

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

United Nations Capital Development Fund Headquarters

Report No. 1403

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Report on the audit of United Nations Capital Development Fund Headquarters Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the United Nations Capital Development Fund Headquarters (UNCDF) from 21 July to 22 August 2014. 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 and strategic management (organizational structure and delegations of authority, risk management, planning, monitoring and reporting, financial sustainability);
- (b) programme activities (partnerships and resource mobilization, grant management); and
- (c) operations (human resources, finance, procurement, travel).

The audit covered the activities of UNCDF from 1 January 2013 to 30 June 2014. Over this period, UNCDF recorded programme and management expenditures totalling \$87.5 million. The audit was limited to UNCDF's Headquarters and did not include field visits to its Regional Offices and to programme countries. The last audit of UNCDF was conducted by the United Nations Board of Auditors in 2014.

At the time the audit was initiated, UNDP senior management conveyed its concerns to OAI, mainly regarding procurement, staffing and travel. OAI noted shortcomings in the areas of procurement and travel.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed UNCDF 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 weaknesses in the governance and strategic management and risk management, planning, monitoring and reporting areas of UNCDF.

Key recommendations: Total = 10, high priority = 3

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Sub-optimal UNCDF organizational structure and non-use of a UNDP shared service (Issue 1)	UNCDF had three Regional Offices, all of which were structured differently, but without any justification as to the need for this different set-up. Furthermore, each of the Regional Office Managers had different perceptions of what their responsibilities were, and subsequently executed their work differently, mainly as a result of what seemed to be unclear guidance and direction from UNCDF management. Additionally, UNCDF had decided, without any justification, not to use the administrative support functions of UNDP's Global Shared Service Centre.
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Recommendation: Reassess the organizational structure, considering: (a) set-up of the Regional Offices; (b) provision of clear guidance/direction with regard to

the roles and responsibilities of the various units as well as the individual staff members; and (c) using UNDP's Global Shared Service Centre.

Weaknesses in policies governing UNCDF's business processes (Issue 2)

A number of policies developed by UNCDF showed weaknesses. The policy governing the issuance of loans was still in draft form at the time of the audit. The policy governing grants focused primarily on grants issued to Financial Service Providers (entities that provide financial services such as checking accounts, savings accounts, loans, and money transfers to consumers and businesses), ignoring grants issued to non-Financial Service Providers. In addition, the Operations Manual prepared by UNCDF lacked direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures,' thereby minimizing the usefulness of the Manual.

Recommendation: Improve policies governing UNCDF's business processes by: (a) finalizing the policy governing the issuance of loans; (b) amending the policy governing grants to include issuance of grants to non-Financial Service Providers; and (c) updating the Operations Manual to include direct references to applicable sections of UNDP's 'Programme and Operations Policies and Procedures.'

Lack of formal risk management process (Issue 4)

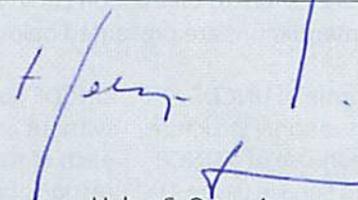
UNCDF had not implemented an enterprise risk management system. Furthermore, risk logs showing the key risks of the organization and mitigating actions at unit and/or UNCDF levels were not available. Some risk management activities were carried out in the two Practice Areas; however, they were not carried out in a unified and consistent way.

Recommendation: Introduce enterprise risk management processes in line with UNDP's Policy for Risk Management.

Management comments and action plan

The Executive Secretary, UNCDF, accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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