



AUDIT

OF

UNDP COUNTRY OFFICE

IN

PERU

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Report on the Audit of UNDP Peru Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Peru (the Office) from 21 March to 5 April 2022. 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 and communication technology (ICT)

In addition, OAI assessed the performance of the Office in the following areas: governance, development activities and finance.

Performance auditing is an independent, objective and reliable examination of an entity or process to assess whether economy, efficiency and effectiveness in the employment of available resources is being achieved.

OAI designed the following performance audit questions based on a risk assessment undertaken:

(a) Governance:

1. Was the Office's organizational structure appropriate to achieve the agreed Country Programme results?

(b) Development activities:

2. Was project management, project design, implementation, and closure, carried out effectively?

(c) Finance:

3. Were financial transactions processed timely and accurately?

The audit covered the activities of the Office from 1 January 2020 to 31 December 2021. The Office recorded programme and management expenses of approximately \$67.9 million. The last audit of the Office was conducted by OAI in 2018.

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

- (a) A review of original supporting documentation could not be carried out for the audit areas on procurement, human resources and administrative services, and therefore the audit team relied on scanned copies of documents provided by the Office.
- (b) Project visits (location, site visits, meeting with beneficiaries) were not conducted as the COVID-19 lockdown remained in force at the project sites at the time of the audit.

Overall audit rating

OAI issued an audit rating for the Office of **fully satisfactory**, which means, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well.

Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.”

Conclusions on the performance audit areas reviewed:

Governance:

Was the Office’s organizational structure appropriate to achieve the agreed Country Programme results?
The organizational structure was adequate to achieve the agreed Country Programme results.

Development activities:

Was project management, project design, implementation, and closure, carried out effectively?
The audit team concluded that project management was undertaken effectively for project design, implementation, and closure.

Finance:

Were financial transactions processed timely and accurately?
Payments reviewed were completed on time and in accordance with the terms and conditions.

Key recommendations: Total = **1**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.”

The recommendation aims to ensure compliance with legislative mandates, regulations and rules, policies and procedures.

Management comments and action plan

The Resident Representative accepted the recommendation and is in the process of implementing it. 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. Ostveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Lima, Peru (the Country) and its Country Programme covered the period 2017–2021 with the following development priorities:

- a) Inclusive and sustainable growth and development
- b) Social protection and quality basic services
- c) Institutions and transparency
- d) Citizenship and peace

During the period from January 2020 to December 2021, the Office spent \$63.4 million on development activities, a decrease of 6.5 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

	Expenditure Jan. - Dec. 2020 \$million	Expenditure Jan. - Dec. 2021 \$million
Acercando el Estado al Ciudadano	11.96	5.19
Fortaleciendo la ciudadanía de cara al Bicentenario	1.48	4.61
Paisajes Productivos en la Amazonia Peruana	2.21	1.73
Amazonia Resiliente	1.47	1.81
Management Plan	1.67	1.46
Declaracion Conjunta de Intencion Perú Noruega	0.72	1.92
Total	19.51	16.72

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

Donor	Funding for the period \$million
Peru	43.94
Vertical fund – GEF	20.97
Norway	4.04
UN Agencies	2.04
Total	70.99

Other critical information

The host Government did not sign the UNDP Standard Basic Assistance Agreement (SBAA). The lack of a signed SBAA impacted the Office's legal arrangements in the implementation of projects. When negotiating project documents, the Office had been requested by government counterparts to incorporate contractual clauses aligned to the framework of national legislation as opposed to international privileges and immunities. However, these requests, whenever they were not in line with standard project document, would be vetted by the Office of Legal Services.

The Office had been negotiating with the host Government (together with the support of the Regional Bureau for Latin America and the Caribbean and the Office of Legal Services) to ensure that the privileges and immunities of the Office were acknowledged and ratified in a signed SBAA.

II. Audit results

Effective controls were established and functioning in the following audited areas:

- (a) Governance. Adequate internal controls were in place to ensure segregation of duties. Staff were aware of the Office's priorities, challenges, and control objectives.
- (b) Development activities. The controls governing project design, appraisal and implementation were adequate and supported the implementation of the Country Programme. Interviews were conducted with government counterparts, project stakeholders and donors who considered the Office a valued development partner.
- (c) Operations – Finance. The Office adequately monitored the use of financial resources, managed the risk of financial loss, and maintained accurate accounting records. There was appropriate management of commitments, disbursements, and follow-up of outstanding receipts, and cash.
- (d) Operations – Human resources. The governance, risk management and control systems within human resource management, including recruitment and separations, were adequate.
- (e) Operations – Administrative services. The governance, risk management and control systems within administrative services, which included travel, assets and common services, were adequate and effective.
- (f) Operations – Information and communication technology (ICT). The governance, risk management and control systems within ICT, including the implementation of the business continuity plan, were operational and effective.

OAI made one recommendation ranked medium (important) priority.

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

Medium priority recommendation:

- (a) Improve processes within the procurement function (Recommendation 1).

Conclusion on the Office's performance in the following areas:

- (a) Governance

Was the Office's organizational structure appropriate to achieve the agreed Country Programme results?

The structure was adequate to achieve the agreed results. The audit disclosed that staffing, reporting lines and delegation of authority in the Office were adequate. In addition, controls were in place to ensure segregation of duties.

During virtual meetings, project counterparts, donors, and government officials indicated that they considered the Office a valued partner.

- (b) Development activities

Was project management, project design, implementation, and closure, carried out effectively?

The audit team concluded that the management of project design, implementation, and closure was undertaken effectively. The review of nine projects (including six development projects and three others under other categories such as engagement facility) from a portfolio of 66 active projects, involving all type of projects, confirmed that they were designed with clearly defined and measurable outputs. The sampled projects were in line with the strategic objectives of the Country Programme and the United Nations Sustainable Development Cooperation Framework.

Project monitoring was adequately conducted through quality assurance and monitoring visits in accordance with the project document and supported by written reports. Due to the COVID-19 pandemic, the Office had to make some adjustments, such as readjusting project work plans, and adapting to working remotely. The Office's response to the emerging context was timely, allowing projects to remain on track to achieve the intended results.

The ongoing political instability in the Country hindered implementation efforts because of the constant changes in authorities as well as in technical focal points at the government counterpart level; this was affecting project decision-making and was directly causing delays in project implementation.

Project closure was adequately monitored by the Office. At the time of the audit, Atlas (enterprise resource planning system of UNDP) showed that there were two expired outputs that were pending operational closure, as well as other two outputs pending financial closure. As these exceptions were minimal and being addressed by the Office after the audit, they were not reported as audit issues.

(c) Financial management

Were financial transactions processed timely and accurately?

The financial transactions reviewed were processed timely and accurately. The audit team reviewed a sample of 45 payment vouchers for a total of \$7.6 million. The total number of payment vouchers processed during the audit period was 7,477 and the total paid amount was \$34.1 million. The average number of days to process payments, from the time the request was received until the payment reached the beneficiaries for all payment vouchers was three working days, which appeared to be timely in the audit team's view.

The detailed assessment is presented below, per audit area:

A. Operations

1. Procurement - Goods & Services

Issue 1 Gaps in procurement function

Procurement, as a UNDP business function, is critical for enhancing programme/project delivery as stipulated in the 'UNDP Programme and Operations Policies and Procedures'. Those discharging their duties should possess certain skills and use tools to enhance the overall effectiveness and efficiency of the procurement function. Specifically, (i) that procurement practitioners and members of the Contracts, Assets and Procurement Committee (CAP) pursue the procurement certification; (ii) submitting through an independent review process a procurement process for advice and recommendation prior to approval; and (iii) compliance of UNDP procurement policies and procedures.

The audit team reviewed a sample of 17 procurement processes of goods and services for 2020 and 2021 valued at \$8 million out of a total of \$35.7 million. The following shortcomings were noted:

- The CAP Chairperson and another CAP member did not have a procurement certification even though the 'UNDP Programme and Operations Policies and Procedures' required CAP members to be at least certified at 'Chartered Institute of Procurement and Supply' course level 1.
- During the audit period, 8 out of the 31 cases submitted to the CAP were directly review by the CAP Chairperson and supported by the CAP Secretary. These cases were above the threshold allowed for the direct review modality. The Office had indicated that due to the remote working conditions as a result of the COVID-19 pandemic, the CAP members were not engaged in these reviews.
- For 4 out of 5 direct contracting cases, valued at \$590,036, the Regional Advisory Committee on Procurement (RACP) rated the submissions as "fair" (which is third best in a four tier rating) since they required improvement in assessing value for money and providing justification for direct contracting.
- The Office abstained from requiring bank guarantees in three cases where the procurement amount exceeded \$300,000 during the period covered by the audit. This was primarily due to COVID-19 restrictions imposed by banking institutions and the lack of suppliers available.

The lack of procurement certifications, the failure to obtain bank guarantees to mitigate financial exposure, and the low quality of submissions to the RACP may affect the efficiency and effectiveness of the procurement processes.

Priority	Medium (Important)
Recommendation 1: The Office should improve processes within the procurement function by: <ul style="list-style-type: none"> (a) ensuring that members and Chair of the Contracts, Assets and Procurement Committee (CAP) complete the required procurement certifications; (b) ensuring CAP members participate in procurement review committees to render written advice and recommendations when submissions are made to the Regional Advisory Committee on Procurement (RACP); and (c) complying with UNDP procurement rules and regulations with respect to bank guarantees. 	
Management action plan: <ul style="list-style-type: none"> (a) The Office will make arrangements to ensure all CAP members obtain the CIPS Level 1 certification in procurement. (b) As of May 2022, all cases within the \$100,000 to \$200,000 range are reviewed by the CAP Committee and no longer directly by the CAP Chairperson. (c) The Office generally requires bank guarantees from suppliers in accordance with UNDP guidelines. However, due to the restrictions caused by COVID-19, the presentation of bid guarantees was not required during the 2020-2021 period to allow for broad competition, considering the shortages generated because of the pandemic. Nonetheless, as of 2022 this is a mandatory request for all tenders within the corresponding thresholds. 	
Estimated completion date: December 2022	

OAI Response

OAI acknowledges the actions taken by the Office with regard to paragraph (c) of the management action plan. OAI will assess at a later stage the changes introduced by the Office from May 2022 onwards, as part of the follow-up of actions taken to address the recommendation.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.
- **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.