



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**GUATEMALA**

**Report No. 1182**  
**Issue Date: 24 January 2014**

## Report on the audit of UNDP Guatemala Executive Summary

From 10 to 21 June 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Guatemala (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling \$57.5 million. The last audit of the Office was conducted by OAI in 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform 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 the Office 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.” This rating was mainly due to non-compliance with UNDP’s overall standards for organizational behavior, non-implementation of the Harmonized Approach to Cash Transfers (HACT), weaknesses in management of a directly implemented project, inadequate financial controls, and weaknesses in procurement. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>1. Governance and strategic management</b>				
1.1 Organizational structure and delegations of authority	Satisfactory			
1.2 Leadership, ethics and values	Unsatisfactory			
1.3 Risk management, planning, monitoring and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
<b>2. United Nations system coordination</b>				
2.1 Development activities	Satisfactory			
2.2 Resident Coordinator Office	Satisfactory			
2.3 Role of UNDP – “One UN”	Not Applicable			
2.4 Harmonized Approach to Cash Transfers	Partially Satisfactory			
<b>3. Programme activities</b>				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Partially Satisfactory			
3.3 Project management	Partially Satisfactory			
<b>4. Operations</b>				
4.1 Human resources	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

\* Cross-cutting themes

## Key issues and recommendations

The audit raised 15 issues and resulted in 15 recommendations, of which 5 (33 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.”

The high priority recommendations are as follows:

Leadership, ethics and values (Issue 1)      Non-compliance with UNDP’s overall standards for organizational behavior. A senior staff member requested that benefits from corporate contracts and privileges and immunities that are granted by the Government to the Office be extended to him. Specifically this individual asked that his dependent spouse be included in the Office’s cellular phone contract in order to benefit from the preferential rates and upgraded equipment granted to the Office. Although this request was denied, the staff member had his spouse added to the contract. The staff member also requested a general sales tax exemption. Although this request was denied, the staff member used the Office’s general tax exemption by having invoices for personal expenditures improperly made out to the Office. In addition, there was extensive unofficial use of Office vehicles by Office senior management contrary to the UNDP Vehicle Management Policy.

These issues had been referred to OAI’s Investigation Section for assessment and consideration of follow-up action.

OAI recommends that the Office enforce staff compliance with UNDP’s overall standards for organizational behavior and ensure that staff do not use advantages from corporate contracts and privileges and immunities granted by the Government for their personal benefit.

HACT (Issue 3)      HACT not fully implemented. Only one agency had prepared the required micro-assessments. As a result the joint audit plan and spot check plans for Implementing Partners had also not been prepared. OAI recommends that the Office fully pursue the implementation of HACT and ensure that its related requirements are duly adhered to.

Project management (Issue 6)      Weaknesses in the directly implemented project Comisión Internacional Contra la Impunidad en Guatemala (CICIG). The following deficiencies concerning project CICIG were identified: (a) the initial project was not appraised by the local Project Appraisal Committee; (b) project audits had been conducted without consultation with OAI and without following any of the OAI prescribed audit modalities; (c) the project was extended twice, without updating the original objectives, which at the time of the second extension were no longer valid since by then they had already been accomplished; (d) donor reporting was done directly by CICIG without involvement of the Office, despite that the Office had signed the donor contribution agreements and had management authority over the Trust Fund established to manage CICIG funds; and (e) the use of the direct implementation modality for the project might no longer be warranted since the CICIG carried out the majority of the activities over which the Office had no control.

OAI recommends that the Office improve management of the directly implemented project with the CICIG by: (a) adhering to relevant policies of UNDP Programme and Operations Policies and Procedures; and (b) reviewing the project in coordination with CICIG to clarify different roles, update project objectives and, if applicable, change the

implementation modality to non-governmental.

Finance  
(Issue 12)

Local bank account used as vendor to facilitate payments to third parties. The Office had setup its local bank account as a generic vendor in Atlas and used it to make payments to third parties. The amount paid under this modality totalled \$2.4 million or around 4 percent of total payments during the review period. The Office explained that these payments were made primarily to vendors that did not have a bank account with a local bank. Using a generic vendor to record payments instead of using the name of the actual recipient obscures the identity of the final recipient and negatively affects control over the payment process.

OAI recommends that the Office discontinue the use of its local bank as a generic vendor account to facilitate payments to third parties by: (a) creating a separate vendor account for each individual recipients of funds; and (b) making payments to the actual beneficiary.

Procurement  
(Issue 14)

Weaknesses in the procurement function. The following weaknesses with regard to the procurement were identified: (a) lack of a consolidated procurement plan; (b) extensive use of direct contracting; specifically, with regard to contracts for services and individual contracts; (c) lack of vendor performance evaluations; and (d) lack of a cost recovery strategy for failed or abandoned procurement processes.

OAI recommends that the Office improve its procurement function by: (a) preparing and implementing a consolidated procurement plan; (b) ensuring that the use of direct contracting as a procurement modality is limited to exceptional circumstances, particularly in the case of contracts for services and individual contracts; (c) conducting periodic vendor performance evaluations; and (d) establishing and adopting a cost recovery strategy for failed or abandoned procurement processes.

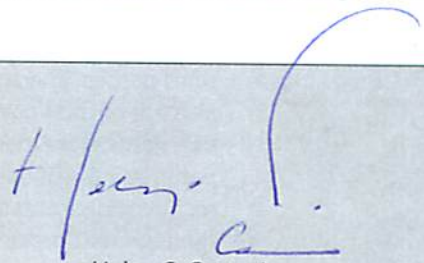
### Cross-cutting themes

As part of the 2013 OAI Annual Work Plan, all Country Office audits included specific areas that were reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management.** Satisfactory. No reportable issues noted.
- **Leave management.** Satisfactory. No reportable issues noted.
- **Global Environment Facility.** No reportable issues noted.

**Management comments and action plan**

The Resident Representative accepted all of the recommendations and is in the process of implementing them.



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