

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ECUADOR

Report No. 1901
Issue Date: 7 February 2018

Report on the Audit of UNDP Ecuador Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Ecuador (the Office) from 13 to 28 November 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 30 September 2017. The Office recorded programme and management expenses of approximately \$26.8 million. The last audit of the Office was conducted by OAI in 2012.

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

Overall audit rating

OAI assessed the Office as **partially 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 mainly due to corporate guidelines for nationally implemented projects not being fully implemented, flaws in organizational structure, and weaknesses in the payment process.

Good practices

Under the tenure of the current management, the Office had engaged in several good business practices that could be replicated in other offices within the Latin America and Caribbean region. The following good practices were noted in the Office: (i) Information, Communications and Technology - ICT security awareness training; (ii) feedback mechanism established for unsuccessful bidders; (iii) induction procedure for service contract holders; (iv) onsite training, by subject matter experts from Headquarters units, on a cost recovery basis; and (v) innovative concept for staff meetings.

Key recommendations: Total = 11, high priority = 3

The 11 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1	High
Reliability and integrity of financial and operational information	5	High
Effectiveness and efficiency of operations	3, 4, 6, 7, 8, 9	Medium
Safeguarding of assets	11	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	2	High
	10	Medium

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. The high (critical) priority recommendations are presented below:

Flaws in organizational structure and conflicting roles (Issue 1)

The Office’s overall functions and roles were aligned with the UNDP corporate guidelines; however, the audit identified weaknesses in the organizational structure and unclear roles and responsibilities among the various units within the Office, as follows:

- The Finance Unit operated with only one staff member, while in procurement one staff member was supported by two service contractors to undertake a wide range of procurement processes.
- The lack of sufficient human resources to provide operational support caused a significant burden on staff members within the Operations Unit, while the Office was forced to adopt some temporary measures to overcome the insufficient number of staff members in the Finance and Procurement Units, which resulted in conflicting roles and inadequate segregation of duties.

Recommendation: The Office should address the gaps in organizational structure so that roles and responsibilities could be adequately established among programme and operations units in line with the Internal Control Framework, and conflicts in roles and responsibilities could be timely addressed.

Corporate guidelines for nationally implemented projects not fully implemented (Issue 2)

The audit identified the following with respect to the Office’s use of corporate guidelines for nationally implemented projects:

- The Office did not conduct the required capacity assessments of implementing partners.
- The Office was providing support to national implementation using a non-standard Letter of Agreement. Even though in two instances the Letters were cleared by the Legal Office, there was one case where the Office included an arbitration clause that was not cleared by the Legal Office, thus exposing the Office to legal risks. Furthermore, the Office did not include a list with the specific support services and the associated costs but rather described the services in general.
- In 4 of 10 projects reviewed, the Office used non-standard agreements. In addition, the Office used other agreements where the standard clauses were modified without the clearance of the Legal Office, thus exposing the Office to additional legal risks. Furthermore, the intellectual property and copyright

standards were not observed, as two projects agreed that at the end of the project the intellectual property was going to be transferred to the implementing partner, instead of remaining as UNDP property.

Recommendation: The Office should fully adhere to the current guidelines for nationally implemented projects for all new and ongoing projects, as required, and ensure that only standard legal documents are used. In case of any deviation from standard agreements, the Office should seek clearance from the Legal Office through the Regional Bureau for Latin America and the Caribbean.

Weaknesses in the payment process (Issue 5)

Key controls established by the Internal Control Framework were not adequate in the way the Office had set the payment function. The pay cycle was processed using three different systems, namely Atlas (Corporate ERP), Atlas Bank (database locally developed) and Cash Management (local bank web application). None of these systems were automatically linked to each other. The main weaknesses noted were: inefficiencies due to incompatibility between the systems used; risk of inaccuracies due to manual inputs; and lack of proper approving authority for the release of funds. The processing of payments outside the Atlas system may lead to loss of funds.

Recommendation: The Office should improve the payment process by: (a) reassessing roles and responsibilities in the payment process, and processing payments only when vendor information is complete; and (b) expediting the possibility of changing the local bank to another one with an Atlas compatible e-banking web application.

Management comments and action plan

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



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