

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



*Empowered lives.
Resilient nations.*

AUDIT

OF

UNDP TREASURY MANAGEMENT

Report No. 2120
Issue Date: 21 June 2019

Report on the Audit of UNDP Treasury Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Treasury Management from 5 to 28 March 2019. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes. In particular, the audit aimed to:

1. Determine whether: a) governance processes are well designed and functioning; b) UNDP financial assets were safeguarded; c) investment portfolio returns were optimized; d) sufficient liquidity was maintained for the day-to-day operations.
2. Provide reasonable assurance that policies and procedures: a) exist to guide the establishing of bank accounts, corporate credit cards, cash availability to Country Offices and investment management operations; and b) are implemented consistently.
3. Determine whether controls have been established by the Treasury Division to mitigate against significant operational or financial exposure of UNDP.

The audit covered the UNDP treasury operations and activities from 1 January 2017 to 31 December 2018. The audit did not cover the electronic funds transfer infrastructure and processes directly managed by the Treasury Division, nor the applicable host-to-host applications implemented at the Country Office level since these will be covered in a separate audit, by OAI, in 2019. The last audit of the Treasury Division was conducted by OAI in 2007.

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

Overall audit rating

OAI assessed UNDP Treasury Management as **partially satisfactory/major improvement needed**, which means, "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." This rating was mainly due to weaknesses in governance arrangements and risk management, and weaknesses in cash management and treasury operations.

Key recommendations: Total = 7, high priority = 3

The seven recommendations aim to ensure the following:

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

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:

Key posts in Investment Section vacant (Issue 1) The audit team noted that two of three posts in the Investment Section of the Treasury Division were vacant. One of those posts, that of the Chief Investment Officer, had been vacant since April 2018. At the time of the audit, UNDP had extended an offer of employment to a candidate for the Chief Investment Officer post, which ultimately did not materialize, and the recruitment had, once again, been initiated.

Recommendation 1: The Treasury Division should ensure that the recruitment of the Chief Investment Officer is conducted without delay.

Inadequate oversight and monitoring of Country Office funding (Issue 7) There was inadequate oversight and monitoring of Country Office funding. The audit team noted the following:

(a) Weak management of imprest cash level in Country Offices

There was a surplus of cash with Country Offices, above their needs. The audit identified at least 26 Country Offices that had approved deals (replenishment of Country Offices' local bank accounts) that exceeded their set imprest levels for a total amount of \$31.2 million. In all cases, these deals (replenishments) would have required prior Treasury authorization. Treasury Division could not provide evidence that these Country Offices had sought approval for exceeding their imprest levels. This limited the opportunities for UNDP to invest the excess cash. Further, Country Offices and the Treasury Division need better and more refined Atlas reports/monitoring tools to monitor the imprest level or identify instances of excess cash held by Country Offices.

(b) Inadequate management of deals

In general, deals are deactivated when there are mistakes/errors made in relation to the settlement instructions. For 2018, the audit identified 110 transactions valued at \$350 million that were deactivated – including 9 transactions (with a total value of \$24 million) related to direct replenishments which were controlled and performed by HQ. Further, the audit identified 1,014 incomplete deals for a total amount of \$668 million with a status “pending”, ageing for more than six

months. In addition, 67 investment-related deals for about \$2.8 billion were identified with the pending confirmation status in Atlas (enterprise resource planning system of UNDP) which need to be completed by Country Offices and the Treasury Division.

Recommendation 5.

The Treasury Division should strengthen its monitoring and oversight over the management of imprest levels and deals by: (a) refining its monitoring tools available to the Country Offices in order to track insufficient or excess cash on hand as well as pending and deactivated deals; and (b) setting Atlas controls to prevent offices from completing deals of large amounts above a set limit defined by the Treasurer; and organizing training sessions to build Country Office capacity in managing deals.

Discrepancies between the bank accounts in Atlas and the Bank Administration Report (Issue 8)

The Treasury Division used a Bank Administration software to maintain the database of bank accounts and authorized bank signatories. The audit compared the list of active bank accounts in Atlas as of 8 March 2019 with the data from the Bank Administration report as of 12 December 2018, along with actual records filed with the Treasury Division, and found the following:

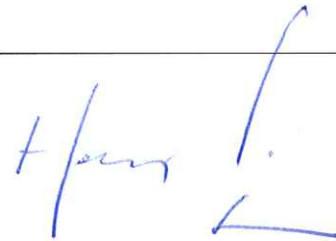
- There were 68 bank accounts that appeared as active in Atlas which were not included in the Bank Administration report, including 32 accounts that were closed by the banks.
- There were 35 accounts listed in the Bank Administration report that were not in the list of Atlas active bank accounts.
- There were 12 bank accounts with discrepancies in the account number recorded in Atlas and in the Bank Administration Report.
- The signatory panel for 21 out of 37 bank accounts (covering 25 Country Offices) had inconsistencies between the report from Bank Administration and records submitted by Country Offices to the Treasury Division. Some staff who had already left the Country Offices were still appearing as part of the signatory panel in the Bank Administration database.

Recommendation 6: The Treasury Division should reconcile the list of bank accounts in Atlas with the list of bank accounts maintained in the Bank Administration Report, including by comparing the data of bank accounts in Atlas and their corresponding signatory panel members.

Management comments and action plan

The Director of the Bureau for Management Services and the Treasurer accepted the seven recommendations and are 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.



Helge S. Osttveiten
Director
Office of Audit and Investigations