to Regional Bureaux and Country Offices, including training, monitoring, reporting, and corporate database/tool/policy maintenance.

Remaining corrective actions:

- Implementation of Anti-Money Laundering and a Combatting Financing Terrorism (AML/CFT) policy by September 2022.

Management comments:

UNDP management considered this recommendation as implemented.

The Bureau for Policy and Programme Support, in consultation with the Bureau for Management Services can confirm that it has: (a) centralized and uploaded all GEF-related guidance, policies, and procedures into the UNDP POPP and has updated them regularly. The Bureau for Management Services has also led on developing a stand-alone AML/CFT policy which has been approved by the OPG. UNDP now turns to implementation which will take time and will be continuous.

UNDP will implement the AML/CFT Policy in line with the OPG-endorsed Implementation Plan. Implementation is expected to be completed by September 2022 (1 year from the OPG endorsement in September 2021).

The remaining corrective actions indicate 'implementation of the AML/CFT policy. We understand this to mean that the endpoint as far as the completion of the management action would be the completion of the actions under the Implementation Plan agreed at the OPG in September 2021 and the inclusion of the policy in POPP.

Revised completion date: 30 September 2022

OAI comments:

OAI acknowledged the finalization of the AML/CFT policy and endorsement of the implementation plan by the OPG. However, the effectiveness of the AML/CFT policy in addressing risk of preventing GEF funds from being used for money laundering and/or financing of terrorism could only be assessed after its implementation. UNDP is planning to finalize the implementation by September 2022.

Accordingly, OAI is as of January 2022 keeping its assessment that the recommendation is in progress.

Issue 11 Weaknesses in financial resources management

Priority	High (critical)
Recommendation 11:	
The Regional Bureaux should ensure that Country Office financial transactions charged to GEF projects are valid, and adequate supporting documentation is maintained.	
OAI Assessment: In Progress	
OAI assessed the following planned management actions as implemented:	
<ul style="list-style-type: none"> ▪ The Bureau for Management Services has issued new guidance for Country Offices and communicated in December 2020 on the follow-up requirements when expenses have been qualified following an audit of an implementing partner and Regional Bureaux have reinforced the oversight of transactions. ▪ Regional Bureaux put in place different mechanisms to strengthen transaction-level oversight and monitoring over financial transactions (e.g., <i>inter alia</i>, developed a platform, use of Business Intelligent System, framework to enhance oversight of the GEF projects, etc.), and intensified the support to the Country Offices over assurance activities and financial transactions. 	
However, the effectiveness of the monitoring over financial transactions and compliance with the guidance still needs to be improved:	
<ul style="list-style-type: none"> ▪ There was no evidence whether three Country Offices (Jordan, Sudan, Burundi) followed the procedure (i.e., Direct Cash Transfer and Reimbursement, POPP) when the validity of payments for GEF funded projects were questioned, as a result of the 2021 HACT Financial Audit Exercise. ▪ The 2021 HACT Financial Audit Exercise resulted in modified opinions to the Combined Delivery Reports of 14 GEF projects. As of 30 September 2021, 2 of the 14 projects (RBA/Barbados Project ID 91618, and RBA/Gabon Project ID 79015) had unliquidated advances for more than six months. ▪ The review of the central repository for all HACT activities disclosed that the requirements for uploading micro-assessment reports, or the assurance activities were not being consistently followed. For example, the audit noted the absence of an up-to-date micro-assessments and/or assurance plans for 6 of 12 sampled Country Offices, which should include the conduct of programmatic visits and spot checks of the project implementation and implementing partners. Further, there were no evidence of remedial actions on issues raised from 2020 and 2021 micro-assessments and assurance activities for 4 of 12 sampled Country Offices. ▪ The 2021 HACT financial audit exercise, covering FY 2020 expenditure, had a total of 156 audit recommendations pertaining to 14 GEF-projects. The review of these recommendations noted that 56 of 156 recommendations (36 percent) were still in progress as of November 2021. Of the 56 recommendations, 7 (13 percent) were already overdue. ▪ Further, the HACT auditors issued modified audit opinions for 14 projects in 10 Country Offices during the audit of the GEF projects implemented by national counterparts. These modified opinions resulted in an overstatement of the Combined Delivery Report (CDR) expenses by \$1.1 million and an understatement of CDR expenses by \$309,628. The net financial misstatement of the CDR expenses for the 14 projects amounted to \$825,933 representing 0.86 percent of the total 	

audited expenses. The most significant understatement of expenses related to one project in Gabon (\$237,930) in which the auditors were not provided with adequate documentation for FY2016 to FY2018. Three projects in Mali, Pakistan, and Sudan received modified audit opinions in consecutive years (in FY2020 and FY2019).

- OAI was not presented with evidence that the Regional Bureaux or BPPS had taken proactive or corrective actions in response to the audit reports relating to expenses by national or NGO implementing partners for GEF project for the Financial Year 2020.
- Furthermore, the audit selected for testing 70 payment vouchers and 19 general ledger journal entries in GEF funded projects. The review disclosed control weaknesses such as inadequate supporting documents to support validity of payments or transactions. For example, 8 of 70 payment vouchers totaling \$211,591 had the Funding Authorization and Certificate of Expenditure forms not duly signed or the form was missing. Further, the supporting documentation attached to 6 of 19 general ledger journal entries that implied adjustments amounting to an estimated \$707,050 did not clearly indicate/include the name and/or signature of the approving officer. Further, there was no indication that clearance from project managers had been obtained.

Management comments:

UNDP management considered this recommendation as implemented and provided additional supporting documents.

Assessing consistent application of the policies requires longer reference period for this to be meaningful, but systems have been put in place and compliance is being monitored.

Estimated completion date: 30 September 2021

OAI comments:

OAI acknowledged enhancement of systems in 2021 to ensure proper implementation of HACT framework and to address risks identified by OAI during the GEF audit. However, key controls (e.g., use of HACT SharePoint platform and oversight by Regional Bureaux) have been put in place even before the GEF audit was conducted in 2020.

Definitions of audit terms - ratings and priorities

A. 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.