



PERFORMANCE AUDIT

OF

UNDP GLOBAL ENVIRONMENT

FACILITY (GEF) MANAGEMENT

Report No. 2210
Issue Date: 1 December 2020

Report on the Performance Audit of UNDP Global Environment Facility (GEF) Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of the UNDP Global Environment Facility (GEF) management from 3 March to 28 August 2020. Performance auditing is an independent examination of an entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

The audit aimed to assess whether UNDP was effective in managing and implementing the GEF portfolio and whether the organization at the corporate, regional and local levels has put in place adequate governance and controls in the form of an organizational structure, operational support, quality assurance and oversight. Specifically, the audit aimed to assess the following questions:

1. Has UNDP established adequate governance arrangements to successfully discharge its role as a GEF agency, including providing adequate oversight and support to GEF-funded projects?
2. Have UNDP Country Offices established effective and efficient mechanisms to ensure successful implementation of the GEF-funded projects?

The audit covered the activities from 1 January to 31 December 2019.¹ UNDP recorded \$685² million in expenditures under the GEF portfolio during this period.

The overall conclusion of the audit is that:

- Generally, the Country Offices appreciated the support being provided by the GEF Principal and Regional Technical Advisors (RTAs). Further, the UNDP Bureau for Policy and Programme Support (BPPS)/GEF Team kept all Country Offices abreast of the new GEF requirements and change in policies.
- The BPPS/GEF team in headquarters did not establish adequate governance arrangements, including adequate oversight by the RTAs.
- Regional Bureaux/Country Office management did not put in place adequate controls or arrangements to provide oversight over project implementation.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. Due to the COVID-19 pandemic restrictions, the audit was interrupted on 13 March 2020, and from that day onwards, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original documents could not be carried out, and therefore the audit team relied on scanned copies of documents provided.
- (b) Meetings with staff and personnel were carried out virtually, except for meetings with staff from Country Offices in Ukraine and Kazakhstan where fieldwork was ongoing until 13 March 2020.
- (c) Project site visits were not completed.
- (d) Physical verifications of assets were not performed.
- (e) Safe and petty cash contents were not verified.
- (f) Information and communication technology were not reviewed on site.

¹ The review of GEF projects in UNDP Samoa and Ukraine covered the period from 1 January 2017 to 31 March 2020.

² Total expenditures excluding Small Grant Programme (implemented by UNOPS): \$345.3 million (2018) and \$339.85 million (2019)

Overall audit rating

OAI assessed the Office's performance as **partially satisfactory/major improvement needed**, which means that "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 insufficient oversight over GEF projects, limited monitoring of audit recommendations of implementing partners, weak Internal Control Frameworks, weaknesses within project management, and weaknesses in financial resources management.

Key recommendations: Total = **12**, high priority = **5**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3	High
	2, 4, 10	Medium
Reliability and integrity of financial and operational information	11	High
Compliance with legislative mandates, regulations and rules, policies and procedures	7, 9	High
	5, 6, 8, 12	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. All high (critical) priority recommendations are presented below:

Insufficient oversight over GEF projects (Issue 1)

UNDP was both supporting the project implementation and providing project oversight at the same time, thus not ensuring adequate segregation of duties between oversight and implementation, which was not aligned with GEF expectations. Further, the role of the Regional Technical Advisors was not fully clear and conducive for adequate oversight. Regional Bureaux were excluded from GEF oversight.

Recommendation 1: To improve UNDP's management and oversight over GEF projects, the Bureau for Policy and Programme Support and the Regional Bureaux should: (a) strengthen the oversight over GEF funded projects at the local, regional and corporate level; (b) strengthen the governance around GEF-funded projects to clarify and delineate the oversight and implementation roles and responsibilities of the Bureau for Policy and Programme Support and the Regional Bureaux, and update the POPP accordingly; and (c) amend the project document management arrangements to clearly assign oversight roles to UNDP.

Limited monitoring of audit recommendations of implementing partners (Issue 3)

Audits of implementing partners conducted as part of the HACT annual audits had highlighted systematic weaknesses. Over the last three years (2017–2019), 1,223 recommendations were issued during the annual HACT audits. In many instances, expenditures were not supported by adequate supporting documentation. There were 96 audit recommendations that were still outstanding as of August 2020.

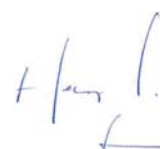
Recommendation 3: The Bureau for Policy and Programme Support, in coordination with the Bureau for Management Services should: (a) update the capacity assessment tool for implementing partners and ensure that these assessments are regularly updated in line with all capacity issues and risks noted throughout the lifecycle of the projects; and (b) strengthen the

	<p>monitoring and implementation of audit recommendations resulting from the HACT audits of implementing partners, including closer oversight to financial transactions of implementing partners with “modified audit /adverse audit opinions” to their financial statements.</p>
<p>Indications of Irregularities due to weak Internal Control Frameworks and poor accountability (Issue 7)</p>	<p>Based on the review of 10 Country Offices and 22 GEF projects, OAI noted indications (red flags) that fraudulent activities might have occurred or could occur in two Country Offices. In one Country Office, the audit team identified 17 payment vouchers amounting to \$250,136 that had red flags. In another Office, there were suspicions of collusion among the various project managers in charge of implementing the GEF projects. The irregularities at the two Country Offices have been followed up by the investigation section of OAI. In a third Country Office, there was incorrect charging of expenses and inadequate documentation. Furthermore, Delegations of Authority in Country Offices were not updated.</p> <p><u>Recommendation 7:</u> The Regional Bureaux should hold the Country Offices accountable for establishing and implementing Internal Control Frameworks, including maintaining adequate segregation of duties.</p>
<p>Weaknesses within project management (Issue 9)</p>	<p>The audit team identified the following weaknesses within project management:</p> <ul style="list-style-type: none"> ▪ Poor project design and planning. ▪ Weaknesses within the Board/Project Steering Committee. ▪ Unauthorized deviations from the approved project documents, project annual work plans and project budgets. ▪ Ineffective management and monitoring of annual work plans and project annual budgets. ▪ Insufficient documentation for the selection of private sector companies. ▪ Missing assets inventory reports. <p><u>Recommendation 9:</u> The Bureau for Policy and Programme Support, in close collaboration with Regional Bureaux should improve project design, implementation, and monitoring.</p>
<p>Weaknesses in financial resources management (Issue 11)</p>	<p>The audit team identified the following weaknesses with financial resources management:</p> <ul style="list-style-type: none"> ▪ Unsupported or ineligible financial transactions. ▪ Expenses not related to the project. ▪ Payments of value added tax (VAT) not reimbursed. ▪ Weak controls over project cash advances. <p><u>Recommendation 11:</u> The Regional Bureaux should ensure that Country Office financial transactions charged to GEF projects are valid, and adequate supporting documentation is maintained.</p>

Management comments and action plan

The Director of the Bureau for Programme and Policy Support and all Regional Bureaux accepted all recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report. Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

OAI was pleased to see the level of involvement of UNDP leadership, including the Executive Office, the Bureau for Policy and Programme Support, Bureau for Management Services, and the Regional Bureaux in addressing the various issues noted during the audit. Following the submission of the audit report, UNDP established an inter-bureau task force to address all recommendations and to initiate immediate remedial actions. UNDP was expecting to implement over 40 percent of the audit sub-recommendations by the end of January 2021, 76 percent by the end of June 2021 and 100 percent of the audit sub-recommendations by the end of December 2021.

A handwritten signature in blue ink, appearing to read 'H. Ostveiten', is located to the left of the printed name.

Helge Ostveiten
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Helge S. Ostveiten
Director
Office of Audit and Investigations