UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

THE DEMOCRATIC REPUBLIC OF THE CONGO

POOLED FUND

Report No. 962

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Report on the audit of the Democratic Republic of the Congo Pooled Fund
Executive Summary

From 10 to 21 September 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the Democratic Republic of the Congo Pooled Fund. The audit covered the two distinct functions of UNDP relating to the Pooled Fund during the period from 1 January 2011 to 30 June 2012: (a) Administrative Agent and (b) Managing Agent for funds transferred to local and international non-governmental organizations (NGOs). Between 2006 and the end of 2012, the Pooled Fund had received contributions totalling $752 million. During the period audited, UNDP, as Administrative Agent, received contributions totaling $137 million and transferred $144 million to participating United Nations organizations. During the same period, UNDP as Managing Agent received $62 million in 2011 and $26 million in the first half of 2012 for transfer to NGOs.

Since 2006, the United Nations, under the authority of the Humanitarian Coordinator, has taken a coordinated approach to humanitarian aid in the Democratic Republic of the Congo (the Country). The Pooled Fund was established upon signing of a Memorandum of Understanding between the Humanitarian Coordinator, the Office for the Coordination of Humanitarian Affairs (OCHA), participating United Nations organizations, the UNDP Multi-Partner Trust Fund Office (MPTF) as the Administrative Agent and the UNDP Democratic Republic of the Congo (the Country Office) as the Managing Agent. The MPTF Office further delegated some of its Administrative Agent functions to the UNDP Country Director.

Based on an audit risk assessment carried out by OAI in February 2012 in consultation with the MPTF Office, Representatives of the Internal Audit Services of the United Nations Organizations agreed to undertake a coordinated audit of the Pooled Fund. The coordinated audit was conducted in accordance with the Framework for Auditing Multi-Donor Trust Funds, endorsed by the United Nations Development Group in September 2007 with each participating internal audit service conducting an individual audit of their share of the Pooled Fund activities, taking into consideration risks identified in the coordinated risk assessment. The results of these individual audits would then be compiled in an overall summary report. Participating in this coordinated audit were the Internal Audit Services of the Food and Agriculture Organization of the United Nations (FAO), UNDP, the United Nations Children's Fund (UNICEF) and the United Nations World Food Programme (WFP) as well as the United Nations Office of Internal Oversight Services (OIOS) as the internal auditor of OCHA.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed UNDP functions related to the Pooled Fund as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." A "partially satisfactory" rating describes an overall acceptable situation with a need for improvement in specific areas. This rating was mainly due to weaknesses noted in the inclusion of longer term developmental concerns into humanitarian relief activities, the implementation of the Harmonized Approach to Cash Transfers (HACT) for NGO-implemented projects, and the monitoring and evaluation of these projects. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Early recovery and strategic management of the Pooled Fund 1.2 Joint Pooled Fund Unit 1.3 Delegation of authority	Partially Satisfactory Not Applicable Partially Satisfactory			
2. UNDP as Administrative Agent				
2.1 Administrative Agent fees 2.2 Transfer to United Nations organizations 2.3 Reporting on project closure to the Multi-Partner Trust Fund Office	Partially Satisfactory Satisfactory Not Applicable			
3. UNDP as Managing Agent				
3.1 Managing Agent function 3.2 Management information 3.3. Payments to non-governmental organizations 3.4 Technical review process 3.5 Amendment of projects 3.6 Monitoring and evaluation 3.7 Harmonized Approach to Cash Transfers 3.8 Project closure 3.9 National execution advances	Partially Satisfactory Partially Satisfactory Satisfactory Partially Satisfactory Satisfactory Partially Satisfactory Partially Satisfactory Unsatisfactory Partially Satisfactory			

Key issues and recommendations

The audit raised 14 issues. There are 10 recommendations, of which four (or 40 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

Among the 14 issues raised, two were noted to be caused by factors beyond the control of UNDP (Issues 7 and 10). There was also one issue requiring action by the Bureau of Management in close cooperation with the Bureau for Crisis Prevention and Recovery and the Bureau for Development Policy (Issue 6, referred to as "corporate issue"). These are the issues with high priority recommendations where prompt action is required:

Governance and strategic management (Issue 1)	<u>Lack of clarity on early recovery activities.</u> The inclusion of capacity building and other longer term development concerns into humanitarian projects are needed in order to transition from a solely relief approach and to help build resilience. Host country representatives were advocating for such a transition. Yet the inclusion of some early recovery components into projects was still being debated among the lead agencies of various clusters and donors. The Pooled Fund was exploring multi-year projects as a way to build community resilience and address some of the causes of humanitarian needs, with several donors having pledged multi-year funding. A proposal was to be presented to the Pooled Fund Board in February 2013. OAI recommends that the Country Office continue to engage with the Pooled Fund Board and the Humanitarian Country Team to advocate for multi-year projects as a way to transition from relief to recovery and include longer term transition and development activities in projects in a more visible, consistent and coordinated manner.

Managing Agent function (Issue 6)	Corporate Issue: Insufficient guidance on UNDP engagement with non-governmental organizations in a humanitarian context. UNDP, when acting as Managing Agent, uses the national implementation modality that has been developed for UNDP development projects. In the view of OAI, guidance provided was insufficient on how these processes can be applied and adapted when partnering with NGOs in a humanitarian context. OAI recommends that the Bureau of Management, in close cooperation with the Bureau for Crisis Prevention and Recovery and the Bureau for Development Policy, provides policy/guidance on UNDP engagement of NGOs in the humanitarian context.
Monitoring and evaluation (Issue 11)	Weaknesses in the monitoring and evaluation function. Monitoring and evaluation of projects was performed more as a compliance rather than an evaluation function. Other issues noted were the lack of an objective evaluation of project outputs and the lack of technical input from the clusters during monitoring visits. OAI recommends that the Country Office, in coordination with the clusters, sets up a feedback mechanism on issues raised during monitoring visits and implements a rotational policy for field evaluators.
Harmonized Approach to Cash Transfers (Issue 12)	Weaknesses in the implementation of HACT assurance activities. The HACT approach in the Country was not yet fully effective at the time of the audit fieldwork. OAI noted issues with the quality of micro-assessments, which might have led to an overrating of some NGOs. In addition, OAI was not able to determine whether issues noted during spot checks were addressed and monitored accordingly. OAI recommends that the Country Office improves the HACT assurance process through a systematic quality review of spot check reports, follow-up of action plans identified in spot check reports, clearer training material, and a more inclusive approach of spot checks and updated risk assessment with all agencies that are part of the Pooled Fund.

Management comments and action plan

The Country Director accepted all recommendations and is in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 10 to 21 September 2012, OAI conducted an audit of the Democratic Republic of the Congo Pooled Fund. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the offices and other relevant business units in continuously improving governance, risk management and control processes.

Based on an audit risk assessment carried out by OAI in February 2012 in consultation with the MPTF Office, the Representatives of the Internal Audit Services of the United Nations organizations agreed to undertake a coordinated audit of the Pooled Fund. The coordinated audit was conducted in accordance with the Framework for Auditing Multi-Donor Trust Funds, endorsed by the United Nations Development Group in September 2007, with each participating internal audit service conducting an individual audit of their share of the Pooled Fund activities, taking into consideration risks identified in the coordinated risk assessment. The results of these individual audits would then be compiled in an overall summary report. Participating in this coordinated audit were the Internal Audit Services of FAO, UNDP, UNICEF and WFP, as well as OIOS as the internal auditor of OCHA. The audit covered the two distinct functions of UNDP as Administrative Agent, where UNDP receives contributions from donors, administers funds received, disburses funds to participating United Nations Organizations in accordance with instructions from the Humanitarian Coordinator, consolidates statements and reports, and provides final reporting; and as Managing Agent of the Pooled Fund, where UNDP ensures access to the Pooled Fund for NGOs. The audit reviewed the following areas: governance and strategic management, the roles of UNDP as Administrative Agent and Managing Agent (specifically the technical review process), the implementation of HACT and project monitoring and evaluation. The audit covered the period from 1 January 2011 to 30 June 2012. Between 2006 and the end of 2012, the Pooled Fund had received contributions totalling $752 million. During the period audited, UNDP, as Administrative Agent, received contributions totaling $137 million and transferred $144 million to participating United Nations organizations. During the same period, UNDP as Managing Agent received $62 million in 2011 and $26 million in the first half of 2012 for transfer to NGOs.

II. About the Pooled Fund

Since 2006, the United Nations, under the leadership of the Humanitarian Coordinator, has taken a coordinated approach to humanitarian aid in the Country. The Pooled Fund was established in the Country with the signing of a Memorandum of Understanding between the Humanitarian Coordinator, OCHA, participating United Nations organizations, the UNDP MPTF Office as the Administrative Agent and the UNDP Country Office as the Managing Agent.

The Country's Humanitarian Action Plan outlines the strategic programmatic and operational plan for providing humanitarian and emergency assistance, applying to (but not exclusively) the Pooled Fund. Technical expertise is provided through 10 clusters covering coordination, education, food security, health, logistics, multi-sectoral activities (refugees), nutrition, protection, shelter and non-food items and water, sanitation and hygiene, each coordinated by one United Nations agency. Following a consultative selection process involving primarily the

Humanitarian Coordinator and representatives from donors, NGOs, and participating United Nations organizations, funds are allocated to NGOs (international and local), through UNDP as the Managing Agent, and to United Nations Organizations.

An OCHA-UNDP Joint Pooled Fund Unit that is headed by OCHA, manages the Pooled Fund mechanism in the Country and its day-to-day operations. With 27 positions, the Joint Pooled Fund Unit is located in Kinshasa.

The MPTF Office acts as Administrative Agent for all funds provided by donors to the Pooled Fund. The MPTF Office has delegated some Administrative Agent functions to the Country Office, requiring, inter alia, that the Country Office effectuates fund transfers to the participating organizations upon decision of the Humanitarian Coordinator.

To reflect the distinct functions UNDP exercises as Administrative Agent and Managing Agent, a dedicated Finance Specialist was hired in 2008 to perform the Managing Agent function, while the Administrative Agent function was assigned to the Country Office's finance section.

III. Detailed assessment

1. Governance and strategic management — Partially Satisfactory

The Pooled Fund was established in 2006 to coordinate and improve the humanitarian response in the Country. By the end of 2011, contributions totalling $662 million had been received from 11 donors: the *Agencia Española de Cooperación Internacional para el Desarrollo* (AECID), the Australian Agency for International Development (AusAID), the Canadian International Development Agency (CIDA), the United Kingdom Department for International Development (DFID), the Swedish International Development Cooperation (SIDA) and the Governments of Belgium, Denmark, Ireland, Luxembourg, the Netherlands and Norway.

The Pooled Fund's strategy is articulated in the Humanitarian Action Plan and implemented through allocation decisions made by the Humanitarian Coordinator in consultation with the Pooled Fund Board, which consists of donors, cluster lead agencies, NGOs, OCHA and UNDP as the Administrative Agent.

OAI reviewed UNDP contributions to the strategic management of the Pooled Fund and noted no reportable issues.

1.1 Early recovery and strategic management of the Pooled Fund — Partially Satisfactory

Issue 1 Lack of clarity on early recovery activities

The overall focus of the recovery approach, as defined by UNDP, is to "restore the capacity of national institutions and communities to recover from a conflict or a natural disaster, enter transition or 'build back better,' and avoid relapses."

OAI noted that while the Pooled Fund's interventions focused on humanitarian assistance, national stakeholders had started to advocate for further involvement and ownership. In meetings with OAI, donors and United Nations organizations also raised the need to develop the resilience of local partners and of the population in general. This became all the more acute in the context of the global financial crisis and increasingly competing humanitarian emergencies, with several donors having fewer available resources and questioning the impact of humanitarian aid in the Country to date. Many stakeholders were uncertain whether the Pooled Fund had led to any impact other than short-term relief. With decreasing resources available, stakeholders reported a need for the Pooled Fund to evolve so that humanitarian activities are closer tied to development and to ensure that humanitarian activities meet the needs of beneficiaries, in particular by going beyond just relief, and moving towards building resilience so that communities are better able to withstand future crises.

According to the Joint Pooled Fund Unit, the Pooled Fund was, at the time of the audit, exploring multi-year projects with several donors having pledged multi-year funding. Longer term projects would enable an increased focus on activities that build capacity and resilience. OAI concurred with the Joint Pooled Fund Unit that the next strategic decision was to connect such projects with longer term development projects. However, there was no consensus among donors on how this approach could be best applied and whether it fell within the Pooled Fund's purview. The Country Office further reported that the UNDP Pooled Fund Unit, as Managing Agent, did not have a role in determining the substantive nature of humanitarian interventions as identified by the Humanitarian Country Team or the Pooled Fund Board. A Working Group of the Pooled Fund Advisory Board was expected to recommend to the full Advisory Board in February 2013 that the Pooled Fund finance multi-year projects. These longer term projects will enable partners to build community resilience and address some of the causes of humanitarian needs rather than just treating the symptoms.

UNDP is also contributing to discussions outside of the Pooled Fund Unit to advocate for the transition from relief to recovery.

Further, in reviewing the Pooled Fund structure, OAI noted that there was no early recovery cluster. Although the Pooled Fund stakeholders recognized the importance of early recovery, funding for an early recovery cluster was not available and it was closed with the aim to mainstream early recovery concepts across the projects of all the clusters. Yet the inclusion of some early recovery components into projects was still debated by various cluster lead agencies. There was no agreement on how far-reaching the Pooled Fund, a humanitarian instrument, should be. The Office of the Humanitarian Coordinator reported that UNDP had perhaps failed to conceptualize the importance of the early recovery cluster to the donors.

In the absence of a cluster dedicated to early recovery in which UNDP would be involved, UNDP is not represented in the Pooled Fund Board, other than in its capacity as Administrative Agent. Considering the UNDP mandate and core competency in development, OAI noted that the current set up did not allow for an effective use of UNDP expertise for transitioning to recovery. The outgoing Humanitarian Coordinator reported that he had asked UNDP to launch a pilot early recovery project in 2012 that would be financed from the Humanitarian Coordinator's reserve funds. The idea has not yet been developed.

Lack of clarity on the relevance of early recovery activities and the lack of consistent understanding of a resilience approach may prevent the Pooled Fund from assisting institutions and communities in timely recovery or rebuilding.

Priority	**High (Critical)**
Recommendation 1: The Country Office should continue to engage with the Pooled Fund Board and the Humanitarian Country Team advocating for multi-year projects as a way to transition from relief to recovery and include longer term transition and development activities in projects in a more visible, consistent and coordinated manner.	
Management Comments: ___√___ Agreed ______ Disagreed	

1.2 Joint Pooled Fund Unit — Not Applicable

The Pooled Fund is managed by the Joint Pooled Fund Unit under the Humanitarian Coordinator's overall supervision. The Joint Pooled Fund Unit, constituted by OCHA and UNDP, and headed by OCHA, allows effective coordination and integration between the two entities and is considered a good practice among Common Humanitarian Fund countries. OCHA and UNDP jointly developed a dedicated Pooled Fund database and are aligning the monitoring and oversight of project implementation, whether by agencies or NGOs. For the period reviewed, OAI noted however that key Joint Pooled Fund Unit positions were not fully staffed. The position of the Head of the Joint Pooled Fund Unit (OCHA), for instance, was vacant for about a year, which affected the Joint Pooled Fund Unit's work and the Pooled Fund's strategic initiatives. As the staffing issue of the Joint Pooled Fund Unit (under OCHA) was to be reviewed by OIOS, this area was not included in this audit.

1.3 Delegation of authority — Partially Satisfactory

Issue 2 Unclear delegation of authority

UNDP defines delegation of authority as the assignment of a vested authority of an appointment holder (delegator) to another person (delegatee), normally within the same office or along reporting lines, to carry out specific activities or take decisions that are within the authority of the delegation.

OAI noted that the delegation of authority to the UNDP Pooled Fund manager for the approval of disbursements to NGOs had no set amount limit. OAI further noted that the delegation of authority from the Resident Representative to the Country Director was subsequently delegated downward to the next level of managers. The delegation of authority from the Resident Representative, however, made no provision for such further delegation. OAI is of the view that the delegator must be informed in writing of further delegation of authority and that the delegation must specify the threshold applicable to the delegation, because inadequate delegation of authority may lead to decisions not being taken at the appropriate level, inadequate commitment of the organization and/or error and irregularities that may not be detected in a timely manner.

The views of OAI are in line with the draft policy paper on delegation of authority that states that if the Head of a Country Office decides to formally delegate authority to staff members, the Head of that Country Office must first decide on the scope and limitations of the authority to be delegated and the effective date of delegation. The Head of Country Office must also decide if the delegatee may further delegate the authority with or without the Head of Country Office's prior consent. The Country Office needs to clarify its delegation of authority along these lines.

Priority	**Medium (Important)**
Recommendation 2: The Country Office should review its delegation of authority to the Pooled Fund manager, clarifying the authorities that are delegated and their levels, and communicating the sub-delegation to the Resident Representative.	
Management Comments: __√__ Agreed ______ Disagreed The Country Office will ensure that delegation of authority from the Country Director is formally communicated to the Resident Representative.	

2. UNDP as Administrative Agent — Partially Satisfactory

In line with the Pooled Fund's Terms of Reference, the UNDP MPTF Office is the Administrative Agent for all funds provided to the Pooled Fund by donors and by the programme country. The Executive Coordinator of the MPTF Office has delegated some of the Administrative Agent functions to the Country Office, namely the disbursement of funds and financial reporting.

Because of Issue 4 on the need to balance expenses and revenue for the Administrative Agent related functions, this area was rated "Partially Satisfactory".

2.1 Administration Agent fee — Partially Satisfactory

Issue 3 Corporate Issue: Deferred revenue policy not disseminated

With the implementation of the International Public Sector Accounting Standards starting January 2012, UNDP adopted a deferred revenue policy upon recommendation of the Board of Auditors, which was approved by the MPTF Office and by the UNDP Chief Finance Officer. According to the new policy, the Administrative Agent fees received by the MPTF Office are considered exchange revenue. As the Administrative Agent function lasts, on average, over a four-year period from the start of a project to its closure, the policy introduced a gradual recognition of revenue, with 25 percent of the Administrative Agent fee income recognized in the year of the initial receipt of the donor contributions, and 25 percent each in the next three calendar years. The recognition of deferred revenue was to be automated in Atlas. The MPTF Office subsequently informed OAI that it was determined that the cost of automating exceeded the benefit.

OAI noted that while the MPTF Office started applying the new policy in January 2012, the policy had not been officially communicated to the country offices serving as Administrative Agents and the implications of deferred income had not been explained to them. As a result, the Country Office in the Democratic Republic of the Congo was faced with a substantial reduction in its Administrative Agent revenue (25 percent as opposed to 100 percent previously) without explanation or advance notice.

The MPTF Office explained that official communication was planned to have been issued to country offices and a draft to that effect was shared with the Office of Financial Resources Management. However, at the time of the audit, the policy had still not been promulgated.

OAI stressed that the policy should have been communicated and explained to country offices serving as Administrative Agents before being implemented. This would have allowed the offices concerned to assess the impact and adjust their costs, as necessary. Implementing policies without advance communication does not allow for proper accountability and may lead to confusion.

The MPTF Office reported that the delay in notifying the Country Office in the Democratic Republic of the Congo of this new policy would have had no implication on the office's revenue thanks to substantial unspent Administrative Agent revenue from operations in the previous year, 2012 had an opening balance of $0.8 million (equivalent to more than two years of the Administrative Agent unit cost).

Comment:

OAI is not issuing a recommendation, as the MPTF promulgated the deferred revenue policies to country offices serving as Administrative Agents of MPTFs at the end of November 2012.

Issue 4 Balancing Administrative Agent revenue with related costs

The Administrative Agent fee is charged at a standard rate of 1 percent of donor contributions received. Until December 2011, the distribution of the Administrative Agent fee was 60 percent allocated to the Country Office and 40 percent to the MPTF Office. For 2011, the Administrative Agent fee income for the Country Office was approximately $0.6 million. In December 2011, the MPTF Office introduced a change in distribution, with 30 percent allocated to the Country Office and 70 percent to the MPTF Office. With the change of policy, OAI estimated the net income for the Country Office in 2011 would have been approximately $100,000.

The combined effect of the new deferred revenue policy and of the revised distribution of the Administrative Agent revenue is expected to diminish the Administrative Agent revenue of the Country Office in comparison to previous years. This may result in a net loss unless the Country Office succeeds in carefully matching and balancing the actual expenses related to the Administrative Agent function against the expected revenue. At the time of the audit, costs for two staff members who were also performing other tasks for the Country Office were primarily charged to the Pooled Fund Administrative Agent account. The Country Office expects to be able to absorb any deficit through Administrative Agent fees generated from other MPTFs.

Priority	Medium (Important)
Recommendation 3: The Country Office should ensure that staff member costs charged to the Administrative Agent account are commensurate with the actual work performed for the Pooled Fund. Proper time tracking mechanisms should be used to assist staff members in their record keeping.	
Management Comments: ___√___ Agreed ______ Disagreed The Country Office will adopt the UNDP cost recovery model to determine exactly the amount to be charged to the Administrative Agent.	

2.2 Transfer to United Nations organizations — Satisfactory

Issue 5 Lack of reconciliation of fund transfers to participating United Nations organizations

The Terms of Reference of the Pooled Fund Board and the MOU with participating UN organizations indicates that the disbursement of funds to participating United Nations organizations must be done within three to five business days and in accordance with the decisions of the Humanitarian Coordinator.

OAI reviewed a sample of 10 vouchers (60 percent of the total transfers over the period audited) for the transfer of funds by the Administrative Agent to participating United Nations organizations. Results were satisfactory, as transfers were completed within the prescribed deadlines:

- There was an average number of eight calendar days (six business days) between the Humanitarian Coordinator's signature and the invoice date.
- There was an average of two days between the invoice date and the transfer date (Article 14 of the Delegation of Authority from the MPTF to the Country Office requires that payments to participating organizations are issued within three to five business days).
- Evidence of timely disbursement of funds to the participating UN organizations was available on the MPTF gateway.

OAI noted that, in view of the volume transferred to United Nations organizations, annual confirmation of the funds transferred would allow the Country Office to reconcile funds transferred at year end.

Priority	Medium (Important)
Recommendation 4: The Country Office, in its role of Administrative Agent, should periodically seek formal confirmation from participating United Nations organizations of receipt of funds transferred to them.	
Management Comments: ___√___ Agreed ______ Disagreed The Country Office, in its role as Administrative Agent, will seek formal confirmation from participating United Nations organizations of receipt of funds transferred to them.	

2.3 Reporting on project closure to Multi Partner Trust Fund Office — Not Applicable

In accordance with the Pooled Fund's Terms of Reference, Memorandum of Understanding and Standard Administrative Arrangement, the project closure is done directly between the Pooled Fund Secretariat (which is OCHA) and the Pooled Fund's Administrative Agent, the MPTF Office. After receipt and review of the narrative reports from the NGOs, OCHA confirms that the projects are operationally closed. The Pooled Fund Secretariat (OCHA) then consolidates the NGO narrative reports received and sends a note to the Administrative Agent to proceed with financial closure of the projects.

3. UNDP as Managing Agent — Partially Satisfactory

3.1 Managing Agent function — Partially Satisfactory

In its capacity as Managing Agent, UNDP is currently partnering with 52 NGOs. In 2011, 98 projects were implemented by 28 international NGOs and 34 projects by 24 national NGOs. NGOs and projects were selected by clusters and the Pooled Fund Board and approved by the Humanitarian Coordinator, i.e. without UNDP involvement.

Issue 6 Corporate Issue: Insufficient guidance on UNDP engagement with non-governmental organizations in a humanitarian context

The evaluation report of the Pooled Fund, issued in December 2010, questioned the value added by UNDP as Managing Agent and called on the organization to establish guidelines for its Managing Agent role for humanitarian funds. "UNDP carries out its Managing Agent function on the basis of the UNDP NGO execution modality, which aims to build the capacities of NGOs as potential development partners. It involves capacity and risk assessments, the classification of NGOs in four categories of risk which determine reporting, M&E and auditing requirements, as well as the level of the first disbursement of funds. While this approach provides good guarantees of administrative and financial accountability, its suitability for a humanitarian context is questionable. "

In 2011, UNDP, as Managing Agent for the Common Humanitarian Fund in the Country as well as Central African Republic and Sudan, expended $93.5 million, which was transferred to NGOs using the NGO/national implementation modality. Although Common Humanitarian Fund countries face significant challenges applying this modality to the humanitarian context, UNDP has not yet adapted its implementation policies and procedures in that regard. In the view of various stakeholders that OAI met during the audit, such adaptation needs to be covered by the Managing Agent fee that UNDP receives. The draft guidance also does not provide a response and adaptation to the technical review of projects, monitoring and evaluation, the management and booking of national execution project advances, or the closure of projects. Failure of UNDP to adequately account for its role as Managing Agent for Common Humanitarian Funds and to adapt its implementation modality appropriately may negatively affect the performance of UNDP as Managing Agent and continue to fuel donor concerns about the added value of UNDP as Managing Agent.

A working group was set up with Bureau of Management, Bureau for Development Policy, Bureau for External Relations and Advocacy and Bureau for Crisis Prevention and Recovery to develop guidance on UNDP engagement with NGOs as responsible parties. The Implementation Working Group on Fast Track Phase 2, brought together by the Bureau for Crisis Prevention and Recovery, will discuss NGO aspects in a humanitarian context.

Priority	High (Critical)
Recommendation 5: As part of the development of Fast Track Policies and Procedures 2.0, the Bureau of Management, in close cooperation with the Bureau for Crisis Prevention and Recovery and the Bureau for Development Policy, should develop policy/guidance on UNDP engagement of non-governmental organizations in the humanitarian context.	
Management Comments: ___√___ Agreed ______ Disagreed	

Issue 7 General Management Support rate not aligned to the UNDP standard rate

In June 2007, the Executive Board established a new policy for cost recovery (decision 2007/18) with a flat 7 percent General Management Support rate for all third party and trust fund contributions. A waiver must be obtained from the Bureau of Management if the standard 7 percent rate is not applied. This standard General Management Support rate of 7 percent also applies to all funding received by UNDP as Managing Agent.

Since the Pooled Fund was established in 2006, prior to the 2007 General Management Support policy, UNDP as Managing Agent has only been charging a General Management Support rate of 5 percent. Although the Country Office had approached the Pooled Fund Board and donors to align the General Management Support rate to the UNDP new corporate rate of 7 percent, donors strongly opposed such an increase. Donors had asked UNDP to justify the General Management Support increase, questioning the added value of UNDP as Managing Agent.

The Country Office was of the view that if the donors and the Board continue to exert significant pressure on UNDP to lower General Management Support below 5 percent, the rate may not be sufficient to continue servicing the needs of the OCHA-UNDP partnership.

The Country Office's request in September 2012 for a waiver of the 7 percent General Management Support requirement was not approved and it was suggested that the Country Office use the Executive Board decision in relation to donors to regularize the General Management Support rate at the minimum rate of 7 percent.

Comment:

OAI is not issuing a recommendation as the issue is partly dependent upon external factors.

3.2 Management information — Partially Satisfactory

Issue 8 Details of Funding Authorization and Certificate of Expenditures not captured in Atlas

According to UNDP policy, implementing partners must report their expenses on a Funding Authorization and Certificate of Expenditures form every quarter. The detailed expenditures captured on the Funding Authorization and Certificate of Expenditures forms must subsequently be entered in Atlas.

OAI noted that the Joint Pooled Fund Unit did not break down NGO expenditures obtained from the Funding Authorization and Certificate of Expenditures forms when these were entered in Atlas. The Finance Unit entered only the total amount of implementing partner expenses. The Country Office explained that due to limited staffing in the Joint Pooled Fund Finance team, they were not able to enter detailed expenses in Atlas for each implementing partner.

From the MPTF perspective, financial reporting of NGO expenditure is aggregated under the 'contracts' category, so the lack of detailed expenditures does not impact their reporting responsibilities to the donors.

OAI is of the view that the lack of detailed information may in the future prevent UNDP from generating analytical data on NGO expenditures, i.e., the nature of expenses where the Pooled Fund has contributed, or to maintain the traceability of NGO expenditures. It is also good programme management practice to compare project budgets to actual expenditure. In the opinion of OAI, the practice of recording only one line of expenditure per project does not allow adequate control over the project.

While understanding the volume of work associated with the entry of the Pooled Fund's project expenditure, OAI believes that the Country Office needs to explore ways to automate the entry of data from Funding Authorization and Certificate of Expenditures forms into Atlas.

Priority	**Medium (Important)**
Recommendation 6: The Country Office should ensure that implementing partners' detailed expenditures are captured in Atlas and should consider using an interface to transfer Funding Authorization and Certificate of Expenditures data into Atlas.	
Management Comments: ___√___ Agreed ______ Disagreed Since November 2012, expenditures are captured in Atlas in conformity with the Funding Authorization and Certificate of Expenditures.	

3.3 Payments to non-governmental organizations — Satisfactory

In line with the Pooled Fund's Terms of Reference, one of the Managing Agent functions is to "ensure timely disbursements of funds in accordance with the decisions of the Humanitarian Coordinator under the standard allocation and the Reserve."

An analysis conducted by the Joint Pooled Fund Unit on the first fund allocation of 2011 revealed that the average lead time - from the Humanitarian Coordinator's approval of a project sheet, through a technical review of the project document and preparation of an agreement with the NGO to the first payment - was 88 days (an improvement on a similar analysis of the two 2010 allocations, which took 105 days). The timeline for UNDP to process the signed NGO agreement and issue funds was 24 days in 2011 and between 19 and 25 days in 2010.

To expedite UNDP disbursements to NGOs, the UNDP Management Consulting Team was asked to review the payment process to the NGOs. The Management Consulting Team recommended that UNDP disburses the funds to NGOs within 10 days. Based on a sample test of 15 vouchers (approximately 60 percent of the total disbursements to NGOs over the audit period), OAI determined that the average payment time to NGOs from the day the NGO signs the project document to UNDP disbursement of funds was within this 10-day period.

3.4 Technical Review process — Partially Satisfactory

According to the Pooled Fund guidelines (*Lignes Directrices Generales*), the technical review process begins with the project sheets that were selected by the Pooled Fund Board.

In view of its accountability as Managing Agent, UNDP needs to ascertain whether NGOs have minimum capacity. This is based on the assessment conducted for every new NGO before a formal contract is signed. OAI reviewed the selection of 20 NGOs and noted that the criteria for the selection of NGOs were transparent and based on the HACT micro-assessment.

The review of the project sheet allows the Joint Pooled Fund Unit, with the support of the cluster leads, to quickly identify projects whose design is poor and whose implementation seems doubtful. The role of the Technical Review Committee, which includes members of the Pooled Fund Board, the cluster coordinator and the Joint Pooled Fund Unit, is to ensure the quality of proposed projects, focusing on the expected results and the actions in place to measure them. Projects are generally rated A, B, C, D or E, as follows:

- "A" – approved project: means that the project meets the required quality level and can be directly supported;
- "B" – project approved with minor changes not affecting the budget, which means that the overall project meets the quality criteria, but some clarifications are essential and must be made by exchange of emails;
- "C" – project revision (minor changes) requires the implementing partner to incorporate minor changes to the project proposal;
- "D" – project rating means that major changes to the project set-up and/or description and/or the project budget must be made. In this case the project requires a technical revision; and
- "E" – project rejected, which means that the project will be returned to the provincial cluster for: (a) confirmation of the choice of partner, while ensuring the necessary technical support in collaboration with the cluster responsible for reviewing the project; (b) identification of another partner for implementation of a project previously identified with the same priority; or (c) removal of the project.

Issue 9 Workload stemming from project sheets of poor quality

Reviews of the timeline for the technical review from the submission of the project sheet by the partners to payment by the Managing Agent, shows that the technical review could last up to three months, depending on the quality of the project document submitted by the NGO. For instance, in the 2011 first allocation, 65 percent of projects were rated “C”; 7 percent “D”; and 1 percent “E”. That generated an additional workload for the clusters and the Joint Pooled Fund Unit.

In cases where the Pooled Fund Board approved a project of poor initial quality, the technical assistance necessary from the cluster lead agencies and the Joint Pooled Fund Unit was significant. It was also a factor for which UNDP had no leverage and merely inherited the workload.

The Joint Pooled Fund Unit sees its assistance at the technical review stage as one area where UNDP provides capacity building to NGOs. Yet without an explicit capacity building strategy and transition to early recovery (refer to Issue 1), these efforts are not consolidated with specific inputs and outputs in the project document, measurement of the improvement in NGO capacity and linkages with the monitoring and evaluation segment of the Managing Agent function.

Priority	**Medium (Important)**
Recommendation 7: The Country Office should identify returning non-governmental organizations with inadequate capacity and provide additional resources to reinforce their capacities during monitoring visits, as intended under the HACT framework, and to reduce delays and additional workload in the technical review process.	
Management Comments: __√__ Agreed ______ Disagreed	

3.5 Amendment of projects — Satisfactory

For 287 projects implemented in 2009 and 2010, 182 amendments were requested, adding to the workload of the Joint Pooled Fund Unit. NGOs have the flexibility to redistribute 20 percent between budget lines without prior authorization ("no cost extension"). There are two types of amendments: time extensions and cost extensions.

Processing amendments without cost implications is fairly quick, with most of the delay attributable to partners not submitting the appropriate cluster approval if needed or not submitting a revised budget and the logical framework. The workload generated from this process was minimal.

Processing amendments for cost extensions requires more work, because, for example, OCHA needs to review the request, obtain the Humanitarian Coordinator's approval, create a Project Financing Agreement and the Administrative Agent must transfer funds. When the cost extension reaches UNDP it is more of a procedural follow-up. In general, there were very few cost extensions solicited by partners.

There were no reportable issues.

3.6 Monitoring and evaluation — Partially Satisfactory

The Joint Pooled Fund Unit is responsible for monitoring projects implemented by NGOs. With six UNDP evaluators in the Joint Pooled Fund Unit in charge of monitoring and evaluation, the 2011 monitoring and evaluation plan included at least one site visit for each NGO project. Approximately 82 percent of the projects were covered by the evaluators in 2012. The Joint Pooled Fund Unit suggested that it was not possible to visit all projects because of security restrictions, also highlighting that a site visit was not the only monitoring tool. The Joint Pooled Fund Unit is exploring other monitoring tools to use in lieu of site visits.

The day-to-day monitoring of project implementation in the provinces proves to be a difficult task because of lack of infrastructure, dependency on the flights operated by the United Nations Mission in the Congo and continued insecurity in some areas.

While the Pooled Fund's monitoring and evaluation system is established for NGO-implemented projects, agency-implemented projects lack a monitoring mechanism. This responsibility falls under the purview of OCHA, who informed OAI that the Pooled Fund Board, under the lead of UNICEF, was considering options to align the monitoring of agencies to that of NGOs.

Issue 10 <u>Missing indicators to assess project results</u>

Pooled Fund NGO-implemented projects are aligned to the Managing Agent's processes. According to the UNDP Programme and Operations Policies and Procedures, project documents must contain results that are specific, measurable, attainable, realistic and time-bound through the completion of a Result and Resources Framework and/or annual work plan. The *Handbook on Planning Monitoring and Evaluation for Development Results* stresses that, "without effective planning, monitoring, and evaluation, it would be impossible to judge if work is going in the right direction, whether progress and success can be claimed, and how future efforts might be improved." The quality of the Results and Resources Framework at the planning stage strongly influences the feasibility and quality of future monitoring and evaluation. The observations from monitoring visits show that measuring project results remains a challenge, because the Results and Resources Framework is still weakly defined.

Monitoring and evaluation visits were carried out to assess compliance with the project document, but without effective mechanisms in place to assess the relevance and/or impact of the project. OAI noted that:

- key performance indicators defined in the project's logical framework were not always adequate for measuring the project's achievements. Achievements using cross-cluster indicators were not defined to measure the relevance and impact of the project (e.g., number of children benefitting from school and being vaccinated);
- the expected impact of the project had not been identified, which may lead to under-reporting of the projects possible achievements; and
- there was no mechanism for the cluster to follow up and report to the Joint Pooled Fund Unit on issues noted in the monitoring reports and it was unclear what corrective actions had been taken by the clusters.

UNDP responsibility as Managing Agent does not include evaluation and is limited to looking at outputs and compliance with work plans and fund utilization. The Pooled Fund is in the process of elaborating on a new framework to implement a monitoring, reporting and evaluation system for all projects that the Pooled Fund finances, implemented by both NGOs and United Nations agencies. Here again, with a transition from medium to longer term goals, the Joint Pooled Fund Unit needs to develop its assessment tools and methodology of longer term project impact and sustainability. This would also help to address donor expectations of improved results-based reporting. The lack of a mechanism or indicators to measure the relevance of the projects may hamper the Joint Pooled Fund Unit's ability to assess successful implementation of the projects.

Comment

OAI is not making a recommendation as the weakness is beyond UNDP control and will be assessed by OIOS under the OCHA portion of their audit of the Pooled Fund.

Issue 11 <u>Weaknesses in the monitoring and evaluation function</u>

The review of the monitoring and evaluation function showed that activities performed by evaluators consisted more of a compliance rather than an evaluation exercise. OAI also noted a lack of technical input from the clusters to the monitoring visits. The current set-up also does not allow for an objective evaluation of the project outputs.

OAI also noted the following from its review of the structure of the evaluation team:

- Each evaluator had been covering a specific geographic area without a clear rotation policy in place. In view of the Country's high risk and complex environment, set timelines for rotation would avoid undue pressure on the evaluators and/or collusion between evaluators and NGOs.

- Clusters did not have access to the Joint Pooled Fund Unit's database of monitoring results, including outputs by projects. There was no mechanism for the clusters to follow-up and report to the Joint Pooled Fund Unit on issues noted during monitoring visits.

Priority	High (Critical)
Recommendation 8: The Country Office should improve monitoring and evaluation activities, establishing: (a) feedback mechanisms for the clusters on issues raised during monitoring visits; and (b) a rotation policy for field evaluators.	
Management Comments: ___√___ Agreed ______ Disagreed	

3.7 Harmonized Approach to Cash Transfers — Partially Satisfactory

The Country has been HACT compliant since 2009 and has been implementing HACT assurance activities since 2011. With the Pooled Fund making up some 60 percent of the Country's HACT portfolio, the Joint Pooled Fund Unit has been piloting the implementation of HACT since the beginning of 2011. The benefits of implementing HACT include the establishment of a common monitoring and evaluation system and the shift from project audits to partner audits, which has significantly reduced the number of audits required, as well as audit cost.

The Country Office has worked diligently over the past year toward ensuring that it adheres to the HACT framework. For instance, it conducted a micro-assessment of all implementing partners, prepared a risk assessment and an assurance plan, established a HACT task force with focal points within senior management, trained spot checkers and conducted regular spot checks.

Issue 12 Weaknesses in the implementation of the HACT assurance activities

The HACT framework requires that participating agencies agree on an assurance plan that is commensurate with the level of the risk associated with the implementing partners, as determined by the micro-assessment. The HACT framework stipulates that assurance activities must comprise: (a) at least one scheduled audit during the programming cycle of implementing partners receiving $0.5 million collectively from all United Nations agencies; (b) on-site reviews in the form of spot checks and special audits to address specific weaknesses; and (c) programmatic assurance activities, including field monitoring and annual reviews. The aims of HACT include strengthening the capacity of implementing partners to effectively manage resources, helping manage risks related to the management of funds and increasing overall effectiveness.

The HACT approach in the Country still presents some challenges and risks that may affect the oversight of the Pooled Fund's NGO-implemented projects, as listed below:

- OAI reviewed 20 micro-assessments and noted that the evaluators did not always have a full understanding of the questions that were asked, which led to potential overstatement of the implementing partner's capacity.
- Based on a review of 20 spot checks, OAI noted that the spot checkers' response did not always address the questions or were too vague to allow proper conclusions to be made of the implementing partner's internal control.
- A key HACT requirement is a review of the Funding Authorization and Certificate of Expenditures against the supporting documents. Questions on the review of the Funding Authorization and Certificate of Expenditures were not included in the checklist provided by UNDP (Corporate). The Country Office developed a Funding Authorization and Certificate of Expenditures worksheet, but the issues noted during the Funding Authorization and Certificate of Expenditures review were not systematically reported as part of the conclusion in the checklist, or when done, the issues were

mingled with other insubstantial findings. This may prevent reviewers of spot checks or managers to take action on significant issues.

- Follow-up of spot check visits and partners audits was not systematically shared or discussed with agencies that are involved in the Pooled Fund but are not part of the HACT.
- OAI was not able to determine during the audit fieldwork whether issues noted in the spot checks were included in an action plan and monitored accordingly, as the Country Office reported that it was still in the process of completing the spot checks, most of which took place in 2012. Subsequent to the field work, OAI further noted that 40 planned HACT audits scheduled in 2012 were postponed until 2013.
- The micro-assessment and spot check questionnaires provided by UNDP (Corporate) did not include a fraud prevention and detection questionnaire. However, the HACT approach allows United Nations agencies at the country level to add pertinent questions to their checklist based on the country context.
- OAI reviewed the training package provided to the spot checkers and noted that the material was too general in terms of what is expected of spot checkers in the field.
- OAI further noted that the revised risk assessment reports of NGOs and their findings were not discussed with the concerned partner, thus limiting the HACT capacity-building impact.

A weak assurance mechanism may prevent the Country Office from building the capacities of implementing partners, which might lead to poor project implementation and untimely detection of errors and irregularities.

As part of its 2010 audit of the Country Office (Report No. 714), OAI performed a review of HACT implementation in the Country and recommended that the Country Office strengthen its assurance mechanism for partners rated as high risk. The Country Office reported that in 2012 all high risk partners will be audited and 40 partners had already been identified for such audit.

Priority	**High (Critical)**

Recommendation 9:

To improve the effectiveness and efficiency of the HACT, the Country Office should:

(a) require a systematic quality review of spot check reports;
(b) review the follow-up on action plans identified in spot check reports;
(c) strengthen the spot checker training material (e.g., incorporate guidelines on how to review the Funding Authorization and Certificate of Expenditures) and ensure that the training material focuses on common errors/misunderstandings identified during review of spot check reports;
(d) include all agencies that are part of the Pooled Fund in the review of the spot checks, coordinating with other agencies to share audit results; and
(e) include all information gathered through partner audits and spot checks in the update risk assessment for each implementing partner.

Management Comments: ___√___ Agreed ______ Disagreed

The spot check reports are shared with other agencies and the Country Office has a mechanism to review the reports through the HACT Audit Task Force. This mechanism will be implemented. Spot check training will be enhanced and the Office will continually reinforce the monitoring of recommendations that emanate from the assurance reports, spot checks and audits alike.

3.8 Project closure — Unsatisfactory

In 2011, the Pooled Fund implemented 262 projects, of which 194 were implemented by NGO partners and 68 by United Nations agencies. In 2009, 285 projects were implemented, while the figure for 2010 was 185. As the Managing Agent, UNDP is responsible for the operational and financial closure of the projects in Atlas.

Because of Issue 13, the number of projects still pending closure and the outstanding balance awaiting refund, the area was rated as "Unsatisfactory".

Issue 13 Delayed closure of projects

Procedures for the closure of projects follow the individual participating United Nations organization's internal regulations and rules. As outlined in the Memorandum of Understanding, each participating organization determines when it has completed all approved activities and communicates the completion of activities to the Administrative Agent (and the Pooled Fund Board). Further, the timely closure of projects is a prerequisite for the reallocation of unspent funds and interest, in accordance with the MPTF Terms of Reference and individual participating organization's regulations and rules.

The Programme and Operations Policies and Procedures state that a project is operationally complete when the last UNDP-financed inputs have been provided and the related activities have been completed. Projects must be financially completed not more than 12 months after being operationally completed or after the date of cancellation.

The timely closure of Pooled Fund projects remained an issue, due to the number of projects to close and the volume of assets to transfer. Upon closure, each project needs to submit an asset disposal plan for a review by the Contract, Assets and Procurement Committee of the Country Office.

From 2006 to 2010, the Pooled Fund implemented approximately 680 projects. In 2011, 193 of these projects had been operationally closed and were pending financial closure. OAI noted that these projects had an outstanding balance of approximately $1 million, which needed to be returned to the DRC Pooled Fund donors after financial closure.

Untimely closure of projects may negatively reflect on UNDP as Managing Agent to manage the implementation of projects and will delay the reallocation of unspent funds to new projects and other humanitarian activities.

Comment:

OAI is not issuing a recommendation, as after the audit field work the Country Office had financially closed 496 projects and 200 more were pending financial closure. The Country Office explained that the delay in closing the remaining projects was because they are waiting for implementing partner audit reports or to receive reimbursement of unliquidated funds from the partners.

3.9 National execution advances — Partially Satisfactory

Issue 14 Outstanding national execution balance over six months

UNDP Financial Regulations and Rules require that country offices ensure that all project advances granted under the UNDP NGO/nationally implemented modality are properly accounted for and liquidated within the established deadlines and that the supporting documentation conforms to accounting principles and complies with donor requirements. According to the Programme and Operations Policies and Procedures, advances made to implementing partners need to be monitored. When there are outstanding advances to an implementing partner of more than six months, no new advances shall be granted to the partner even for a new project.

Advances from the Pooled Fund represented 60-70 percent of the Country Office's total outstanding advances. The outstanding balance was thus affecting the overall performance of the Country Office's Finance Dashboard and has been a concern for senior management and the Bureau of Management. As of September 2012, the balance of outstanding advances over six months was approximately $2.8 million.

The Programme and Operations Policies and Procedures require that national execution advances be reported on a quarterly basis. The Country Office considers this requirement inadequate for humanitarian projects – and particularly for the Pooled Fund – because of the inherent challenges of working in the Country (e.g., size of the country, poor infrastructure, difficulty of accessing remote areas) and the inability of NGOs to submit their Funding Authorization and Certificate of Expenditures forms within six months, because of the short life span (nine months) of the projects. In addition, until the third quarter of 2012, advances were based on a 70 percent rule (implementing partners are required to liquidate at least 70 percent of the previous advance prior to obtaining a new advance) instead of the UNDP corporate 80 percent rule.

The Country Office of Financial Resources Management conducted a mission in April 2012 and made 14 recommendations to reduce the amount of outstanding advances. However, most of these recommendations have yet to take effect.

Priority	**Medium (Important)**
Recommendation 10: The Country Office, in coordination with the Office of Financial Resources Management, should continue to strengthen the monitoring and the liquidation of the national execution advances.	
Management Comments: ___√___ Agreed ______ Disagreed The Country Office and the Office of Financial Resources Management will continue to strengthen the monitoring and liquidation of the national execution advances. The Pooled Fund Unit has also implemented several of the recommendations of the Office of Financial Resources Management regarding these advances and has made its own internal improvements on their monitoring.	

ANNEX I. Definitions of audit terms - Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **Satisfactory** — *"Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity*." While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.

- **Partially Satisfactory** — *"Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity".* A "partially satisfactory" rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.

- **Unsatisfactory** — *"Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised".* Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to significant 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 <u>not included in this report</u>.