UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNITED NATIONS CAPITAL DEVELOPMENT FUND

Report No. 2198

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Report on the Audit of United Nations Capital Development Fund
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the United Nations Capital Development Fund (UNCDF) from 17 February to 6 March 2020. 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 (planning and risk management, staffing, internal control framework and delegation of authorities and, business continuity and security);

(b) development activities (programme/project design, implementation and, administration); and

(c) operations (procurement, finance, human resources, administrative services and, information and communication technology).

The audit covered the activities of UNCDF from 1 January to 31 December 2019. UNCDF recorded programme and management expenses of approximately $77 million. The last audit of UNCDF was conducted by the United Nations Board of Auditors in 2019.

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/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 deficiencies in the loan and guarantee policy, and weaknesses in the grant-making process.

Key recommendations: Total = **6**, high priority = **2**

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	3	Medium
	4	Medium
Effectiveness and efficiency of operations	6	Medium
Safeguarding of assets	5	Medium
	1, 2	High

For high (critical) priority recommendations, prompt action is required to ensure that UNCDF is not exposed to high risks. Failure to take action could result in major negative consequences for UNCDF. Both high (critical) priority recommendations are presented below:

Deficiencies in the loan and guarantee policy (Issue 1)	The audit team noted that the policy did not specify at what point the various concentration risk limits should be considered (e.g., prior to a loan or a guarantee

approval), and therefore risk limits could be passed while the risk limits were not considered.

Recommendation: UNCDF should update its loan and guarantee policy so that adherence to the 30 percent threshold is considered before a loan or a guarantee is approved and that the corporate risk logs are duly updated in the event that a loan or guarantee that exceeds the established threshold is approved.

Weaknesses in the grant-making process (Issue 2)	The sourcing of grantees, the receipt and evaluation of grant applications, and then the selection of a grantee were carried out by the project team. This process did not provide for effective and efficient segregation of duties in the project team, according to best practices. Also, in all nine grants issued by the Financial Inclusion Practice Area (FIPA) and reviewed by the audit team, the submissions for review and endorsement to the relevant committees did not contain any information on the sourcing, solicitation and evaluation process of the grantees that had been undertaken by the project teams. Moreover, the Technical Advisors/Project Managers participated in the selection process of grantees, including the setting up of the milestones to be met, before the disbursement; they were also involved in the monitoring and reporting on the status of these milestones and the management of disbursement requests of subsequent tranches released to the grantees. Recommendation: UNCDF should implement procedures that ensure effective and efficient segregation of duties in the grant award and grant monitoring processes.

Management comments and action plan

The Executive Secretary, UNCDF, accepted all six 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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