UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

EL SALVADOR

Report No. 2600

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Report on the Audit of UNDP El Salvador
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP El Salvador (the Office) from 5 to 16 June 2023. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

In addition, OAI assessed the performance of the Office in the area of Governance. Specifically, the audit reviewed whether Delivery Enabling Services (DES) to projects was adequately recovered by the Office.

Performance auditing is an independent, objective, and reliable examination of an entity or process to assess whether economy, efficiency and effectiveness in the employment of available resources is being achieved.

The audit covered the activities of the Office from 1 January 2022 to 31 March 2023. The Office recorded programme and management expenses of approximately $21.6 million. The last audit of the Office was conducted by OAI in 2019.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA).

Overall audit rating

OAI issued an audit rating for the Office of **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: (i) concerns with the financial sustainability of the Office and (ii) inadequate project arrangements that led to weaknesses in management of low value grants.

Conclusions on the performance audit areas reviewed (Governance):

OAI conducted a review the Delivery Enabling Services (DES) recovered on two of the largest projects in the Office portfolio. No discrepancies or issues were identified between the amount budgeted and the amount recovered. However, it was noted that the DES amount budgeted in the project documents were not documented and the Office was unable to explain how the budget for services provided by the staff was determined. In addition, no annual workload surveys were conducted by the Office to assess if the amounts budgeted in the project documents reflected the actual costs.

The results of the performance audit review have been incorporated in the overall audit rating.

Key recommendations: Total = **6**, high priority = **3**

The six recommendations aim to ensure the following:

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

Office's financial sustainability at risk (Issue 2)	The Office´s 2022 delivery target was unmet by 72 percent, with programme implementation closing at $15.6 million out of a $56.42 million target. Following this, the programme delivery target for 2023 was decreased to $21.5 million, representing a 62 percent reduction from the previous year´s target. As of the date of the audit, the Office's projection for the 2023 delivery was further adjusted at around $16.3 million. Based on a delivery of $16.3 million, the audit team estimated that the Office would face a shortfall of approximately $340,000 between its generated income and management expenditures in 2023. The Office's Government Cost Sharing (GCS) business model and delivery were being further affected by the ongoing State reforms. Although the Office was working towards transforming its business model and transitioning from a predominantly GCS funded program to one supported by Third-Party Cost Sharing, there was still uncertainty regarding the financial sustainability of the Office. <u>Recommendation:</u> The Office should address financial sustainability by: (i) liaising with the Regional Bureau for Latin America and the Caribbean to put in place the necessary measures for accelerating programme delivery; and (ii) preparing scenarios that reflect the reality of the Office's income vis-à-vis expenditures to develop an action plan to prevent further deterioration of the Office's financial sustainability.
Weakness in pipeline management and Resource Mobilization (Issue 3)	The Office's pipeline was currently insufficient for adequately ensuring the achievement of the agreed development results in the 2022-2026 Country Programme Document (CPD) and that 87 percent of the pipeline was mostly made up of ideas (pipeline C), which had yet to be developed and successfully secured as financing commitments from development partners. Pipeline development and resource mobilization efforts have stagnated due to changes in the traditional Government Cost-Sharing model prompted by national reforms. <u>Recommendation:</u> The Office should improve its resource mobilization effort and pipeline management, and expand its donor portfolio by: a)

	finalizing its Resource Mobilization strategy and developing a Resource Mobilization action plan; and b) consistently developing and pursuing new projects and partnerships.
Inadequate use of low-value grants (LVG) (Issue 4)	The audit team found inconsistencies with regards to the management of low-value grants (LVGs) in the following projects: <u>Project No. 121776 - Rural Adelante</u> While POPP states that governmental organizations are not eligible for receiving grants, the audit team found that seven LVGs amounting to $364,200 were granted to municipalities through the on-granting modality. <u>Project No. 112865 - Enhancing climate resilience of rural communities and ecosystems in Ahuachapán Sur</u> POPP guidelines for managing LVGs state that LVGs cannot be used in lieu of a Responsible Party agreement to implement standardized project activities and establishes the maximum amount for an individual grant at $150,000. The audit team found that a Responsible Party ('Environmental Investment Fund of El Salvador (FIAES)'), received a LVG amounting to $353,981 and was expected to receive a total of $4.1 million during the project's implementation timeframe for on-granting to other responsible parties. Further, while the management and governance arrangements in the project document stated that FIAES would "provide LVGs to grantees in compliance with UNDP rules for LVGs", neither the project document nor the agreement signed by the FIAES and the implementing partner referenced the required on-granting provisions applicable to Responsible Parties, resulting in an inadequate application of the LVGs guidelines. <u>Recommendation:</u> The Office should improve management of low-value grants by: a) ensuring that all projects issuing grants through the on-granting modality include the required standard clauses within the respective project documents and grant agreements; and b) reviewing project No. 112865's management arrangements and engagement mechanisms with implementing counterparts, and ensuring that UNDP guidelines for programme and project management are adhered to.

Management comments and action plan

The Resident Representative 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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