



AUDIT

OF

UNDP COUNTRY OFFICE

IN

BRAZIL

Report No. 2432
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Report on the Audit of UNDP Brazil Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Brazil (the Office) from 30 May to 10 June 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)

The audit covered the activities of the Office from 1 January 2021 to 31 March 2022. The Office recorded programme and management expenses of approximately \$66.7 million. The last audit of the Office was conducted by OAI in 2019.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (The IIA).

Overall audit rating

OAI issued an audit rating for the Office of **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 due to gaps in the management of project risks identified by the social and environmental screening procedures and unmet criteria granted for an increased delegation of procurement authority.

Good practices

The Office developed and implemented a “Greening the Blue Brazil” strategy in line with “Greening UNDP Moonshot” commitments and established the following sustainable practices in the UN House, a) solid waste management; b) water recycling; and c) use of solar energy to reduce energy consumption and CO₂ emissions.

Key recommendations: Total = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means “Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.” These recommendations include actions to address weaknesses in Social and Environmental Screening Procedures, and actions required to ensure compliance with requirements set forth for increased delegation of procurement authority.

The two recommendations aim to ensure the following: (i) achievement of the organization’s strategic objectives (Recommendation 1); and (ii) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2).

Implementation status of previous OAI audit recommendations:

Report No. 2043, 18 December 2019.

Total Recommendations: 6

Implemented: 6

Management comments and action plan



The Resident Representative accepted the two 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 with management and actions have been initiated to address them.

Helge S. Ostveiten
Director
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I. About the Office

The Office is located in Brasilia, Brazil (the Country) and its Country Programme covered the period 2017-2021 and it was extended until the end of 2022. It had the following development priorities:

- a) Inclusive and equitable society with extensive rights for all men and women.
- b) Sustainable management of natural resources for present and future generations.
- c) Prosperity and quality of life for everyone.
- d) Peaceful, fair and inclusive society.

During the period from January 2021 to March 2022, the Office spent \$64.1 million on development activities, an increase by 10 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. 2021 \$million | Expenditure Jan.- Mar. 2022 \$million |
|--|---|--|
| BRA/18/019 - Sistema Prisional e Socieducativo CNJ | 9.81 | 1.11 |
| BRA/12/002 - APOIO AO DESENV DO SETOR ALGODOEIRO | 1.78 | 0.52 |
| BRA/13/008 - Cons.da Cooperação Técnica Sul-Sul Brasil | 1.74 | 0.33 |
| BRA/20/015 - Justiça 4.0 - Justiça para todos | 1.35 | 0.60 |
| BRA/14/G31 - PIMS 4675 Production of biomass-based c | 1.89 | - |
| Total | 16.57 | 2.56 |

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 |
|----------------------|---|
| Brazil | 4.99 |
| UN Agencies | 3.32 |
| Vertical fund - GEF | 3.22 |
| Vertical fund - MPTF | 3.05 |
| Total | 14.58 |

Other critical Information

The host Government has not signed the UNDP Standard Basic Assistance Agreement (SBAA), a contract which embodies the basic conditions under which UNDP provides assistance to the Government in carrying out its development projects, and under which such projects shall be executed. The Government adheres to the Technical Cooperation Agreement signed with UNDP in 1966.

The lack of a signed SBAA has not impacted the Office's legal arrangements in the implementation of projects. In this regard, the Country has not only ratified the Convention on the Privileges and Immunities of the United Nations but has also honoured the payment of its obligations towards the Office's local costs.

When negotiating project documents, the Office includes several clauses that have been previously agreed with the Government (known as "*prerrequisitos e obrigações*") to ensure that implementation

arrangements are clear to all partners, as well as to guarantee the safeguarding of the Office's privileges and immunities).

II. Good Practices

OAI identified one good practice as, follows:

Administrative services/Common services. Implementation of the "Greening the Blue Brazil" strategy.

In 2019, following the launch of the Administrator's initiative "Greening UNDP Moonshot", the Office, as the manager of the UN House complex in Brasilia, launched its own "Greening the Blue Brazil" strategy to reduce greenhouse gas (GHG) emissions in its operations. In February 2020, following a solid waste diagnosis, the Office installed waste segregation systems and pursued the UN House's adherence to the Zero Waste Certification, an international methodology that certifies correct solid waste management and the reduction of 90 percent of waste products. In October 2021, the Office installed solar panels in the UN House complex, with the expectation of reducing 13.3 tons of CO₂ yearly, and to produce 100 percent of annual energy requirements, with total estimated cost savings of \$49,254. Two months after the installation of the solar panel system, the Office reported a reduction of 9 tons of CO₂ and savings of up to \$7,000.

In 2022, the Office initiated a water recycling project aimed at reducing the consumption of potable water by 77 percent and producing estimated annual savings of \$8,900. Furthermore, the Office installed an artesian well for irrigation of the UN House land, with no consumption of potable water and estimated savings of around \$13,000 per year. The audit had not undertaken any work to verify reported savings mentioned above made by the Office.

III. 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) 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.
- (c) Operations – Human resources. The governance, risk management and control systems within human resource management, including recruitment and separations were adequate.
- (d) Operations – Administrative services. The governance, risk management and control systems within administrative services, which include travel, assets and common services, were adequate and effective.
- (e) 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 two recommendations ranked medium (important) priority.

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



Medium priority recommendations, arranged according to significance:

- (a) Strengthen project risk management (Recommendation 1).
- (b) Ensure compliance with criteria set forth in the personal delegation for procurement authority (Recommendation 2).

A. Development Activities

1. Project Administration

Issue 1 Weaknesses in Social and Environmental Screening Procedures

The ‘UNDP Programme and Operations Policies and Procedures’ require that for each project, Social and Environmental Screening Procedures (SESP) be completed to avoid adverse impacts to people and the environment as well as to strengthen UNDP and partner capacities in managing social and environmental risks. Furthermore, the SESP requires UNDP business units to identify management actions for addressing risks and tracking them in the Project Risk Register.

The audit team reviewed 10 out of 100 ongoing development projects. The sample covered \$20.7 million out of \$64.1 million recorded as programme delivery by the Office during the period covered by the audit. The scope of the review represented, in terms of programme delivery recorded by the Office, 26 percent of delivery in 2021 and 46 percent of delivery in 2022.

Although the Office systematically ensured that all projects were subject to the SESP, the identified risks were not properly managed in all cases. The audit team found that in 8 of 10 projects sampled, the risks identified by the SESP were not uploaded to the Project Risk Register as required by the ‘UNDP Programme and Operations Policies and Procedures’, thus not ensuring proper follow-up and management of these risks.

Inadequate identification and monitoring of risks and their mitigation may impact the achievement of strategic objectives in the implementation of projects.

| | |
|--|--------------------|
| Priority | Medium (Important) |
| Recommendation 1: | |
| To strengthen risk management, the Office should ensure that project risks identified through the Social and Environmental Screening Procedures are timely recorded, updated and monitored in Atlas (UNDP’s enterprise resource planning system). | |
| Management action plan: | |
| The Office systematically identifies and manages risks properly at all levels. The Office has been cultivating a risk culture to enable risk-taking awareness and risk-informed decision-making. Risk management has been unified across programming and operations (including through a common Risk Registering within the annual integrated work plan). Context, programme, and project risks have been monitored and analyzed jointly to foster innovation, rather than an approach that focusses only on avoiding harm and reacting to issues as they arise. Risks are communicated regularly during all staff meetings and maintained in the Quantum+ Platform in the risks section. A Risk Committee was created and meets monthly to review cases. Specific risks are also communicated in programme and operations meetings. Programme and project teams also address their issues within their teams and with partners. | |

Training is constantly provided to staff regarding the application of policies, standards and reporting requirements. Social and Environmental Screening Procedures (SESP) are carried out for all projects, discussed, and registered in project documents.

The Office will ensure that project risks identified throughout SESP are timely recorded, updated and monitored in Atlas and Quantum+. Risks identified by the SESP will be accordingly recorded, updated and monitored in Atlas until 31 March 2023, as follows:

- 50 percent of projects by 30 December 2022
- 75 percent of projects by 31 March 2023
- 100 percent of projects by 30 June 2023

Estimated completion date: 30 June 2023

B. Operations

1. Procurement – Goods & Services

Issue 2 Criteria for an increased delegation of procurement authority not fully met

An increase in the delegation of procurement authority is granted based on an assessment of the anticipated monetary volume of procurement, the demonstrated capacity of an office or unit, and its previous performance.

In 2021 the Office solicited an increased delegation of procurement authority level 3 for \$0.5 million. The increased delegation of procurement authority was granted by the Deputy Director of the Regional Bureau for Latin America and the Caribbean, to the Resident Representative, for one year on 13 September 2021, with the following caveats:

- The Office should make every effort to be aligned with the policy of having a staff member at the National Officer NO-C level as head of the procurement unit when the increased delegation is given for up to \$0.5 million.
- Improve the quality rating of the submission of cases for the review of the Regional Advisory Committee on Procurement (RACP) and Advisory Committee on Procurement (ACP), which were lower than the benchmark for the region.
- Improve the time for the review process undertaken on procurement cases submitted to the local Contracts, Assets and Procurement Committee (CAP), which was higher than the regional benchmark.

For the period covered by the audit, the audit team identified the following:

- The head of the procurement unit (known as Joint Operations Facility) was at the National Officer NO-A level (which was lower than the staff grade indicated in the increased delegation of procurement authority).
- In 2021, 12 cases were submitted to the RACP; the overall rating was “fair” for 7 procurement cases and the overall rating was “good” for 5 procurement cases, as assessed by the RACP Chairperson.
- As of 31 March 2022, the Office submitted three cases for 2022 to the review committees. Of the two cases for the ACP, one was rated “good” and the other was rated “fair”; the third case was submitted to the RACP and was rated “good”.



- For the audit period, the average CAP review period was 25 days.

The ACP/RACP has four qualifiers/indicators to assess procurement cases submitted by Country Offices for review and approval, as follows:

- Procurement process & evaluation or justification for direct contracting.
- Value for money analysis.
- Quality assurance & risk assessment.
- Overall presentation and organization of attachments.

Each of these can be evaluated by the ACP as “excellent”, “good”, “fair” or “needs improvement”. A “fair” rating is usually given when there is a need for ample clarifications and additional need for supporting documentation or delays in responses/actions and/or more work to obtain committee approval.

Not fulfilling the criteria set forth in the increased delegation of procurement authority placed the Office at risk of non-compliance with the requirements for the approved delegated authority, while gaps in the quality of submissions to the ACP and RACP may affect the efficiency and effectiveness of the procurement processes.

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|--|--------------------|
| Priority | Medium (Important) |
| Recommendation 2: | |
| Prior to soliciting/requesting an extension of an increased delegation of procurement authority, the Office should ensure improvements in procurement performance and satisfactory compliance with criteria set forth in the personal delegation of procurement authority. | |
| Management action plan: | |
| The Office is taking the following actions to address the recommendation: | |
| <ul style="list-style-type: none"> (a) The Office has already reviewed the procurement plan, capacities and requirements to prepare for the request of an increased delegation of authority and has carefully evaluated it before deciding on the level to be requested. (b) On the improvement of the quality of the cases, the Office will continue to work on the submissions towards improvement, including on the translation gaps and timeliness of the actions. | |
| Estimated completion date: 31 December 2022 | |

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.