

United Nations  Nations Unies

BOARD OF AUDITORS

TEL.: 1 (212) 963.5623

27 July 2016

Dear Ms. Clark,

Subject: Report of the Board of Auditors

I am pleased to enclose a copy of the report of the Board of Auditors on the United Nations Development Programme (UNDP) for the year ended 31 December 2015 and the audited financial statements.

Sincerely Yours,

H. K. Singh

Anjana Das

Anjana Das
Executive Secretary

Ms. Helen Clark
Administrator
United Nations Development Programme (UNDP)
New York, NY

General Assembly
Official Records
Seventy first Session
Supplement No. 5A

A/71/S/Add.1

United Nations Development Programme

**Financial report and audited
financial statements**

for the year ended 31 December 2015

and

Report of the Board of Auditors



United Nations • New York, 2016

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Letters of transmittal and certification

Letter dated 30 April 2016 from the Administrator, Assistant Administrator and Director, and Chief Finance Officer/Comptroller of the United Nations Development Program to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Development Programme (UNDP) for the financial year ended 31 December 2015, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

- The management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on management's best estimates and judgements.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties. UNDP internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- The management provided the United Nations Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.
- The recommendations of the United Nations Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

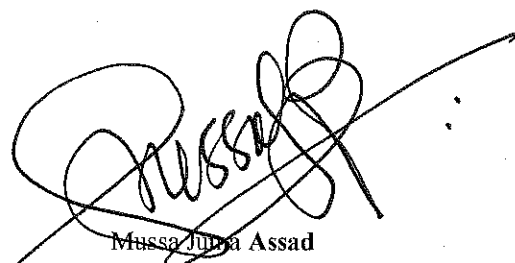
(Signed) Helen Clark
Administrator

(Signed) Jens Wandel
Assistant Administrator and Director
Bureau for Management Services

(Signed) Darshak Shah
Chief Finance Officer/Comptroller
Bureau for Management Services

**Letter dated 30 June 2016 from the Chair of the Board of Auditors
addressed to the President of the General Assembly**

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Development Programme for the year ended 31 December 2015.

A large, stylized handwritten signature in black ink, appearing to read 'Mussa Juma Assad', is written over the printed name and title.

Mussa Juma Assad
Controller and Auditor General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Development Programme (UNDP) for the year ended 31 December 2015, which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV), the statement of comparison of budget and actual amounts (regular resources) (statement V) and the supporting statements and explanatory notes.

Responsibility of management for the financial statements

The Administrator is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNDP as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards.

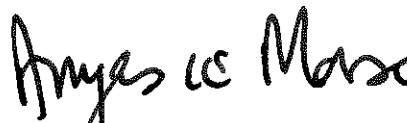
Report on other legal and regulatory requirements

Further to our opinion, the transactions of UNDP that have come to our notice or that we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and Rules of UNDP and legislative authority.

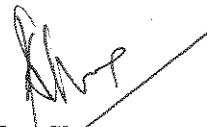
In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, we have also issued a long-form report on our audit of UNDP.



Mussa Juma Assad
Controller and Auditor General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)



Sir Amyas C. E. Morse
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland



Shashi Kant Sharma
Comptroller and Auditor General of India

30 June 2016

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly of the United Nations. UNDP partners with entities/ people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its Headquarters in New York, but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Development Programme (UNDP) for the year ended 31 December 2015. The audit was carried out at the headquarters in New York, and through visits to the country offices in Liberia, Uganda, Sri Lanka, Nepal, Sierra Leone and Lao People's Democratic Republic (Lao PDR).

Scope of the Report

The report covers matters that in the opinion of the Board should be brought to the attention of General Assembly and has been discussed with UNDP management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNDP as at 31 December 2015 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNDP operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNDP operations. The report also includes commentary on the status of implementation of its previous year's recommendations.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of UNDP for the period under review as reflected in chapter I of this report.

Overall Conclusion

The Board did not identify significant deficiencies in the preparation and presentation of the financial statements. UNDP continued its efforts to address the concerns raised by the Board in its previous reports and improve financial management and overall governance structure.

The Board identified a number of areas where improvements could be made to internal controls. Many of the Board's observations highlight the need to strengthen compliance with rules and regulations and to enhance the programme and project management processes, enhance reporting to donors and the quality of information which is available to management. UNDP also needs to review its approach to Information Communication Technology particularly in respect of access controls to the Atlas database and Hyperion systems, and arrangements at the data centre. The Board also noted recurring weaknesses in project management such as delayed certification of combined delivery reports; inadequate review and update of projects risk logs in Atlas and delayed financial closure of projects. These processes need to be enhanced to improve the way in which UNDP demonstrates its effective use of resources from donors.

Key Findings

The Board highlights the key findings set out below:

Programme and Projects Management

Certification of the Combined Delivery Reports

At the six visited country offices, the Board noted delays in signing CDRs. For example, while Programme and Operations Policies and Procedures (POPP) require CDRs to be certified and signed after the end of the quarter, 128 out of 164 CDRs (from 82 projects) reviewed by the Board for the first and second quarters with due dates of April and July 2015 respectively were signed while delayed for periods ranging from three to six months. Delays in certification and signing of CDRs increase the risk that misstatements in previous periods will not be corrected in a timely manner, and consequently mis-state the project's expenditure reported in the financial statements. Management attributed the delays to technical requirements to modify the automated programme for the changed distribution rates of the General Management Support fee (GMS) which made the first quarter CDRs to be unavailable until 5 July. Other reasons provided included non-availability of authorised officials of implementing partners to sign off on the CDRs in some of country offices and the longer time taken for the CDRs to be made available by Headquarters. However, the Board considers that most of these factors could be mitigated through proper plans for system changes and timely intervention with implementing partners.

Project oversight, monitoring and reviews

In its previous report (A/70/5/Add.1) the Board noted that projects risk logs were not adequately updated in Atlas to reflect projects issues and risk logs, the effectiveness of mitigating actions and residual risks. The Board continued to note similar weaknesses, whereby 78 (75 per cent) out of 104 reviewed projects in six visited country offices were not adequately updated in Atlas. In two of the country offices visited, the 2015 mid-term reviews (MTR) were yet to be completed for seven out of eight projects and the 2014 annual reviews for two out of eight projects were not performed. Inadequate review and updating of the issues and risk logs may result in delays in effective management of project risks, and inhibit the entity's ability to monitor and evaluate project activities. Management stated that it had a plan to recruit a Monitoring and Evaluation Officer and expected support from the Headquarters and Regional Service Centre to assist in addressing the inadequacies in updating projects in Atlas on the issue and risks logs. The Board considers that performing projects mid-term reviews and annual reviews in a timely manner would be necessary for country

offices in determining timely actions to be taken for the remaining periods of projects implementation.

Delays in closing projects

In its previous reports the Board raised concern over delays in financial closure and operational closure of projects. In 2015 the Board continue to note delays in projects closures at the visited country offices. For example, in three of the country offices, 28 out of 49 operationally closed projects were financially closed after more than 12 months contrary to what is required by the Programme and Operations Policies and Procedures (POPP). Management attributed the delay to factors such as the Ebola Virus Disease (EVD) in Liberia and Sierra Leone, the general elections in Sri Lanka; and the time needed to solicit approvals from donors regarding unspent amounts. While acknowledging the effect of natural disasters and political events in project delivery, the Board considers that delays were also caused by inadequate project monitoring since these events were clearly not the sole cause of inadequate performance as the EVD and general election are not occurring yearly in the country offices.

Multi Partner Trust Funds Office- Delay in operational and financial closure of projects

The Board noted that Participating United Nations Organizations (PUNO) receive funds from Multi Partner Trust Funds Office (MPTFO) for implementing projects, but there have been protracted delays in operational and financial closure of the projects they implement contrary to the United Nations Development Group (UNDG) Guidance on Establishing, Managing and Closing Multi-Partner Trust Funds. For example, out of 716 (net funded amount \$2,286.8 million) overdue projects for operational and financial closure which are still active, 176 projects (net funded amount \$545.1 million) completed between 2009 and 2013 are still marked as on going in Multi-Partner Trust Funds Office Gateway, while another 540 projects (net funded amount \$1,741.7 million) completed between 2005 and 2013 were marked as operationally closed instead of being financially closed.

The Board also found that out of the 716 projects overdue for closure, 306 projects have not submitted final reports, 89 projects had uncorrected reports with over-expenditure of \$11.2 million accruing from 2005 to 2013; and 321 projects had unspent balances of \$32.75 million pending final refunds and/or final expense reporting by the Participating United Nations Organizations (PUNO). These refunds are pending for the period of between two and 11 years from the projects' end dates.

Delays in projects closure affect the accountability and credibility of the UNDG, PUNO and UNDP/MPTF Office. The Board is of the view that, the standardized and improved closure procedures will allow for more cost-effective, timely closure and decision making. Management explained that for the projects in question; there were delays for some agencies in submitting their final reports despite follow-ups made by MPTFO.

HACT framework

Compliance with the revised HACT framework became mandatory from 1 January 2015 for all country offices. While positive progress was made by country offices towards implementation of the revised HACT framework, the Board identified a number of weaknesses that need management attention for improvements. These include non-performance of macro assessments, macro assessments not being included in the United Nations Development Assistance Framework (UNDAF) reviews, or not incorporated into the Common Country Assessments (CCA), non-preparation or delay in the preparation of micro assessment plans, delayed submission or submission of incomplete information in the HACT assurance activity plan; and delays or non-performance of the micro assessments activities for implementing partners. Non-performance of the macro assessment and non-inclusion of the summary of macro assessment in the country context report and UNDAF may impact country offices' ability in identifying risks in the public financial management (PFM) environment in which the Implementing Partners operate. As a result, risks identified in the macro assessment may not always be timely incorporated into country level risk management activities and programme design.

Procurement and contract management

Vendor data management

In relation to financial resources (creating and approving vendors), POPP requires that when creating a new vendor, the buyer should review Atlas vendor records to avoid creating duplicates, input the required vendor information in Atlas, and check for accuracy and completeness. At five out of six visited country offices the Board noted 84 duplicate active vendors and 33 approved vendors who had bank accounts with the same account numbers and account details. Management attributed the weakness to offices which created vendors from global Long Term Agreements (LTAs) resulting in vendors with similar names, input errors when creating new vendors in the system and delayed vendor data corrections. While no instances of losses were identified in this audit, the Board considers that duplicate active vendors and vendors with same bank accounts numbers and details create risk of transacting or making payments to inappropriate vendors.

Hyperion Financial Management tool

Contract management and reports from Hyperion Financial Management tool

On 22 October 2014 UNDP engaged a consultant for the implementation of Hyperion Financial Management (HFM) tool and application management services for three years. The scope and objective of the consultancy was to assist UNDP to achieve its goals and objectives in terms of delivering accurate, high quality, periodic and annual financial statements on a timely basis, including reclassifications.

While UNDP made some achievements through the use of HFM in automating the process of generating financial statements, some deficiencies were noted in the preparations of financial statements. For example, the cash flow statement and comparative financial information were not run in HFM. Also the Board noted that figures for eight items in the notes to the financial statements were not automated and had differences. While these differences were adjusted in the course of audit, the Board is concerned that the noted challenges highlight the need for management actions to optimise the value of investing in HFM and to minimise the risk of misstatements in the financial statements.

Management stated that they decided not to automate some of the statements due to limitations in performing some of the ageing analysis. For example, ageing on some notes is by project ID which is a chartfield not brought into HFM and that the comparative financial statements were not run in the HFM because of the prior period adjustments, but from 2016 onwards comparatives will be run in HFM. Despite management explanations, there was no approved addendum to the statement of work (SOW) confirming an agreement that the consultant would deliver work with a reduced scope. Management has assured the Board that the addendum will be approved and signed.

Hyperion IT controls

The Board noted the following weaknesses in information technology controls related to Hyperion tool:

(i) *Granting access to Hyperion users:* The process of requesting, approving and reviewing access was not documented and the role matrix was not adequately defined. Lack of documented procedure for access control and inadequately defined role matrix could lead to assignment of excessive permission and granting user access without approval, thus exposing UNDP to the risk of unauthorized or unintentional modifications or misuse of information.

(ii) *Segregation of duties:* The administrator user role in Hyperion tool can load data from Atlas, change account mappings and metadata, manage user accounts and generate financial reports without an independent review of those activities, contrary to best practice on segregation of duties. This setup escalates a risk of unauthorized modification and granting access without approval.

Recommendations

The Board has made several recommendations based on its audit that are contained in the body of the

report. The main recommendations are that UNDP:

Certification of the Combined Delivery Reports

(a) in-future plan ahead on the changes needed in project settings such as the rates of General Management Support (GMS) fee to minimize delays in signing quarterly CDRs, (ii) submit CDRs in a timely manner, duly signed by UNDP and implementing partners in compliance with POPP, (iii) liaise with implementing partners (IPs) on their accountability regarding timely signing of CDRs when delays are encountered.

Project oversight, monitoring and reviews

(b) expedite the proposed measures such as the hiring of Monitoring and Evaluation Officer or designate a responsible program staff to ensure timely review and updating of the projects risk logs, issues and monitoring logs and document the same in Atlas as the primary source of projects information.

Delays in closing projects

(c) (i) obtain in a timely manner donors' approvals on refunds or reprogramming of unspent amounts to minimize delays in closing projects, and (ii) ensure all projects in operational closure status are financially closed within 12 months.

Multi Partner Trust Funds Office- delay in operational and financial closure of projects

(d) (i) enhance and document the follow-up mechanisms including feedback from all delayed participating organizations for future improvements, (ii) introduce measures to accelerate operational and financial closure of all overdue projects, and (iii) as the largest UN fund administration service provider, propose the idea of common policies and procedures around inter-agency pooled funding mechanisms to harmonize practices, and reduce transaction costs so as to enhance accuracy in reporting and timing of issuing reports.

HACT framework

(e) ensure (i) country offices liaise with other UN agencies and conduct macro assessment to align with the country offices' programme cycle, (ii) incorporate the macro assessments in the UNDAF review, (iii) incorporate macro assessments into the Common Country Assessments, (iv) prepare in a timely manner the micro assessment plans and HACT assurance activity plan, and (v) perform micro assessments of the implementing partners in a timely manner.

Vendor data management

(f) (i) perform regular vendor data checks to maintain accurate and up to date data including removing duplicate active vendors, (ii) review and correct vendors' bank information to prevent duplicates, and (iii) review transactions processed into accounts shared by multiple vendors to ensure that no inappropriate transactions are included.

Contract management and reports from Hyperion Financial Management tool

(g) (i) liaise with the consultant and sign an addendum to the initial SOW to include actual tasks performed in line with the LTA and SOW, (ii) periodically review financial reports from HFM and correct in a timely manner differences which will improve the accuracy of the financial statements at the year end, and (iii) institute the compensating controls to check the ageing and balances generated by HFM which need to be corrected before preparing financial statements.

Hyperion IT controls - granting access to Hyperion users

(h) strengthen controls to ensure frequent review activities of administrators in the system.

Hyperion IT controls - segregation of duties

(i) clearly document procedures for granting and authorization of access to the system based on role matrix and ensure periodic review of access list to both application and backend database is conducted.

Key facts	
170	Countries and territories where UNDP operates.
\$844.68 million	Budget for 2015 approved by the Executive Board for regular resources (core resources), other resources do not fall within remit of the Executive Board's approved budget although they are accounted for in the financial statements.
\$4.82 billion	Total revenue
\$5.06 billion	Total expenses
\$6.42 billion	Total assets
\$2.15 billion	Total liabilities

A. Mandate, Scope and Methodology

1. The United Nations Development Programme (UNDP) was established in 1965 by the General Assembly of the United Nations. UNDP partners with entities/ people at all levels of society to help build nations that can withstand crisis and drive and sustain growth that improves the quality of life for everyone. UNDP has its Headquarters in New York, but works primarily through its offices in 170 countries and territories. UNDP provides a global perspective and local insight to help empower lives and build resilient nations.
2. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Development Programme (UNDP) for the year ended 31 December 2015 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.
3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNDP as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of UNDP. The audit included a general review of financial systems and internal controls and testing of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.
4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews of UNDP operations under financial regulation 7.5 of the United Nations. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, and the internal financial controls and, in general, the administration and management of UNDP operations. The General Assembly had also requested the Board to follow up on previous

recommendations and to report on it accordingly. Those matters are addressed in the relevant sections of the present report, and the summary of the results is included in annex I.

5. The Board has also performed the annual audit of the UNDP-Global Environment Facility Trust Fund-Regular Resources, and issued an unqualified audit opinion for the year ended 31 December 2015.

6. The Board coordinates with the Office of Audit and Investigations (OAI) in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that can be placed on the work of the Office. The present report relates to audits performed at the visited country offices and headquarters of the UNDP.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with UNDP management, whose comments have been appropriately considered in the report.

B. Findings and recommendations

1. Follow up of previous years recommendations

8. The Board reviewed a total of 31 previous years' recommendations that were outstanding as of 31 December 2014, and noted that 17 recommendations (54 per cent) were fully implemented, seven recommendations (23 per cent) were under implementation, and seven (23 per cent) were re-iterated. Details of the status of implementation of those recommendations are shown in annex I. While the Board acknowledges management efforts in implementation of its recommendations, it considers that more efforts are needed to address the recommendations with greater emphasis on the recurring recommendations that have been re-iterated in this report.

9. The Board noted that seven of its recommendations under implementation require UNDP to finalize some activities before they may be considered as fully implemented. The recommendations were on: suspected NIM project procurement irregularities; review of UNDAF and approval of Country Program Action Plan (CPAP); management of Service Contracts; management of purchase orders carried over from prior periods; unresolved balances with UN current account; management of staff complaints, claims and concerns over structural change and preparations of resource mobilization plan at country offices.

2. Financial Overview

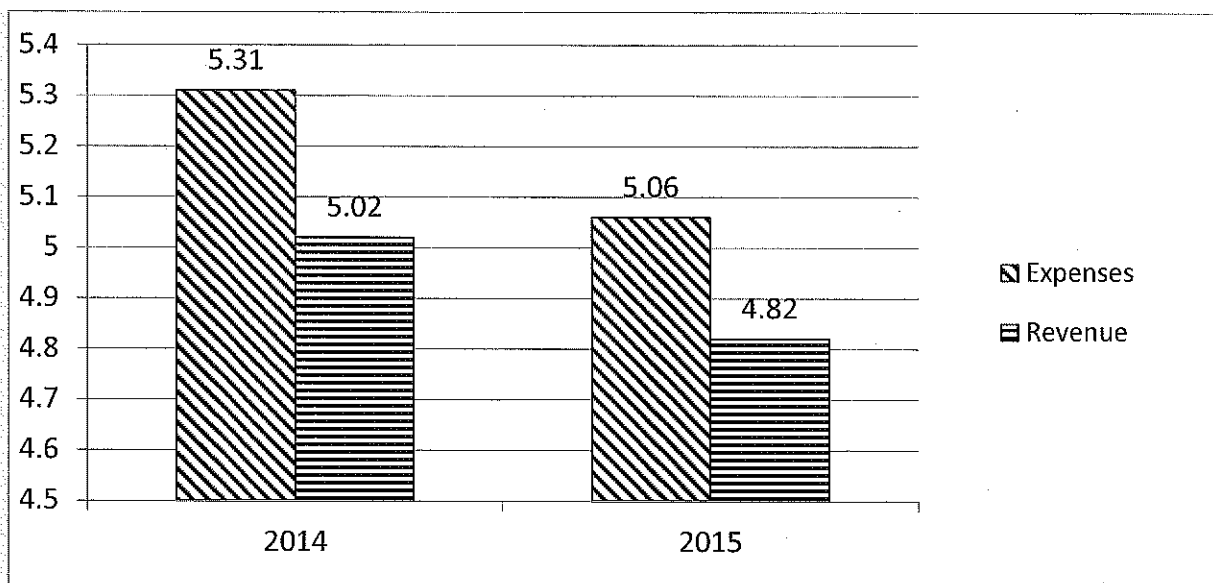
Revenue and expenses

10. The UNDP revenue includes regular resources (core funds), other resources (non-core funds), investment revenue and other revenue. During the period under review, total revenue amounted to \$4.82 billion, compared with \$5.02 billion for the previous period, a decrease of 3.9 per cent. Total expenses amounted to \$5.06 billion, compared with \$5.31 billion for the previous year, denoting a decrease of 4.7 per cent. In 2015 UNDP had a deficit of \$237.25 million of expenses over revenue which is a slight improvement compared with a deficit of \$297 million reported in the previous period.

11. Overall, UNDP had cash and investments totalling \$5.83 billion as at 31 December 2015 (2014: \$5.90 billion). Total liabilities as at 31 December 2015 were \$2.15 billion (2014: \$2.32 billion). In accordance with the Financial Regulations and Rules approved by its Executive Board, UNDP held \$341.13 million in reserves (2014: \$352.64 million) and \$3.93 billion as accumulated

surplus (2014: \$3.87 billion). Total revenue and expenses for the financial periods 2014 and 2015 are shown in figure I.

Figure I: Revenue and expenses
(Billions of United States dollars)



Source: The Board's analysis of UNDP financial statements for the periods ended 31 December 2014 and 2015

Note: Graph not to scale

12. Revenue decreased by \$0.20 billion (3.9 per cent) mainly due to a decrease in voluntary contributions, revenue from exchange transactions and other revenues whereas expenses decreased by \$0.25 billion (4.7 per cent) mainly due to favourable foreign exchange movement resulting in less foreign exchange loss in 2015 compared with 2014. Other factors include a reduction in the level of activities managed by UNOPS resulting in reduced expenses reported in Project Delivery Reports on Community Disaster Management Committee (CDMC) / Least Developed Member Country (LDMC), decrease in contractual costs, staff costs, supplies and consumables as well as general operating expenses.

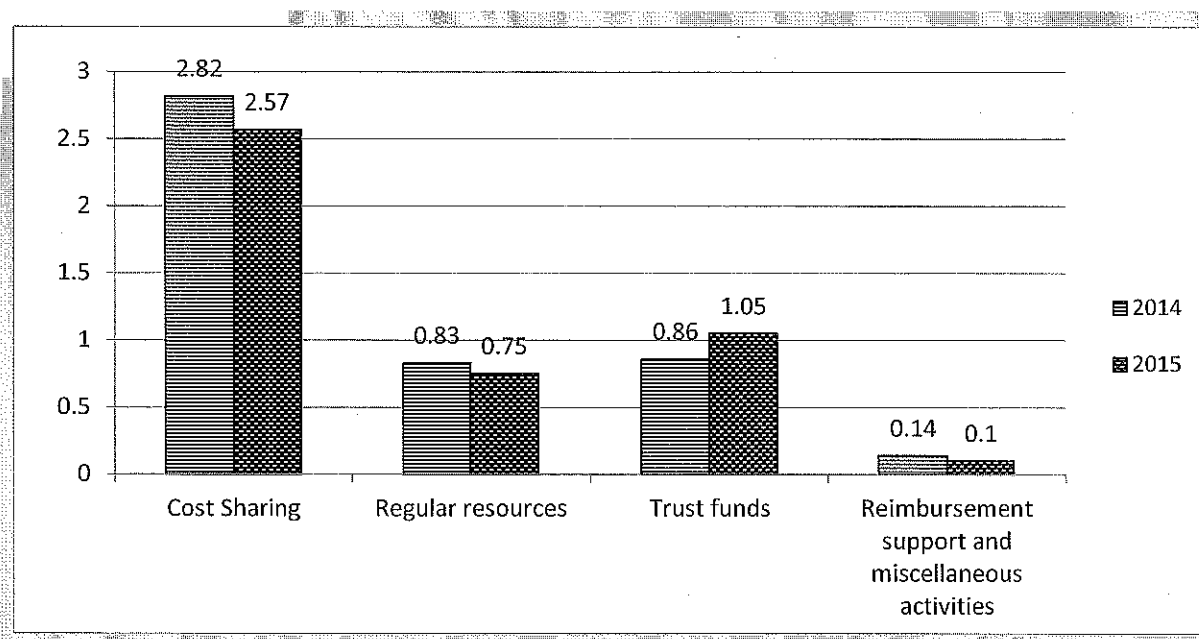
Revenue

13. UNDP revenue includes voluntary contributions, revenue arising from exchange transactions (revenue generated by exchange of goods or services), investment revenue and other revenue. During the year under review, voluntary contributions amounted to \$4.47 billion (2014: \$4.66 billion), representing 93 per cent of the total revenue for the year. The amount included the following: cost-sharing, \$2.57 billion (58 per cent); regular resources, \$0.75 billion (17 per cent); trust funds, \$1.05 billion (23 per cent); and \$0.10 billion (2 per cent) from reimbursement support services and miscellaneous activities.

Comparative contributions for regular and other resources for 2014 and 2015 are shown in figure II.

Figure II

Contributions for regular and other resources (*Billions of United States dollars*)

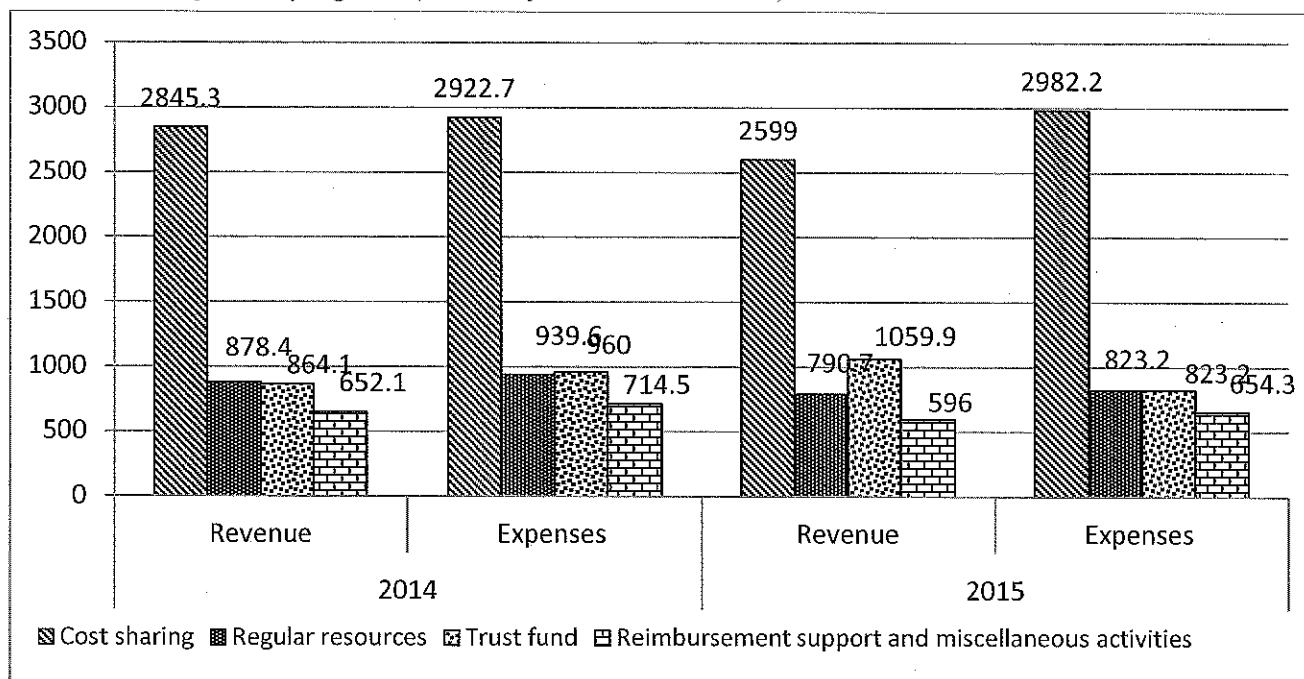


Source: UNDP financial statements for the periods ended 31 December 2014 and 2015

14. Figure III below shows the analysis of UNDP revenue and expenses by segment for the years 2015 and 2014. The analysis shows that, while in 2014 revenue from all segments was less than the related expenses, in 2015 revenue from trust funds was slightly greater than expenses by 0.24 million, while in the rest of the segments revenue was lower than expenses.

Figure III

Revenue and expenses by segment (Millions of United States dollars)



Source: UNDP financial statements for the periods ended 31 December 2014 and 2015.

Ratio Analysis

15. Despite the unfavourable trend of revenue from contributions in the two consecutive years from 2014 to 2015, the ratios set out in table 1 still indicate a healthy overall financial position of UNDP. Current assets are more than three times the current liabilities and total assets are more than two times the total liabilities. The overall position shows that UNDP has sufficient assets to meet its short-term and long-term liabilities. However, the current ratio shows a decreasing trend over a period of the last three years. This indicates mainly the reducing level of liquidity, meaning that UNDP's ability to pay off its short-term liabilities is slightly decreasing.

Table 1: Ratio analysis

Description of ratio	31-Dec-15	31-Dec-14	31-Dec-13
Current Ratio ^a			
Current Assets: Current Liabilities	3.59	3.65	4.42
Total assets: Total liabilities ^b	2.99	2.82	3.37
Cash Ratio ^c			
Cash + Investments: Current liabilities	3.18	3.13	3.86
Quick Ratio ^d			
Cash + Investment + Account receivables: Current liabilities	3.41	3.37	4.09

Source: Analysis by the Board of Auditors of UNDP financial statements for the periods ended 31 December 2013 to 2015.

Key:

^a **Current ratio:** A high ratio indicates an entity's ability to pay off its short-term liabilities.

^b **Total assets: total liabilities-** A high ratio is a good indicator of solvency.

^c **Cash ratio:** The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash; cash equivalents or invested funds there are in current assets to cover current liabilities.

^d **Quick ratio:** The quick ratio is more conservative than the current ratio because it excludes inventories and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

3. Post implementation of International Public Sector Accounting Standards

16. Since the adoption of IPSAS in 2012, UNDP has been preparing IPSAS compliant financial statements annually. The Board has continued to note good progress in terms of quality of the financial information being presented by UNDP. During the adoption of IPSAS, UNDP applied the transitional provision permissible under IPSAS 17 Property, Plant and Equipment and thus postponing capitalization of all project assets that were acquired prior to 2012. Following the expiration of the transition period on 1 January 2015, UNDP has capitalized all project assets in 2015 whereby a total of 2,800 assets with a carrying amount of \$22.6 million have been recognized in the financial statements for the year ended 31 December 2015. The Board noted areas with a scope for improvement regarding IPSAS as highlighted in the subsequent paragraphs.

IPSAS dashboard - pending milestones

17. The pending milestones for revenue contributions arise as a result of uncompleted events when processing the contribution agreements at the Global Shared Service Centre (GSSC). These may be due to cases such as expected cash not received from donors, unrecorded contributions from donors, or changed repayments schedules of contribution agreements not being captured at GSSC. Completeness of these events are crucial as they affect recognition criteria of revenue as per UNDP IPSAS policy on revenue.

18. Programme, Operations Policies and Procedures (POPP) on monitoring of pending milestones requires country offices, business units, operating units to regularly review contribution contract agreements with pending milestones and proactively follow up with donors on milestones with expired due dates. In addition, the 2015 year end closing instructions required offices to clear past due milestones by either uploading relevant documents in Document Management System (DMS) for Global Shared Service Centre (GSSC) or indicate the revised milestone estimated completion date.

19. Nevertheless, despite the audit recommendation made in the previous report (A/70/5/Add.1), the Board continues to note pending milestones amounting to \$7.6 million, EUR18.8 million, GBP1 million, NOK1.5 million¹ and SEK3 million² with their estimated completion dates ranging from 1 July 2013 to 31 December 2015. The Board considers that delays in following up with donors on milestones with expired due dates, cancelled or amended contracts agreements, might lead to misstatements of revenue balance in the financial statements.

20. UNDP agreed with the Board's recommendation to: (a) ensure that Operating Units regularly review contribution contract agreements with pending milestones and proactively follow up with donors on milestones with expired due dates; and (b) ensure that at the year-end every Operating Unit reviews the reports for contracts with pending milestones and where

¹ NOK is Norwegian Krona

² SEK is Swedish Krona

issues are identified communicate to the GSSC through the DMS and update the status accordingly.

Contributions not received

21. According to POPP, UNDP is required to provide for an allowance for doubtful debts when there is objective evidence at the reporting date showing that UNDP will not be able to collect all amounts due according to the original terms of the receivables. Also, the year-end closure instructions required all Operating Units to amend the schedule of payments and negotiate with donors before their due dates indicated in the agreements and not after the receivable have been recorded in Atlas.

22. Despite the concern raised in its previous report (A/70/5/Add.1), the Board continues to note cases of contributions not yet received which were due between 2013 and December 2015. As at the time of audit (May 2016) contributions amounting to \$0.99 million had been outstanding since 2013 without a provision for doubtful debts being made as required by POPP, and the terms of agreements had not been changed to reflect revised contributions due dates. The Board did not find any evidence that the long outstanding contributions were assessed for recoverability to determine if there was a need for an impairment allowance or adequate documentary evidence to substantiate the follow up made by operating units with donors to request payments for long outstanding contributions. The existence of contributions not received for a long period without impairment provision may impact the fair presentation of accounts receivables.

23. Management stated that UNDP followed up with country offices on a monthly basis on outstanding receivables, carried out an analysis and determined that there is no need for any impairment in 2015. The Board was also informed that there were delays in negotiation with the donors to revise the agreements due dates or amend the terms of agreements where there were changes; therefore there was no need for an impairment allowance to be created. Nevertheless, the Board is still concerned that, due to inadequate negotiations with donors on the long outstanding contribution, UNDP would not know the recoverability status of the contributions.

24. **UNDP agreed with the Board's recommendation to: (a) review the list of contributions receivable on a quarterly basis so as to identify their recoverability status, and the level of assurance that controls are in place as required by the Internal Control Framework, (b) keep documentary evidence at the country level of follow-ups made with donors to request payments for long outstanding contributions prior to their recognition in Atlas at the year end, and (c) make allowance for long standing doubtful debts, based on objective evidence of their recoverability.**

Purchase orders with no Atlas receipts

25. Programme and Operations Policies and Procedures (POPP) and Internal Control Framework requires UNDP Purchase Orders (PO) to be created for the full amount of the purchase or contract and create receipts in Atlas when the goods are received or services rendered. Upon submission of an invoice by the vendor an accounts payable voucher is required to be created by the finance section.

26. The Board reviewed the IPSAS dashboard and noted 324 purchase orders (amount \$5.57 million) without Atlas receipts, which indicate that goods were not received or services not rendered. These purchase orders were overdue for periods ranging between 90 days and 1,408 days from the expected due dates which were between 2013 and 2016.

27. The Board also noted from the dashboard 22 purchase orders (amount \$273,156) whose ordering dates were entered in Atlas after the dates of vendors' invoices.

28. Management explained that normally receipts cannot be created in Atlas unless goods were received or services rendered. Follow-up will continue with the relevant offices to ensure the POs are either cancelled or expired dates revised if the POs are still valid. They also stated that, there were rare instances with justifiable reasons such as emergency or disaster situations when offices might need to raise the PO post-facto. The Board is concerned that long standing purchase orders for goods or services without Atlas receipts increase the risk of them being invalid. Also, raising POs after receipt of goods or services is contrary to the Internal Control Framework and POPP.

29. **UNDP agreed with the Board's recommendation to ensure that: (a) purchase orders are reviewed on a timely basis, and cancelled or updated as necessary, (b) purchase orders are raised before receipts of the goods and services in accordance with the Internal Control Framework, and (c) post-facto purchase orders are tracked to ensure that they are justified.**

Receipts without Document Management System (DMS) links in Atlas

30. The Board noted from the IPSAS dashboard that 396 Purchase Orders (POs) of \$22.41 million for goods and services received in 2015 had no Document Management System (DMS) links to the supporting documents like invoice and goods received notes on receipt of such goods, services or fixed assets as required by the Standard Operating Procedure (SOP). Management stated that they will follow-up with the respective offices to ensure full compliance with the Standard Operating Procedure. The lack of the DMS links to supporting documents means that voucher requests can be denied and therefore cause delay in processing payments. Also the accuracy of projects delivery and assets recognition may be impaired.

31. **UNDP agreed with the Board's recommendation to follow-up with the respective offices to ensure full compliance with the Standard Operating Procedures by: (a) uploading links to all supporting documents to DMS on a timely basis after being satisfied with the receipt of goods or services, and (b) regularly reviewing IPSAS dashboard on DMS link in Atlas and highlighting exceptions to the project managers or management for corrective actions.**

Aged prepayments to vendors

32. According to the year-end IPSAS Closure Instructions for 2015, all Operating Units were required to prepare regular vouchers to liquidate prepayments before 31 December 2015. The IPSAS dashboard indicates the number of prepayments vouchers that have not been liquidated by the country offices for 180 days or more from the scheduled date of payments.

33. Nevertheless, the Board found in Atlas's IPSAS Dashboard at 31 December 2015 that 39 prepayments vouchers with a value of \$4.2 million had not been cleared by the Operating Units for more than 180 days after their scheduled dates of payments. The prepayments were made between 2012 and 2015. Of these prepayments, \$1.39 million related to prepayments that had been outstanding for periods ranging from 365 to 1,362 days without being cleared. The Board is of the view that prepayments which are not cleared for long periods are prone to errors and risk of non-receipt of goods and services. In addition, the excessive delay in receiving goods or services is likely to affect the intended use of the items.

34. UNDP stated that prepayments amounting to \$3.14 million (75 per cent) relates to the Global Fund's procurement of pharmaceutical drugs through one UN agency. The procurement was made by the agency on behalf of UNDP from pharmaceutical companies with a long production lead time. The balance of \$554,099 (13 per cent) relates to vehicles that are procured through a second UN agency which also has long production lead times from manufacturers, \$345,385 (8 per cent) was for civil works, and \$176,273 (4 per cent) for police motorcycle uniforms and electrical networks. Although UNDP stated that they are following up with country offices, the Board is still concerned that UNDP should have followed up on a timely manner to ensure prepayments for which goods or

services had been received are liquidated in line with the closure instruction and obtain justification for prepayments for which no goods or services had been received.

35. UNDP agreed with the Board's recommendation to ensure that Operating Units: (a) prepare accounts payable vouchers before the deadline as stipulated in the year end closure instructions so as to liquidate corresponding aged prepayments; and (b) regularly monitor and perform prepayment spot checks so as to verify and clear aged prepayments in a timely manner.

4. Programme and project management

Certification of the Combined Delivery Reports

36. In its previous reports (A/70/5/Add.1) and (A/69/5/Add.1) the Board raised concerns over the need for UNDP and implementing partners to sign the combined delivery reports (CDRs)³ on a quarterly basis, as required by the POPP.

37. The Board reviewed project documents from 82 projects (164 combined delivery reports) at the six country offices visited for the first and second quarters of 2015 and continued to note similar deficiency of delays in signing the CDRs. Of the reviewed documents, a total of 128 CDRs (78 per cent) for the first and second quarters were signed after delays ranging from three to six months while they are supposed to be signed within a month after each quarter. A summary is in table 2 below:

Table 2: Certification of quarterly CDRs

No	Country office	First quarter			Second quarter			Number of CDR (delay in signing the 1st & 2nd quarter, unsigned CDRs)
		Projects whose CDRs were reviewed	Due date of signing CDRs	Actual date CDRs signed	Projects whose CDRs were reviewed	Due date of signing CDRs	Actual date CDRs signed	
1	Uganda	13	April 2015	Sep-15	13	Jul-15	Sep-15	9 of 26
2	Liberia	16	April 2015	Sep-15	16	Jul-15	Sep-15	25 of 32
3	Nepal	11	April 2015	Sep-15	11	Jul-15	Sep-15	22 of 22
4	Sri Lanka	9	April 2015	Sep-15	9	Jul-15	Sep-15	18 of 18
5	Lao PDR	26	April 2015	Sep-15	26	Jul-15	Sep-15	50 of 52
6	Sierra Leone	7	April 2015	Sep-15	7	Jul-15	Sep-15	4 of 14
	Total	82			82			128 of 164

Source: Auditors analysis of country offices combined delivery reports

³ The CDRs are official expenditure reports for implementing partners detailing utilisation of funds when implementing the projects.

38. The country offices attributed the delays in certification and signing of the combined delivery reports to delay in receiving directives from HQ which are the basis for finalizing the CDRs. The Board was also informed that signatories of some implementing partners either travelled or were changed frequently such that they are not available for signing the CDRs on time. Further, UNDP stated that the target closing time for CDR is two and a half months after the end of the quarter due to the processes required in Atlas system. For instance, the CDRs for the first quarter were available on 5 July due to the extra technical requirements by HQ to modify the automated programme for the changed distribution rates of General Management Support fee (GMS).

39. Delays in certification and signing of the combined delivery reports by country offices and implementing partners increases the risk that misstatements in previous periods, including incorrect postings of expenditure, will not be corrected in a timely manner, and consequently affect the project's expenditure in the financial statements.

40. While the Board acknowledges Management's concerns that HQ need more time to modify the automated programme for the changed GMS rates in 2015, the Board believes that better planning could have prevented changes in GMS rates affecting the time for CDRs certifications. Further the changes in GMS rates occurred in 2015 while the delays in CDRs certifications is a recurring deficiency and POPP do not provide for extension for CDRs certifications.

41. **UNDP agreed with the Board's recommendation that: (a) in future, UNDP plan ahead on the changes needed in project settings such as the rates of General Management Support fee to minimize delays in signing quarterly CDRs; (b) it submit the combined delivery reports in a timely manner, duly signed by UNDP and implementing partners in compliance with the Programme and Operations Policies and Procedures, and (c) it liaise with implementing partners on their accountability regarding timely signing of CDRs when delays are encountered.**

Oversight, monitoring and reporting for ongoing projects

42. According to POPP, project monitoring is one of the most important responsibilities of the project manager. The project monitoring tools and mechanisms include regularly updating the risk log in Atlas, field office visits to projects at least once a year, and preparing annual reports.

43. At the six country offices visited, the Board noted that risk identification was done at the operational level, for example, in preparing unit work plans or at the start of projects. However, from a sample of 104 projects, the Board found that 78 projects had not been updated in Atlas with new risks, issues logs, progress in the monitoring of the risks, and the reports on actions taken to address the risks identified. In addition, the Board found that risks and issue logs for 24 out of 104 sampled projects were updated in October 2015 at the period of interim audit rather than being done regularly as required under POPP.

Table 3: Project oversight and monitoring

Country office	Projects not updated with risks and issue logs	Projects with late updates of risks and issue logs; and few risk types and issues were updated
Uganda	14 out of 20	5 out of 20
Liberia	15 out of 20	4 out of 20
Sri Lanka	2 out of 9	7 out of 9
Nepal	6 out of 9	3 out of 9

Sierra Leone	24 out of 27	3 out of 27
Laos	17 out of 19	2 out of 19
Total	78 out of 104	24 out of 104

Source: Auditors analysis

44. Management stated that the country offices normally update some projects in the system at least yearly. The noted deficiency was mainly due to the weaknesses in compliance with the monitoring requirements at field offices. Nevertheless, some country offices were addressing the issue by recruiting a Monitoring and Evaluation Compliance Officer, and Headquarters and Regional Service Centre will provide support on the matter. The Board was also informed by some country offices management that risks, issues logs and progress of monitoring projects were recorded offline.

45. The Board remains concerned that weaknesses in reporting of mitigating actions to address the identified risks, and the infrequent updates and reviews of the issues and risk logs may undermine the ability to adequately manage projects' risks. The Board also considers that country offices need to enhance monitoring of risks identified in the corporate planning system.

46. **UNDP agreed with the Board's recommendation to institute measures such as the hiring of Monitoring and Evaluation Officers or designate a responsible program staff to ensure timely review and updating of the projects risk logs, issues and monitoring logs and document the same in Atlas as the primary source of projects information.**

Projects review and progress monitoring

47. According to POPP, project monitoring and evaluation activities are crucial for project implementation. In addition, the projects' documents require the mid-term review (MTR) to be conducted during the mid-period of project implementation to assess the progress made towards achievement of outcomes in terms of effectiveness, efficiency and timeliness of project implementation. Also POPP requires that projects' boards have to review projects' progress and provide directions and recommendations to ensure that the agreed deliverables are produced satisfactorily according to plans.

48. The Board's review of 15 out of 65 on-going projects at Sri Lanka and Nepal Country Offices revealed the following:

(i) Sri Lanka Country Office

- Quarterly Progress reports were prepared in different formats in five out of the nine projects and some of the reports did not capture key project information such as risks, issues, output progress and financial performance. Other projects had in place the "monthly project delivering monitoring calendar" instead of the required quarterly progress reports.
- Three projects had no quarterly progress reports for the first quarter while one project had no progress reports for the second quarter of 2015. Also meetings of three project boards were not conducted in the first and second quarter of 2015 as required under POPP.
- The country office had not yet conducted the mid-term review for one project, while the 2014 annual reviews for two projects were not conducted. Management explained that political changes in 2015 after general elections caused challenges such as the change of focal points who were responsible for projects at implementing ministries consequently affected project management and monitoring.

(ii) Nepal Country Office

- Mid-term review (MTR) was not conducted for six projects out of eight scheduled for 2015. Management explained that MTRs for three projects were delayed in the initiation phase because of the earthquake in April 2015.

49. While acknowledging challenges faced by the country offices including the earthquake in Nepal, the Board is of the view that management needs to expedite finalization of progress reports in order to provide valuable inputs to the projects board meetings and to enable timely actions to be taken for improvement in the remaining period of the project's implementation.

50. UNDP agreed with the Board's recommendation that UNDP Nepal and Sri Lanka country offices: (a) ensure that quarterly progress reports are prepared, harmonized and capture all key items related to projects; (b) ensure timely meeting of projects boards are conducted as required by POPP; (c) develop an action plan such that projects mid-term review and annual reviews scheduled for 2015 are performed without further delays; and (d) institute control measures to ensure that monitoring for future projects reviews take place on time.

Projects closure activities

51. On projects closure, POPP requires completion of various activities and preparation of closure documents including final Combined Delivery Reports (CDRs), final review reports, and final completion checklists. From the review of project documentations at six country offices, the Board noted the following deficiencies at Liberia and Uganda Country Offices relating to projects closure:

- Liberia Country Office:* Final review and project board meetings were not conducted for seven out of 14 operationally closed projects in 2015. Also six out of 14 operationally closed projects had total fund balances of \$50,112 for a period of four years (2011 to 2015). Management explained that the fund balances were either pending to be refunded to donors or re-programmed with consent of donors. Further, review of 25 out of the 58 financially closed projects as at 31 August 2015 showed that nine projects had no final Combined Delivery Reports, while one project had no final completion checklists. Management explained that two projects (ID 00061434 and 00061437) were handled by Headquarters therefore the final CDRs could be obtained from HQ and for the remaining eight projects the final CDRs were not obtained because those projects were operational from previous years and the country office did not have documentations readily available. The absence of CDRs and other projects' information may inhibit UNDP from ascertaining the authenticity of expenditure and getting the full benefit of lessons learned from closed projects.
- Uganda Country Office:* There were 14 financially closed projects in 2015. The Board reviewed eight financially closed projects and noted that five projects had no final CDRs and final completion checklists. Management explained that these five projects were old with no readily available documents and the office had been looking for the required documents without success. The lack of final combined delivery reports and project completion checklists is contrary to the POPP requirements, and also limits management and our assurance over the expenditure of the closed projects.

52. UNDP agreed with the Board's recommendation that Liberia and Uganda Country Offices: (a) ensure projects' completion checklists are completed and final CDRs for financially closed projects are certified by responsible parties; and (b) make efforts to refund amounts due to donors in line with POPP and donor agreements.

Delays in closing projects

53. POPP requires projects to be financially completed within 12 months after operational completion or after the date of project cancellation. Also, POPP requires that for the period between

operational and financial closure, the implementing partner should identify and settle all financial obligations and prepare a final expenditure report.

54. At the visited country offices, the Board noted that out of 49 reviewed projects which were financially closed in 2015 a total of 28 projects (57 per cent) took more than 12 months to be financially closed. The excessive time taken to financially close projects cause challenges in verifying aged transactions and in determining expenditures and other information related to projects (table 4 below refers):

Table 4: Delay in closing completed projects

Country	Projects which were financially closed in 2015	Projects delayed to close financially more than 12 months
Liberia	15	9
Sri Lanka	19	11
Lao	15	8
Total	49	28

Source: Auditors analysis

55. Management explained that the delays in project closure were mainly due to more time taken to obtain approvals from donors regarding unspent amounts, Ebola Virus Disease (EVD) which affected Liberia and general elections in Sri Lanka. Further, the Board was informed that Liberia Country Office was engaged in due diligence, reviewing grant agreements and holding discussions with donors about reprogramming or refunding the balances. While acknowledging management explanations, the Board is of the view that UNDP needs to continue to address issues of delays in closing projects financially, because it increases the risk of misuse of the unspent balances.

56. **UNDP agreed with the Board's recommendation that it: (a) obtain in a timely manner, donors' approvals on refunds or reprogramming of unspent amount to minimize delays in closing projects, and (b) ensure that all projects in operational closure status are financially closed within 12 months.**

Slow pace in projects budget implementation

57. In its previous reports (A/70/5/Add.1) and (A/69/5/Add.1), the Board raised concern about the slow pace of project budget implementation. The Board noted similar issues in 2015 during its visit to six country offices which had 181 on-going projects with a total budget of \$155.6 million and the actual expenditure of \$63.9 million as of August 2015, indicating a project delivery rate of 41 per cent (country offices deliveries ranged from 32 per cent to 54 per cent).

58. While the projects' expenditure and delivery rates ranged between 75 per cent and 92 per cent (average of 84 per cent) towards the year-end, the in-year progress observed during audit shows the need for close supervision of these projects. The summary of projects utilization is in table 5 below.

Table 5: Projects budget utilization

Country office	No of ongoing projects	Budget August 2015 (Interim audit)	Budget Dec 2015	Actual expenditures (\$ August 2015)	Actual expenditures (\$ December 2015)	Utilization % August 2015	Utilization % December 2015
Liberia	32	28,135,990	27,925,179	12,648,207	22,693,457	45	81
Uganda	38	18,523,105	17,674,621	9,256,986	16,239,961	50	92
Lao PDR	19	19,777,688	21,835,563	7,770,202	16,876,278	39	77
Sierra Leone	27	24,345,557	20,076,346	13,098,308	17,655,814	54	88
Nepal	22	44,079,644	40,473,738	14,464,579	35,782,956	33	88
Sri Lanka	43	20,737,391	20,934,179	6,706,569	15,666,502	32	75
Total	181	155,599,375	148,919,626	63,944,851	124,914,968	41	84

Source: Audit analysis of projects utilization based on Atlas and executive snapshots as of August 2015 and December 2015

59. Management attributed the slow pace of project delivery to several reasons including implementing partners (IPs) who had demonstrated limited capacity to absorb funds due to inadequate staffing or periodic staff turnovers; inefficiencies within some implementing partners; multiple demands placed on the same IPs by national and other donor funded programmes without necessarily commensurate capacities to handle all funds. Others included the failure to request in a timely manner advances for projects leading to delayed starting of the activities, natural disasters such as Ebola Virus Disease in Sierra Leone and Liberia, the earthquake in Nepal, and the general elections in Sri Lanka which took place in 2015.

60. The Board acknowledges the challenges facing management, but considers that slow pace of delivery was mainly due to the shortcomings in project monitoring during implementation. These include inadequate consultations with implementing partners, and the lack of work plans to deal with outstanding project activities which impede the timely completion of projects activities. This is evidenced by the fact that other visited country offices with slow project budget utilisation had not been affected by factors beyond management control like Ebola Virus Disease (EVD). The Board considers that it is necessary the project budgets are more realistic and attainable within a specified period according to the available resources at implementing partners (IPs).

61. UNDP agreed with the Board's recommendation to ensure country offices: (a) set realistic and attainable project activities and budgets at key planning stages in line with POPP so as to expedite projects budget implementation; and (b) monitor progress of projects implementation on a timely basis, and implement corporate action plans to minimise project delays.

Accelerated Delivery and Unprogrammed Resources reports

62. Accelerated delivery and unprogrammed resource reports⁴ (prepared on weekly basis on the UNDP's intranet) are aimed at highlighting the financial data related to accelerating delivery and unprogrammed resources. The financial data related to unprogrammed resources are categorized as trust funds that are not fully allocated (available resources are not fully reflected in annual spending limits –ASLs in Atlas); trust funds that are not fully budgeted (ASLs/available resources are not fully assigned to approved project budgets in Atlas), and cost sharing resources that are not fully budgeted (available resources are not fully reflected in approved project budgets in Atlas).

63. From a sample of 5 out of the 25 largest trust funds and 5 out of the 60 largest unbudgeted funds of cost sharing projects included in the reports for unallocated trust funds and cost sharing projects for the years 2013, 2014 and 2015, the Board found that a total unallocated and un-budgeted funds balances in those three years ranged from \$10.66 million to \$49.9 million as shown in tables 6 and 7 below.

Table 6 : Trust Fund reports indicating “unallocated balances” from 2013 to 2015

Funds	Total amount \$		
	2013	2014	2015
Five Trust Funds	26,489,742	49,949,403	48,868,960

Source: Accelerated delivery and unprogrammed resource link -UNDP intranet

Table 7 : Reports indicating “Unbudgeted Funds” from 2013 to 2015

Projects	Total amount \$		
	2013	2014	2015
Five projects	10,665,247	10,647,576	10,695,559

Source: Accelerated delivery and unprogrammed resource link -UNDP intranet

64. Management informed the Board that, the reports have been designed to bring to the attention of respective Bureaux and Fund managers the possible unprogrammed and unallocated resources. For the sampled trust funds or projects there were no issues of unallocated or unprogrammed resources, instead the reports are meant to reflect unrecorded transfers of income and expenditures between the receiving units and the implementing units. Also, balances were due to the multi-year nature of UNDP's work whereby contributions received at the end of the year are generally programmed for use in the succeeding years, and thus end-year balances are not necessarily indicative of inactivity.

65. While the Board noted management's response, it is of the view that, financial data reports for unbudgeted and unallocated funds should provide a realistic basis to support effective management and operational decision making and monitoring. The Board is concerned that unrealistic financial

⁴ These reports are obtained from UNDP intranet, they meant to highlight the financial data related to accelerating projects delivery and unprogrammed resources to projects.

data reports in the dashboard may mislead users of the information and affect interpretation or understanding of the information by other stakeholders.

66. UNDP agreed with the Board's recommendation to consider improving its accelerated and unprogrammed resources reports through additional guidance in year-end closure instructions for the reports to have similar understanding and meaning by management and other stakeholders.

5. Multi Partner Trust Funds Office (MPTFO)

Delay in operational and financial closure of projects

67. The Multi-Partner Trust Fund Office (MPTFO) under UNDP assists the UN system and national governments in establishing and administering pooled financing mechanisms—multi-donor trust funds and joint programmes—to collect and allocate funding from a diverse pool of financial contributors to a wide range of implementing entities in a coordinated manner.

68. The Board found that Participating United Nations Organizations (PUNO) received funds from MPTFO for implementing projects, but there have been protracted delays in operational and financial closure of the projects they implement which is contrary to the UNDG Guidance on Establishing, Managing and Closing Multi-Partner Trust Funds. For example, of the 716 overdue projects for operational and financial closure (Net Funded Amount \$2,286.8 million) that remained active as of 31 December 2015, 176 projects (25 per cent, Net Funded Amount \$545.1 million) completed between 2009 and 2013 were marked as on going in MPTFO Gateway; while 540 projects (75 per cent, Net Funded Amount \$1,741.7 million) completed between 2005 and 2013 but they were marked as operationally closed instead of being financially closed.

69. Also, of the 716 overdue projects, 306 projects were yet to submit final reports, 89 projects had uncorrected reports with over expenditure of \$11.2 million accruing from 2005 to 2013, and 321 projects had a balance of \$32.752 million which was held pending the final refunds and/or final expense reports from the PUNO. These refunds had been pending for the period of between two and 11 years from the project's end dates. Delays in projects' closure affect the accountability and credibility of the UNDG, PUNO and UNDP/MPTF Office. It also affects the entire fund closure timeline, implicitly driving up costs for all parties, including financial contributors who cannot close their own financial statements.

70. The MPTF Office stated that it can only operationally close and thereafter financially close a project if it has received a full refund of the balance from each PUNO on the project and a final certified report in line with the Memorandum of Understanding (MoU). Further it was explained that for the projects in question; there is delay by some of agencies in submission of their final reports despite follow-up actions. MPTF Office has limited influence as the Administrative Agent, since it relies on the other UN agencies, and their compliance with rules and timing on closure and issuing of reports.

71. However, the Board considers that UNDP needs to strengthen its process for following up with delaying participating organizations to accelerate project closure and reporting so as to realize the MPTF Office's strategic objectives. UNDP also need to standardize and improve the closure procedures to allow for more cost-effective, timely closures and decision making.

72. UNDP agreed with the Board's recommendations (a) to enhance and document the follow-up mechanisms including feedback from all delayed participating organizations for future improvements, (b) to introduce measures to accelerate operational and financial closure of all overdue projects, and (c) as the largest UN fund administration service provider, to propose the idea of common policies and procedures around inter-agency pooled funding mechanisms to harmonize practices so as to enhance accuracy in reporting and timing of issuing reports.

6. Harmonized Approach to Cash Transfers (HACT) framework

Implementation of revised HACT framework

73. The Inter-Agency agreed Harmonized Approach to Cash Transfers (HACT) framework was endorsed by the United Nations Development Group (UNDG) in 2014 and therefore has superseded the previous framework of 2005. Within UNDP, the revised HACT Framework has been approved by the Associate Administrator for implementation effective 1 January 2015.

Macro assessments

74. Item 4.1 (a) of HACT POPP on macro assessment explains that, the purpose of the macro assessment is to ensure adequate awareness of the public financial management (PFM) environment within which UN agencies provide cash transfers to implementing partners (IPs). The HACT framework is not limited solely to the financial environment but other aspects such as national procurement capacity, exchange rate volatility, and presence of informal or black markets. Item 4.1 (d) (i) of the HACT POPP explains that, a macro assessment should be undertaken once per programme cycle noting that both the country and its Public Financial Management (PFM) are continually evolving. Further, Section 7.11 of the Framework explains that, summary of the macro assessment should be incorporated into the Common Country Assessment (CCA). If the timing of these assessments does not coincide, the summary of the macro assessment should be communicated through the annual United Nations Development Assistance Framework (UNDAF) review.

75. The Board reviewed implementation progress of the revised HACT framework and noted areas which need management intervention for improvements as described in the next paragraphs.

76. *Uganda Country Office:* The country office was in the last year of programme cycle (2010-2015) and the new programme cycle starts from 2016 to 2020. However, the Board noted that the last macro assessment was performed in 2006. The United Nations Country Team (UNCT) meeting of September 2015 approved the adoption of the World Bank Report on Public Expenditure and Financial Accountability (PEFA report) for macro-assessment. Management relied on the PEFA report on explanations that to conduct macro assessment would be time consuming, and costly. Nevertheless, the Board found that the PEFA report is outdated as its validity was only for the period 2012 to 2014 while the new UNDAF programmatic cycle covers the period 2016 to 2020. Also the report is not sufficient as it does not have details of procurement capacity, exchange rate volatility, and presence of informal/black markets. Further, the use of the reports is not-compliant with the revised UNDG HACT framework and POPP on HACT Section 4.1 d(i) which clearly states that the World Bank and other institutions assessments should not be considered as a substitutes for the HACT macro assessment.

77. The Board considers that the non-performance of the macro assessment may create (a) difficulties for the country office to identify risks in the public financial management (PFM) environment in which the Implementing Partners operate therefore, risk management activities and

logs might not be appropriately incorporated at the country-level risk management activities; and (b) challenges on how the country office would use findings from macro assessment into other activities relating to HACT implementation such as projects assurance activities, since the outcomes of macro assessment are not included in the UNDAF.

78. *Liberia Country Office:* The country office conducted the macro assessment in 2013 and it is in the programme cycle of 2013 to 2017. However, the outcomes of the macro assessment were not included in the UNDAF review. The Board is concerned that the country office has not used the outcomes of the macro assessment to address the risks relating to the implementation of HACT. Management explained that since the UNDAF was still under review, the country office will consider including the results of macro assessment once completed. Nevertheless, the Board is of the view that non-inclusion of the summary of macro assessment in the UNDAF inhibits the office from exploring the identified risks at the country-level that are specific to UN agencies and programme design.

79. *Sierra Leone Country Office:* The country office is in the first year of its current programme cycle (2015 to 2018) with its last macro assessment conducted in 2009. The country office has not conducted the macro-assessment for the current period of UNDAF and programmatic cycle. Subsequently management conducted a macro assessment in June 2016 which is contrary to the UNDG HACT framework which advocates that the assessment should be performed during the preparation of the Common Country Assessment (CCA), if the timing of these assessments does not coincide, and then the macro assessment should be conducted during the annual UNDAF review. The Board is of the view that delays in performing the macro assessment affects the ability of the country office in identifying and including the outcomes of macro assessment in the UNDAF; consequently there are concerns how the country office could utilise the findings to inform other activities relating to HACT implementation, such as projects assurance activities. The delayed performance of macro assessment is not in compliance with the requirements of the UNDG HACT framework.

80. *Sri Lanka Country Office:* The current programmatic cycle is from 2013 to 2017 and the country office engaged a consultant to perform HACT macro assessment in 2015. The final report from this review was submitted on 28 July 2015. The Board noted that "country context" report (as a substitute of Common Country Assessment) was done in 2012 before conducting the UNDAF of 2013 to 2017. Also, the UNDAF annual review for 2014 was suspended as at the time of audit in October 2015 to allow for UNDAF mid-term review. However, the summary of HACT macro assessments was yet to be incorporated in the "country context" report and UNDAF of 2013 to 2017. The Board is of the view that, non-inclusion of the summary of macro assessment in the country context report and UNDAF of 2013 to 2017 limits the agencies from exploring the identified country-level risks and timely incorporation of the understanding of risk effects to the organisation and programme design.

81. **UNDP agreed with the Board recommendation that the Resident Coordinator ensure that Sri Lanka and Liberia Country Offices (a) communicate the summary of macro assessment of 2015 when conducting annual UNDAF review; and (b) perform future macro assessments at least once during the programming cycle in line with the HACT framework.**

82. **UNDP also agreed with the Board recommendation that the Resident Coordinator ensure that (a) Uganda Country Office liaise with other UN Agencies and initiate the process of conducting macro assessments at least once during the country office programme cycle, and**

(b) Uganda and Sierra Leone country offices incorporate the macro assessment where available in the UNDAF reviews.

Preparations of the micro assessment plans

83. Item 4.2 (d) xvi of POPP-HACT requires micro assessment plan to be prepared in advance of each programme cycle, updated annually and completed during the programme cycle. Also Section 7.27 of UNDG HACT framework explains the importance of the planning process which provides a mechanism for agencies and country offices to determine which IPs require a micro assessment and how to prioritize the assessments.

84. Further, under transition arrangements, item 2.3 (d) of POPP HACT requires country offices to submit a Transitional Micro Assessment Plan (TMAP) through the Regional Bureau to Headquarters HACT Focal Point by 30 April 2015. The plan must indicate dates by when the micro assessments will be completed, which should be no later than 30 September 2015. However at the visited country offices the Board noted the following deficiencies:

85. *Nepal Country Office:* The country office prepared a combined plan of macro and micro assessment in 2013. However the combined macro and micro assessment plan lacked prerequisite information such as identification of implementing partners eligible for micro assessment, budgeted program cycle, priority rating and planned dates for micro assessment. In addition, the plan had not been endorsed by the Resident Representative. Further, the “macro and micro assessment plan of 2013” were uploaded in the HACT dashboard on 5 October 2015 instead of 30 April, 2015 which is the due date according to POPP HACT.

86. Also one IP was scheduled for micro assessment in October 2015; but the country office had not yet updated the micro assessment plan. The micro assessment plan gives a road map in the micro assessment process and rating priority accordingly. In the absence of a well-documented micro assessment plan, the country office might not be able to prioritize the micro assessment activities. For instance two IPs with greater than 10 per cent of total programme cycle funding who are considered to represent material risk were assessed in 2014 instead of 2013 whereas nine IP's with programme cycle funding below 10 per cent were assessed in 2013.

87. *Sri Lanka Country Office:* The country office did not prepare a micro assessment plan for 2013 to 2017 programmatic cycle and consequently there were no annual updates in 2014 or 2015. Also, the 2015 transitional micro assessment plan was yet to be prepared and uploaded in the HACT SharePoint site. Further, while we acknowledge efforts made by the Sri Lanka Country Office in requesting the clearance from the Regional Bureau on 12 May 2015 on the preparation of the transitional micro assessment plan, the Board remain concerned that the request was sent to the Regional Bureau 12 days after the deadline of 30 April 2015 for preparing the transitional micro assessment plan.

88. *Uganda Country Office:* Micro assessment Plan was endorsed in September 2015 by the Resident Representative and uploaded in the HACT shared point on 20 October 2015 although the due date for uploading the plan was on 30 April 2015. In addition, the plan had the following deficiencies: (i) it did not indicate the budget programme cycle funding for all IPs and the number of years country office has been working with 56 IPs; (ii) previously, the office worked with 25 IPs but the plan did not establish IPs' priority risk ratings; (iii) eight IPs were included in the plan as requiring micro assessment in year 2015, however their planned dates indicated that their assessments were still valid despite the fact that they were assessed prior to year 2014; and (iv) 15

IPs indicated that they need micro assessments, however, their planned assessment dates indicated as “not applicable”. The Board is concerned that the lack of consistency and accuracy of information in the micro assessment plan in line with HACT framework regarding IPs and actual dates of performing micro assessments might affect reliability of the plans.

89. *Sierra Leone Country Office:* The country office prepared the Transitional Micro Assessment Plan in October 2015 while the due date was 30 April 2015. The Board’s review of the plan showed that the micro assessment plan did not indicate the budget programme cycle funding for all IPs and the number of years the country office has been working with 50 IPs. Also, the office worked previously with 12 IPs but their priority risk ratings were not properly established in the plan. The Board is of the view that, micro assessment plan gives a road map in the micro assessment process and therefore the absence of well documented micro assessment plan might deter the country office from prioritizing the micro assessment activities.

90. In the absence of the complete, accurate and timely prepared micro assessment plans, the country offices could not properly prioritize the risk ratings of the implementing partners, also it affects the selection of cash transfer modality for an implementing partners and their corresponding assurance activities.

91. UNDP agreed with the Board recommendation to (a) strengthen controls in reviewing the HACT micro assessment plan for completeness and accuracy; (b) prioritize the micro assessment activities to Implementing Partners based on assessment plan; and (c) monitor implementation and conduct annual update of the assessment plan.

Submission of HACT Assurance Activity plans

92. Section 2.3 (d) of the POPP on HACT requires the Country Office HACT Focal Point to submit the Transitional Assurance Plan to Headquarters HACT focal point for review and upload the plan onto the HACT SharePoint site by 30 April 2015. In addition, section 4.4 (b) identifies two phases of assurance activities (planning and implementation phases) requiring the approving of the assurance plan activity at the beginning of the programme cycle by the Head of the Office as one of its key procedure. However, the Board noted the deficiencies explained below.

93. *Nepal Country Office:* According to the HACT assurance plan and HACT dashboard, the assurance plan for the programmatic cycle of 2013 to 2017 was prepared in 2015 rather than at the beginning of programme cycle and was uploaded on 5 October 2015 instead of 30 April 2015, contrary to requirements of the POPP. The assurance plan was yet to be approved by the Head of the Office. Although previously the assurance plan did not require endorsement by Headquarters, the POPP required the assurance plan to be submitted to Headquarters for review and approval. Late preparation and submission of the assurance plan to Headquarters leads to late review and approval of the scheduled assurance activities for the respective years. This deficiency exposes the country office to a risk of implementing assurance activities without proper guidance and approvals.

94. *Uganda Country Office:* The Transitional HACT Assurance Activity plan was uploaded in the shared point on 20 October 2015 rather than on 30 April 2015. Also, the Assurance Activities Plan did not indicate the budgeted programme cycle funding as required under of HACT Assurance Template which directs that the country office may use available information such as historical cash transfers and/or planned/budgeted transfers to estimate programme cycle funding if total actual budgeted programme cycle funding is not readily available. Also, the uploaded HACT assurance activity plan did not indicate the spot checks scheduling, therefore it was difficult to identify the

names of implementing partners requiring the spot checks, the total number of spot checks required for the current programme cycle per agency guidance, the dates when spot checks were planned to be performed, actual dates for spot checks and the current status. The plan had no summary of the results or outcomes of the assurance activity including any changes to the agency assurance plan and work plan.

95. While Uganda Country Office had two reports for spot check conducted in 2015, these spot checks were not included in the assurance activities plan as required under the POPP but instead they were included in the Monitoring and Evaluation plan. In the absence of spot checks scheduling and delay in preparation of assurance activity plan the office cannot effectively perform the assessment and verify accuracy of the financial records for cash transferred to the IPs and the status of programme implementation. Management explained that they would comply with UNDG HACT framework after completion of the project formulation process for the new programme cycle 2016-2020.

96. Also while management considers that the submission of the HACT Assurance Activity plan as a one-time transitional plan issue, the noted shortcomings highlight the need for management to institute measures to minimize such shortcomings in the HACT transitional plans and similar future assignments.

97. HACT assurance activity planning is critical to successful implementation of the HACT framework especially on the periodic on-site reviews (spot checks), program monitoring, scheduled and special audits of implementing partners at country offices.

98. **UNDP agreed with the Board recommendation to ensure country offices (a) prepare the complete set of HACT assurance activities plan in line with the HACT template and include all the required information; (b) conduct all assurance activities as planned; and (c) monitor and improve annual assurance plans from the lessons learned from HACT transitional assurance activity plans of 30 April 2015.**

Preparation of Joint HACT Assurance Plan

99. According to UNDG HACT framework, where agencies share implementing partners (IPs), they have to work together to ensure an appropriate balance between the agency's assurance requirements and the burden of oversight and assurance on the IP. For shared IPs, agencies identify a lead agency for the purposes of managing the micro assessment and audit processes. The Board noted deficiencies in Uganda and Liberia country offices as explained in the next paragraphs.

100. *Uganda Country Office:* The country office did not have a joint HACT assurance plan between UNDP, UNICEF and UNFPA although the agencies share four implementing partners. Management explained that all UN agencies were in the programme formulation processes and the UN HACT working group has agreed that after completing the programme formulation process, the committee will meet, identify shared IPs and prepare a joint HACT assurance plan, this activity was scheduled to take place in November 2015.

101. *Liberia Country Office:* There was no joint HACT assurance plan between UNDP, UNICEF and UNFPA although these agencies share three implementing partners. Management attributed the noted deficiency to the outbreak of Ebola Virus Disease (EVD) during April and August 2015. While acknowledging the challenges faced by the country office, the Board considers that it is important for UNDP liaise with HACT inter agency coordinators for preparation of the joint

assurance plan for shared IPs which is to be updated annually because the non-preparation of joint assurance plan is non-compliant with the HACT framework. The lack of Joint HACT assurance plan might also result in different risks rating by agencies and inconsistency in the cash transfer modalities for the same IPs.

102. UNDP agreed with the Board recommendation that the Resident Coordinators office for Uganda and Liberia ensure that the country offices continue to liaise with the HACT inter agency coordinators for preparation and endorsement of the Joint HACT assurance activities plan without further delays.

Delays and non-performance of the micro assessments of implementing partners

103. Section 4.2 (d) (vi) of HACT POPP emphasize on the performance of the micro assessment before the commencement of the programme activities and if the micro assessment had not previously been conducted, the office should proceed on the assumption that the result of the assessment will be an overall risk rating of "High Risk" until the micro assessment is completed. Further, section 2.3 (d) of HACT POPP required that in 2015 the micro assessments should be conducted no later than September 30, 2015. However, the Board noted the following deficiencies at three country offices:

104. *Liberia Country Office:* The micro assessment plan showed that the last micro assessment for all implementing partners (IPs) was done in 2012. Of the IPs designated for assessment in 2012, four were later identified as requiring assessment in 2015. However, as at the time of the Board's interim audit (October 2015), the assessment was yet to be performed contrary to POPP requirement. Management explained that they were in the process of engaging a third party service provider to conduct the assessment from November to December 2015. Nevertheless, the Board notes the micro-assessment exercise for 14 IPs were in progress and were due to be completed in 2016, but the Board considers that the engagement of the third party service provider should have been done early to ensure that the micro-assessment is performed within the time prescribed in POPP.

105. *Uganda Country Office:* The office had a total of 59 Implementing Partners for the year 2015. In its micro assessment plan for the year 2015, the country office included 59 implementing partners (IPs), out of which, 21 IPs were indicated as non-assessed, 37 IPs as assessed for years running from 2010 to 2014 while one IP was assessed prior to 2010. Further, the Board noted that all 59 IPs were identified for micro assessment in 2015 and 2016 although the assessments had not been done as at the time of audit visit in October 2015. Management explained that the country office was running a 2010 to 2015 country programme cycle to end in December 2015, therefore the office was in the process of conducting the micro assessment as per plan. The Board understands that despite the 2010 to 2015 programme cycle to end December 2015, the 59 IPs were supposed to have been micro-assessed by 30 December 2015 as per the POPP requirement.

106. *Nepal Country Office:* The office had 14 implementing partners (IPs) eligible for micro assessments in the current programmatic cycle (2013 to 2017). Of the IPs, only eight were assessed in a timely manner in 2013. The Board noted that three IPs had not been assessed up to the time of visit in October 2015 although they had been implementing project activities and three IPs were assessed in 2014 instead of 2013. Also, these IPs had commenced projects activities in 2013 before being subjected to the micro assessments. In the absence of micro assessments, the country office might not have an appropriate basis for adequately evaluating and incorporating the IPs risk ratings into the risk management activities and logs consistent with the risk-based approach. Furthermore,

to start project implementation prior to micro assessments might lead to inappropriate choice of cash transfer modality.

107. Management stated that the micro assessments were yet to be accomplished due to the need to obtain agreement with IPs prior to conducting the micro assessments and that such agreement was not readily available despite regular follow ups. However, the Board believe that proper negotiations and consultations on the project's details, including requiring the IP compliance with HACT-POPP would increase compliance.

108. **UNDP agreed with the Board's recommendation to (a) speed up the process of engaging third party service provider for micro assessments and ensure the assessments are done without further delays; (b) institute controls mechanisms such that future micro assessments are done on time before funds are provided to implementing partners; and (c) continue consultations with implementing partners to get the micro assessments done before starting future programs since the National Implementation Modality (NIM) audits do not replace the micro assessments.**

7. Contributions and Resources Management

Mapping of partnership and resources mobilization opportunities

109. According to the Resource Mobilization toolkit the main aim of the mapping partnership and resources mobilisation opportunities is to consolidate the existing information on key current and potential donors, analyse on-going trends in the development assistance landscape in the country office and provide an inventory of emerging sources of funding, as well as propose recommendations for the consideration of the country offices.

110. In Uganda, the Board noted that the country office did not include the mapping of partnership and resources mobilisation opportunities in the resources mobilisation strategy. Management explained that it commenced mapping the partnership with resource mobilization opportunities although it is yet to prepare donor profiles, which is expected to be finalized by June 2016. The profiles will indicate for each donor, their thematic areas of focus, potential match with UNDP areas of focus and resources available to the extent possible. However, there was no evidence to substantiate the mapping of partnership and it was noted that partners in corporate planning system meant to provide responses for the survey conducted and many of them were government institutions and bilateral donors. Thus the Board is of the view that the office had not fully explored the partnership opportunity from those donors.

111. The Board believes that more efforts are required to expedite the preparation and finalisation of the donor profiles. The office needs to develop mapping along with a resource mobilization strategy which will describe the functional flow⁵ for effective coordination and management of resource mobilization. In the absence of mapping of resources and partners, UNDP will not easily realize the opportunities of mobilizing resources from those donors since they have not been mapped in their mobilization strategy.

⁵ Defining roles and responsibilities when mapping resources opportunities against partners to smoothen the operations of mobilizing resources.

112. UNDP agreed with the Board's recommendation that Uganda country office prepare and include in its resources mobilisation strategy the mapping of partners and resources mobilisation opportunities.

Deficiencies in the Resource Implementation Plan

113. Resource mobilization is a process which requires ongoing dialogue with funding partners to create trust and develop strong relations. The process starts with planning where resources requirements are identified and analysis of available external resources environment is made to determine existing and potential sources of funding. The planning is followed by implementation phase whereby the offices engage with funding partners and conclude agreements.

114. The Board noted that the Uganda Country Office had included an implementation plan in its resources mobilisation strategy of 2014. However, the plan had the following deficiencies: it did not indicate when the targeted resources would be mobilised; it had no information on how the country office will engage potential donors; and it did not specify the timeframe for meeting the resource mobilisation goals which is contrary to the best practices recommended in the Resource Mobilization Action Plan (RMAP).

115. Further, the country office resource mobilisation strategy and plan showed that despite the progress made, there were challenges on the quality (including items like output and outcome level development information, indicating concrete results, best practices and lessons learnt) and timelines of reporting contribution agreements with donors. For instance, according to the contributions agreements in the Document Management System (DMS), the country office signed two agreements with two donors in 2012 and 2014 for third party cost sharing. However, these agreements were communicated to the Global Shared Service Centre (GSSC) after a delay of more than 60 days, contrary to POPP that requires the agreements to be submitted within a week of signing the agreement.

116. Furthermore, the revenue management in the Document Management System showed that the country office did not establish the estimated and actual dates for the submission and approval of the donor reports. The Board considers that without adequate planning it will be difficult to achieve the revenue mobilisation objectives; also, delayed reporting agreements with donors to GSSC and weakness in the follow-up with donors may inhibit efficient tracking and therefore affect negatively future prospects for resources mobilisation.

117. UNDP agreed with the Board's recommendation that Uganda Country Office: (a) improve its resources implementing plan by including the resources targets over years, indicate clearly the timeframe for meeting outputs and actions; (b) establish a clear process and monitoring tool to track resources mobilization by improving donor reporting through robust reporting; and (c) review and enhance its donor reporting system for quality and timely resources tracking and ensure monitoring of the resources mobilization.

8. Human Resources Management

Performance management and development (PMD)

118. In April 2013, UNDP's Bureau of Management issued a guidance note to all managers on how to effectively use the new platform to strengthen management and to ensure dialogue between the managers and the staff. According to the guidance, in January/February of each year, the year-end performance assessments for the previous year and the performance plans for the following year have to be completed. In June/July, a mid-year review and feedback has to be done and for all the three stages, dialogue is required to be central and should be done in conjunction with using the Performance Management Development (PMD) as the tool to support the dialogue in Atlas.

119. In its previous report (A/70/5/Add.1), the Board raised concerns that the rates of completing performance plans were very low for the visited country offices in 2014, the mid-year reviews were not conducted and the final performance reviews for 2014 were not completed.

120. Based on the review of the status of performance plans and mid-year reviews for 2015 in Atlas and in the Corporate Planning System of 2015 for six country offices visited, the Board found that in Uganda (56 staff) and Liberia (six staff) there were no mid-year review notes for the year 2015 although the system has capability for documenting mid-year reviews. A comparison with the previous year (2014) indicated that all staff available in 2014 completed final performance reviews but there were no mid-year reviews notes.

121. Management attributed the noted deficiencies to factors such as lack of awareness of users on the system for documentation of mid-year reviews notes, and that performance plans and assessment could not be completed for some staff who were on temporary assignments in connection with Ebola Virus Diseases (EVD) outbreak (Sierra Leone) because of uncertainty in continuity of their assignments. However, the Board noted that PMD guidance does not have such an exemption. Completion of PMD in 2015 for visited country offices is summarized in Table 8 below:

Table 8 : Completeness of PMD for 2015

Country office	Staff whose performance plans and midyear reviews for 2015 were not carried out	Staff whose performance plans for 2015 were completed	Total Staff
Sierra Leone	7	56	63
Nepal	16	64	80
Liberia	6	57	63
Uganda	56	0	56
Total	85	177	262
Percentage	32	68	100

Source: Auditors' analysis of PMD status at country offices at interim audit 2015

122. Non-completion of performance plans and failure to perform mid-year reviews limit provision of feedback on the staff performance in a timely and therefore delays taking action on staff performance. It also hinders the organization from achieving its main goals of strategic integration of the individual performance, talent management review and assessment of Results, Competency Domains and Staff Capacity.

123. UNDP agreed with the Board's recommendation to enforce the compliance at Country Offices with Performance Management Development (PMD) timelines in completion, review, documentation and approval of mid-year and final reviews by managers.

Evaluation of Service Contracts

124. Section 4.39 (d) of the Service Contract User Guide explains that, the service contract evaluation form must be completed by the supervisor two months prior to contract expiration, after receiving a short written self-assessment by the Service Contracts (SC) holders including special accomplishments and having a service evaluation session with the individual SC holder for performance discussion.

125. The Board reviewed reports of service contracts extensions and their related evaluation reports at six visited country offices for the year 2015 and noted that in four country offices the evaluation of service contract holders was delayed, contrary to Section 4.39 of the Guide. Table 9 below summarizes the delayed SC evaluations:

Table 9: Evaluation of service contracts in 2015

Country office	Number of service contract staff with delayed evaluations	Timing of evaluations (Days before contract expiration)
Uganda	17 out of 28	9 to 40
Sierra Leone	15 out of 25	1 to 26
Nepal	36 out of 36	3 to 46
Sri Lanka	12 out of 15	3 to 35
Total	80 out of 104	

Source: Auditors analysis

126. Management explained that the service contract holders of projects' staff under direct supervision of the Government normally took a longer period to assess and evaluate the service contracts before UNDP can conclude as the secondary reviewer. Another reason is the Ebola Virus Disease (EVD) outbreak in 2014, which caused the Sierra Leone Country Office to re-programme the available resources to support the EVD response, thus leaving it with insufficient resources to renew service contracts to 2015 with certainty. Further, it was explained that the uncertainty of the projects extension or the change in projects structure lead to delays in submitting the SC appraisal documents.

127. While the Board acknowledges the uncertainty of projects extensions and other challenges that the country offices face, the Board is of the view that not all staff were under direct supervision of governments and Sierra Leone which was affected by EVD represent only 15 of 80 delayed cases. The Board also considers that even for staff under Government through continuous reminder on the need to observe the requirement of Section 4.39 (d) of the Service Contract User Guide and with regular follow-ups timely evaluation of service contract holders will be increased. Delays in evaluation of service contract holders reduce the time needed for supervisors to make guidance notes and feedback to be addressed by SC holders before expiration of contracts.

128. UNDP agreed with the Board's recommendation to institute control mechanisms such as a timely evaluation is done, so that in future service contract evaluations are completed two months prior to contract expiration as per guidance to allow for timely valuable decision during renewal of contracts.

9. Procurement and Contract Management

Vendor data management

129. POPP under financial resources (creating and approving vendors) requires that when creating a new vendor, the buyer should review Atlas vendor records to avoid creating duplicates, input required vendor information in Atlas, and check for accuracy and completeness of vendor's information. In addition, Para 3 of the Standard Operating Procedures on vendors requires the country office to carry out regular vendor maintenance every six months with a view to maintaining an accurate and up to date database by removing duplicate vendors and archiving inactive vendors.

130. In five out of the six country offices visited the Board found in Atlas 84 duplicate active vendors and 33 approved vendors who had bank accounts with similar account numbers and details as summarized in Table 10 below.

Table 10: Duplicate active vendors and approved vendors with similar bank accounts

Country offices	No of duplicate active vendors	No of approved vendors with the same bank accounts numbers and details
Uganda	16	6
Sri Lanka	9	4
Nepal	26	11
Sierra Leone	31	10
Laos	2	2
Total	84	33

Source: Atlas vendors' data October 2015

131. Management explained that due to de-centralized nature of vendor management, there were cases where vendors actually had similar names (first names, middle names and surnames). Also duplicate names of vendors were caused by input errors and delay in vendor data corrections.

132. The Board acknowledges management explanations and some actions taken including deactivation of inappropriate vendors and removing inaccurate bank information. However, the noted cases were not for similar names but rather duplicates. The Board considers that management could have instituted preventive controls since the existence of duplicate active vendors and similarity in bank accounts numbers poses risk of transacting and/or making payments to inappropriate vendors, although no such incidences were identified in this audit.

133. UNDP agreed with the Board's recommendation to (a) perform regular vendor data checks to maintain accurate and up to date data including removing duplicate active vendors, (b) ensure regular review and correction of vendors' bank information to prevent duplicates and (c) review transactions processed in bank accounts shared by multiple vendors to correct inappropriate transactions.

Information in the procurement dashboard and delivery delays

134. The procurement dashboard in Atlas is a monitoring tool to assist users and management in keeping track of all procurement actions as well as facilitate identification of any activity that may need corrective actions. The procurement dashboard was purposely created for tracking: (a) all staff with buyers profiles and to ensure that they have the minimum level procurement certification; (b) price variances between the cost per purchase order and the invoiced amounts; (c) all vouchers above the \$2,500 threshold to ensure purchase orders are raised against such vouchers when they are processed; and (d) delays in the delivery of goods and services by suppliers.

135. From the review of procurement dashboards at the country offices, the Board noted the following deficiencies:

- a) *Sri Lanka Country Office*: The procurement dashboard indicated that four active procurement staff with buyer profiles completed Procurement Certification Level II whereas the actual number of staff who completed procurement Certification Level II were only two as confirmed by the country office. This was caused by erroneously repeating the names of two staff in Procurement Certification Level II. The Board also reviewed 47 suppliers out of 2,475 suppliers on the Sri Lanka Country Office procurement dashboard and noted delivery of 21 suppliers had long lead times ranging from 30 days to 113 days above expected delivery as per purchase orders.
- b) *Sierra Leone Country Office*: The procurement dashboard indicated that no staff had buyer profiles and no staff obtained the basic certification on procurement course. However, there were actually four staff members with buyer profiles who completed Procurement Certification level I. The Sierra Leone procurement dashboard indicated that 20 out of 147 reviewed suppliers had delivery lead times delays ranging from 30 to 117 days beyond the delivery dates recommended in the purchase orders.
- c) *Uganda Country Office*: Procurement section had six staff members who were active users with buyers' profiles. Of these staff members, five completed Procurement Certification Level I, while one did not complete the certification. Further, there was no procurement staff with buyer profile who completed Procurement Certification Level II. The Board also noted that, late deliveries of supplies, for a sample of 28 suppliers out of 122 suppliers who made supplies during the year, delivery lead times ranged from 60 days to 136 days beyond the delivery dates recommended in the purchase orders.

136. Management explained that the Procurement Dashboard does not provide real time information for the two indicators (buyer certification which is in LMS and ACP online) that were maintained in different platforms from Atlas while all indicators were updated on regular basis. Further it was explained that the delivery due dates are entered by the requestor through e-requisition based on the expected project needs which might be ambitious and impractical compared to vendors' physical delivery dates based on design, manufacture, packaging and other reasons involving the supply chain. It was also explained that the procurement dashboard and IPSAS dashboard have separate purposes to serve two different functional units; and two items (buyer certification which is in LMS and ACP online) that are not in Atlas are not updated daily. Further country offices are required to update delivery due dates to correct the purchase orders with past due delivery dates (red indicator) in IPSAS dashboard. Management agreed to update these two items manually on regular basis in the procurement dashboard and continue to follow up with country offices on the IPSAS dashboard receipt indicators.

137. The Board is of the view that the procurement dashboard is the only platform where comprehensive procurement information is available and therefore inaccuracies in data could impact

on the quality of information to support decision making and to monitor compliance in accordance with UNDP procurement policies and procedures. The procurement dashboard is expected to have accurate, complete, reliable, and updated data at all the times. On the other hand, suppliers with long lead times pose risks of delaying the implementation of projects activities thus affecting delivery rates.

138. UNDP agreed with the Board's recommendation that it: (a) provide regular updates on the non-Atlas procurement indicators for more accuracy, completeness and reliability of its information, (b) ensure requestors at country offices input reasonable delivery due dates in the e-requisition in a way to reduce the workload of data clean-up of delivery dates for POs with red in IPSAS dashboard; and (c) enhance follow-up with vendors such that goods or services are delivered within scheduled period.

10. Hyperion Financial Management

Contract management and reports from Hyperion Financial Management

139. On 22 October 2014 UNDP entered into a long term agreement (LTA) with a consultant for implementation of Hyperion Financial Management (HFM) tool and application management services for a period of three years to October 2017. The Statement of Work (SOW) appended to LTA elaborates the work anticipated whereby the scope and objective of the assignment required the consultant to assist UNDP to deliver accurate, high quality, periodic and annual financial statements on a timely basis, including reclassifications.

140. Prior to the detailed needs analysis and design phase, it was agreed that among other things, the consultant would perform or provide the following: run the cash flow statement and statement of comparison of budget and actual; perform comparatives dynamically for different comparative periods such as year-on-year, quarter to quarter and month-on-month; migrate and reconcile data from 2012 to 2014; run and generate all 35 notes to the financial statements (based on 2012 financial statements); and HFM system to perform routine reclassifications and ability to import calculations into its reports.

141. Management explained that all tasks were completed before the production of the financial statements for the year ended 31 December 2015, and therefore there were no uncompleted tasks to be delivered in 2016. Management confirmed that the Hyperion Financial Management (HFM) has automated the production of financial statements by 90 per cent. Further, the vendor performance report of April 2016 indicated that UNDP was satisfied with the services rendered by the consultant and there were no weaknesses identified.

142. The Board recognizes and appreciates the achievements made by UNDP through the use of HFM in automating the process of generating financial statements. However, the Board identified deficiencies on some elements of financial statements highlighted below. These were initially agreed to be delivered by the consultant based on the long term agreement and statement of work (SOW) signed with UNDP in October 2014, but faced challenges that require management intervention for improvement.

- a) (i) Cash flow statement, statement of comparison of budget and actual; and (ii) comparative financial information as at 31 December 2014 were not run in HFM.

- b) The comparative financial information of 2012 and 2013 was also not run in the HFM although data was migrated and reconciled from 2012 to 2014.
- c) Figures for eight items in the notes to the submitted financial statements were not automated and did not agree with figures generated from HFM.
- d) Reclassifications and ageing of items in three notes were not automated in HFM and did not agree with figures in the submitted financial statements for items in notes 10 (receivable non exchange), note 11 (receivable exchange); and note 12 (advance non exchange transactions) respectively.

143. While disagreements were subsequently corrected by management, the challenges highlight the need for management actions such as instituting strengthened internal checks.

144. The Board also noted that the vendor performance report was completed in April 2016 while the evaluation checklist to support the vendor performance report was completed post facto in May 2016 instead of being done before preparing the performance report.

145. Management explained that the SOW was signed at an early stage when UNDP put the 'wish list' prior to finalizing the requirements, thus during the needs analysis and design phase management decided not to automate the Cash flow statement due to the decision not to perform foreign exchange revaluation in HFM as Atlas already performs it; and the statement of comparison of budget was also decided not to be automated. Further it was explained that the 2015 comparative (Financial statements of 2014) was not run in the Hyperion Financial Management (HFM) because of the prior period adjustments in the past years. Management is planning to implement comparatives for 2016 onwards. Regarding reclassification and ageing, it was also explained that there are limitations for ageing which require project identity data (like NEX ageing and Agency ageing) that cannot be done in HFM.

146. Despite management explanations, there was no approved addendum to the statement of work (SOW) confirming an agreement that the consultant would deliver work with a reduced scope. The Board is of the view that, non-updating of the SOW causes mismatch between the approved and the actual implemented work, which may lead to lack of benchmark against which the performance of the consultant can be measured realistically. Also the absence of a completed checklist at the time of assessing vendor's performance may lead to inappropriate conclusion against vendor performance and thus mislead decision makers.

147. UNDP agreed with the Board's recommendation to (a) liaise with the consultant and sign an addendum to the initial SOW to include actual tasks performed in line with the LTA and approved SOW, (b) periodically review financial reports from HFM and correct the differences in a timely manner which will ensure the accuracy of financial statements at the year end, (c) institute compensating controls to check the aging and balances generated by HFM which need to be corrected before preparing financial statements, and (d) ensure that evaluation checklist for vendor performance is completed on time for other future contracts.

Hyperion IT controls

148. Hyperion is an application acquired by UNDP in 2014 for generating IPSAS based financial reports from transactions recorded in Atlas. The Board noted areas for improvements in Hyperion IT controls in the areas of Change management, Granting access to Hyperion users and Segregation of duties as explained in the preceding paragraphs.

149. *Change management:* Section 4.4.19 of UNDP Information Security policy requires audit logs recording user activities, exceptions, and Information Security events to be produced and kept for an

agreed period to assist in possible investigations and/or access control monitoring. Logging facilities and log information shall be protected against unauthorized access.

150. The Board found that the procedure for requesting and approving changes to account mapping and metadata has not been documented. Moreover, data audit was not enabled to log changes done to account mapping and metadata for future review and assurance of change authorization.

151. Management explained that the consultant who implemented the system advised that data audit should be disabled as it affects system performance. However, the Board is of the view that since the system is only accessible by 25 users its performance should not be a problem considering the importance of the feature in minimizing risk of information tampering and unauthorized access.

152. *Granting access to Hyperion users:* Section 4.5.7 of the information security policy requires allocation of passwords and user accounts to be controlled through a formal management process. The Board found that the process of requesting, approving and reviewing access to Hyperion was not documented and the role matrix was not initially adequately documented.

153. Management explained that initial list of Hyperion users was established during the system implementation phase and all subsequent requests for access were submitted to the Chief of CFRA who approves these changes based on the limited licenses available. The Board is concerned that, the lack of documented procedure for access control and inadequate defined role matrix could lead to assignment of excessive permission and granting user access without approval which could eventually expose UNDP to unauthorized or unintentional modifications or misuse of information.

154. The Board also noted three default system accounts with access to the Hyperion backend database which stores data imported from Atlas that were not disabled. Management explained that those three accounts are part of the standard Oracle Database package and serve specific functions in database administration and monitoring that are integrated to the larger ecosystem needed to maintain and monitor the database and applications. The Board considers that default system accounts need to be properly protected to prevent intruders from gaining access to the database since these accounts are target of malicious use because of their high privileges.

155. *Segregation of duties:* Section 4.4.5 of information security policy explains that appropriate segregation of duties and responsibilities shall be implemented to the greatest extent possible to reduce the possibility that any one individual can compromise an application, a policy or a procedure. The Board noted inadequate segregation of duties to users with access to Hyperion tool, for example a user with administrator and advanced user role in the HFM tool can load data from Atlas, change account mappings and metadata, manage user accounts and generate financial reports without independent review contrary to best practice.

156. Management explained that UNDP will formalize the procedure in the SOP and ensure regular review of the logs once the pilot phase is completed. However, the Board is of the view that, this setup increases the risk of unauthorized modification and granting access without approval.

157. **UNDP agreed with the Board recommendation that it: (a) clearly document procedures for managing changes to account mapping and metadata to ensure all changes are recorded and authorized, (b) enable data audit to track and manage changes to account mapping and metadata for auditing and accountability purposes, (c) strengthen controls to ensure frequent review activities of administrators in the system (d) clearly document procedures for granting and authorization of access to the system based on role matrix and ensure periodic review of**

access list to both application and backend database is conducted, and (e) strengthen controls to ensure strong password policy for default database system accounts.

11. Information Communication Technology

Information security awareness training

158. The Cyber Security Unit under the Office of Information Management and Technology (OIMT) is responsible for providing user ICT security trainings and awareness through an online learning management system (LMS) and, as necessary, publishes ICT security advisories. The LMS is managed by the Office of Human Resources and the cyber security team does not have access to monitor staff members' participation in the trainings. The LMS system has two categories of training courses i.e. mandatory and non-mandatory training courses. While all staff members are automatically enrolled for mandatory training, non-mandatory training enrolment is optional. After enrolment, staff members are required to register, complete training and answer the questions at the end for them to be considered to have completed the training.

159. At UNDP Headquarters the Board noted that during the period January 2013 to October 2015, a total of 1,382 (16 per cent of total staff) staff were registered for basic security training (mandatory) and only 365 of them successfully completed the training while 155 staff (2 per cent of total staff) were registered for information security awareness training (non-mandatory) and only 68 of them successfully completed the training as summarized in Table 10 below:

Table 10: Staff registered for information security training sessions (January 2013 to October 2015)

Online training	Total Staff	Registered 2 years ago for training		completed training out of those registered 2 years ago	
		staff members	Percentage	staff members	Percentage
Basic security	8,527	1,382	16	365	4
Information security awareness training	8,527	155	2	68	1

160. Further, the Board noted that 107 out of 301 staff members registered in 2013 completed basic security training while 150 staff members have never attempted the training since they were registered. The Board also reviewed UNDP Information Security Risk Assessment report of January 2015 and noted that the lack of information security awareness training has been identified as a medium risk which requires mitigation, with its associated risks including unescorted visitors, security breach involving mobile device and suspicious user activity. However, the Board noted that there were insufficient controls to ensure registered staff complete the training.

161. The Board is of the view that most staff did not undertake training on information security awareness because it is not mandatory and there is no enforcement mechanism to register and complete the training. The Board is concerned that the lack of information security training provided by the cyber security team could result in improper handling of sensitive information, unsecure use of ICT systems or become victims of targeted attacks. UNDP could also face challenges in respect of confidentiality, availability and integrity of information.

162. UNDP agreed with the Board recommendation to (a) consider making the training on information security awareness mandatory for staff, and (b) establish enforcement mechanism such as including the completion of information security awareness training in employee's performance review for staff members to complete information security awareness training sessions.

Access controls to the Atlas database

163. UNDP information security policy requires appropriate restrictions on access to information being implemented and maintained in line with legitimate business needs and security responsibilities. Security responsibilities requires the following business roles to be segregated by ensuring that they are not combined; Programmer and database administrator, System administrator and database administrator, Security administrator and database administrator, and Network administrator and database administrator.

164. The Board reviewed access control to Atlas system backend database and noted existence of one programmer and two security administrators who have been granted read only access to the Atlas database.

165. The Board found 16 active accounts in Atlas out of 289 which had no roles assigned to them. Active accounts without roles highlights inadequacies of controls over user management and the lack of periodic review of access list. Also unused active accounts can be used to impersonate user to perform unauthorized access and modify data. Management explained that read only access to database was granted for the purpose of supporting users of applications. However, the Board is of the view that the best practices would require UNDP to create a separate test environment which is a replica of production environment for programmers and security administrators to troubleshoot issues raised by users.

166. UNDP agreed with the Board recommendation to: (a) strengthen controls when granting access to the Atlas database to ensure segregation of duties is adhered to such that programmer and security administrator have only minimum necessary access to the Atlas database which is reviewed regularly, (b) review access rights of Atlas database and remove active accounts without roles, (c) conduct quarterly review of access rights, do corrections and submit the report to the quarterly meetings of Information Security Management, and (d) introduce guidance requiring the use of a separate environment as a replica of production for programmers and security administrator when they need to perform troubleshoot instead of accessing the production database.

Information security risks

167. The information security risk register as of April 2016 showed that two high risks on Atlas account management were introduced in 2014: the first risk was on Atlas users with multiple profiles which was closed in 2014 and the second was on separated UNDP staff still active in Atlas which was closed in 2015. While UNDP closed these two risks in 2014 and 2015 respectively, the Board found that list of users with access to Atlas as of 27 April 2016 included users with multiple profiles and active accounts of separated staff members. For example, from a sample of 10,238 active accounts, the Board found seven active accounts of staff members separated between March 1993 and March 2016, and 16 of separated staff members that were locked but not deleted. From another sample of 11,394 active Atlas users, the Board found 12 Atlas users with multiple profiles.

168. The Board also reviewed management of the risk register for continuous monitoring of risks and found that, these two Atlas account risks went undetected and not reported in the risk assessment report of January 2015 and January 2016. The first risk was not detected and not reported in the risk assessment report of January 2016, while the second risk was not detected and not reported in the risk assessment report of January 2015. These Atlas account risks were also not reported by the participants in the quarterly Information Security Management Meetings (ISM) of year 2015 and 2016. Management informed the Board that there were only two staff assigned to information security therefore it would not be productive to continually test and validate the mitigating controls that were already implemented.

169. UNDP agree with the Board recommendation that it (a) strengthen controls over information security risk management by conducting continuous monitoring of high risks in addition to the annual risk assessment and quarterly reviews, and (b) consider reviewing the current workload, roles and responsibilities of staff assigned to information security to facilitate the continuous monitoring of information security risk management.

Controls at the data centre

170. The UNDP data centre also serves offices in three other buildings in New York which access internet and file sharing services through the same data centre. This implies that in case of any network infrastructure disruption at the data centre, all other three offices will not have access to the internet and eventually it will be impossible to access business applications from these buildings; thus the business will be affected. Management is exploring the possibility of leveraging the United Nations network facility to establish redundant network connectivity which will enable the three other offices to have an alternative connection to the internet.

171. The Board also found that the data centre has water based fire suppression system which is less effective compared to dry pipe fire suppression system. In addition, the network cabling was not laid properly and not labelled thus affecting the performance of data transfers and makes it difficult to troubleshoot. Also there were unused items such as cabinets, cooling and network equipment which prevents circulation of air needed to cool the servers. Management stated that they had a plan to reduce the footprint of the data centre including removal of obsolete items and this plan will eliminate approximately half of the racks.

172. The Board also reviewed management and monitoring of access to the data centre, and noted that there were access control doors and CCTV cameras. The access control system is managed by Administration Service Division. Management explained that, the review of access to data centre was conducted once per year, however there was no evidence of the review conducted.

173. UNDP agreed with the Board's recommendation that it: (a) implement backup plan for internet access for its three offices using the service of the data centre, (b) clear unused items in the data centre, label and keep cables in order, (c) use dry pipe fire suppression system in the data centre, and (d) review physical access rights to the data centre in each quarter and report to the Information Security Management Meetings.

12. Assets Management

Asset disposal -retirement in error

174. POPP on Assets Management requires the use of procurement catalogue to select items that are to be purchased and should be recorded in Atlas which has been configured to ensure that the correct account is automatically chosen provided that items purchased are based on a requisition using the UNDP catalogue and a purchase order. Further, the Country Support Team (CST) Business Analytic Standard Operating Procedure explains that, the occurrence of asset “retirement in errors” is mainly due to the Country Offices selecting in error a UNDP catalogue while the asset do not belong to UNDP.

175. The Board found deficiencies in the process used to record and retire disposed assets in Atlas. For instance in 2015, 79 assets (cost \$2.54 million) out of 160 (cost \$2.8 million) assets were disposed of by retirement in error, 70 assets (cost \$220,704) were retired in error due to errors in choosing quantities at the requisition stage, selecting procurement catalogue, capitalization of a project which did not meet threshold, and correcting duplicate assets. The remaining 9 assets (cost \$2.32 million) were due to procedures used in Atlas to convert assets under construction into leasehold improvements (LHI).

176. The Board considers that Operating Units did not perform regular reviews of recorded assets in Atlas and sending regular requests to GSSU for reversal and it is not appropriate to use the terminology “assets retirement in error” while the process in Atlas is meant to convert assets under constructions into leasehold improvements. This setup in Atlas creates confusion and it is difficult to differentiate between the “actual assets retired in error” versus assets under constructions converted into lease hold improvements. These assets formed part of property plant and equipment between 2013 and 2015, and thus make the balances concerned susceptible to misstatements.

177. UNDP agreed with the Board’s recommendation that it: (a) analyse all assets disposed in error and consider impact in the prior year’s financial statements, (b) ensure Operating Units regularly perform reviews to identify errors, and send requests to GSSU in a timely manner for reversing the capitalization made in Atlas, (c) ensure approving managers verify that all items are appropriately selected in the procurement catalogue, (d) consider improving assets data in Atlas such that actual assets retired in error could be easily differentiated from assets under constructions converted into lease hold improvements.

Intangible assets under development/ construction

178. Paragraph 28 of IPSAS 31 requires that intangible assets shall be recognized if and only if, (a) it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and (b) the cost or fair value can be measured reliably. Further, paragraph 96 explains that, amortization of intangible assets shall begin when the asset is available for use.

179. The Board found that an intangible asset (Resource Planning and Human Performance) in use since January 2015 at a cost of \$1.08 million was erroneously reported as part of assets under construction or development for the year ended 31 December 2015. As a result of categorizing the

asset in wrong stage of development, this asset was not amortized. The Board considers that UNDP need to reclassify the asset and to correct the misstatement of \$1.08 million (cost) and \$180,152.62 (amortization) resulted from the failure to amortize the assets.

180. The Board also noted that UNDP had no approved basis of determining the percentage of development phases for intangible assets. As a result the categorization of the eight intangible assets reported as under constructions (cost \$3.74 million) was based on estimation. Management explained that, in 2016 UNDP is implementing a new dashboard to measure the percentage by counting the deliverables produced which will be formalized into a Portfolio Highlights-Envisioned Lanes of Project's Success (PHELPS) report. The Board considers that an approved and more sophisticated computation basis is crucial in determining the percentage of development phase of an intangible asset under constructions.

181. UNDP agreed with the Board's recommendation to : (a) re-classify intangibles asset in use (Resource Planning and Human Performance) and correct the financial statements by calculating the amortization of intangible assets in use in 2015; and (b) approve and formalize the percentage computation basis of development phases of intangible assets under construction.

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

182. The Administration informed the Board that in accordance with financial rule 126.77, that UNDP has no write offs in the year 2015.

2. Ex-gratia payments

183. As required by UNDP financial rule 123.01, the Administration reported ex-gratia payments for the period under review amounting to \$168,757.

3. Cases of fraud and presumptive fraud

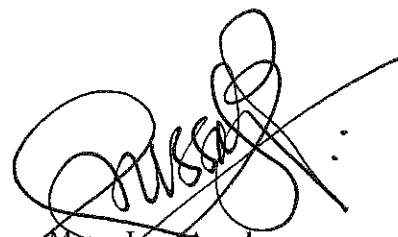
184. In accordance with International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

185. During the audit, the Board makes enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. The Board also inquire whether management have any knowledge of any actual, suspected or alleged fraud, and this includes enquiries of the Office of Audit and Investigations (OAI). The additional terms of reference governing external audit include cases of frauds and presumptive frauds in the list of matters that should be referred to in its report.

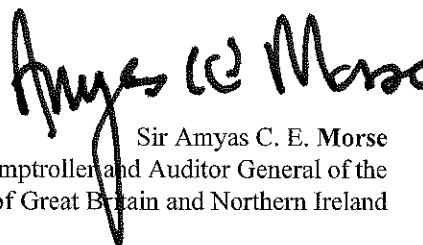
186. In 2015, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud which had been reported and disclosed by management. UNDP reported 56 cases of fraud or presumptive fraud to the Board with an estimated loss of \$2.9 million. Of the 56 cases, UNDP already resolved 16 cases (valued \$134,124), while 40 cases (valued \$2.8 million) are still pending. Recoveries in 2015 from 16 cases were \$55,892. The details of all cases are provided in annex II to the present report. The Board considers that UNDP needs to thoroughly review undelaying circumstances led to the cases, identify the possible gaps and develop a comprehensive counter anti-fraud strategy to minimise fraud risks and associated loss.

D. Acknowledgement

187. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Administrator of the United Nations Development Programme and her staff.



Mussa Imdad Assad
Controller and Auditor General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)



Sir Amyas C. E. Morse
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland



Shashi Kant Sharma
Comptroller and Auditor General of India

30 June 2016

Annexes:**Annex I: Status of implementation of recommendations up to the year ended 31 December 2014**

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
1.	2014	23	UNDP agreed with the Board recommendations to (a) ensure at year-end, COs/HQ Units review the report of contracts with pending milestones and, for any identified issue, communicate to the GSSC via the DMS and update the status accordingly; and (b) make follow-up with the country offices/HQ units so that milestones pending from previous years (from 2011 to 2014) are cleared without further delays.	GSSC procedures require an every month download of the information from Dashboard data base to remind COs regarding open Accounts Receivables and Past Due Milestone. The Country Offices can amend the contracts to correct the outstanding balances; individual emails are prepared for each country.	In the final audit of 2015 the Board noted weaknesses in relation to the pending milestone. Therefore the Board has re-iterated the recommendation in the 2015 report.					✓
2.	2014	27	UNDP agreed with the Board's recommendations to: (a) request country offices to promptly follow-up on all outstanding balances with donors and notify GSSC of any changes to the schedules of payments that are required under existing procedures; (b) assess and maintain evidences of follow-up made with donors for long outstanding receivables; and (c) assess aged receivables and record impairment for cases where donor's whose	On (a) and (b) GSSC procedures require an every month download of the information from Dashboard data base to remind COs regarding open Accounts Receivables and Past Due Milestone. On (c) An analysis of aged receivables was carried out as of 31.12. 2015 and UNDP determined that there was no need for any	The Board noted similar findings on contributions not received in the year 2015. Therefore, the Board re-iterate the recommendation in the 2015 report.					✓

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			ability to pay is doubtful as per UNDP's policy.	impairment.						
3.	2014	30	UNDP agreed with Board recommendations that (a) Papua New Guinea country office in collaboration with the UN country team should complete missing information on national indicators, source of data, baselines and assumptions; and (b) an annual review of UNDAF at Brazil be carried out in 2015 and the country office pursue timely signing of the CPAP by the Government.	(a) The UNDAF review was completed in August 2014 (copy of final report attached). However, the data for national indicators was still not available. Development of the new UNDAF is anticipated by Q4 2016. Lack of National Statistics will continue to be a challenge and this is beyond UNDPs influence as it is related to absence of national structures to enable collection of national statistics. (b) The programme cycle for Brazil was extended to end 2016. The decision to extend the current UNDAF cycle for Brazil, initially from 2012 to 2015 and now from 2012 to 2016, was closely coordinated with the national government and the undg lac (see attachment Brazil roadmap for UNDAF). TORs for the evaluation have been	(a) Agreed action plan says that "UNDP Papua New Guinea in collaboration with the UN country team will use the ongoing review of the UNDAF Action Plan results framework, to update and complete missing information on national indicators, source of data, baselines and assumptions." The latest implementation status confirmed that, the data for national indicators was still not available. Development of the new UNDAF is anticipated by Q4 2016". (b) it was agreed to carry out annual review of UNDAF in 2015 onwards, which has not been done to date. The Board has noted the ToR for UNDAF review. We will		√			

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				developed (also attached) (c) The CPAP has been signed.	update the recommendation after receiving the reviewed UNDAF.					
4.	2014	34	UNDP agreed with the Board's recommendation to ensure that Regional Bureaux monitor the assessment of NIM implementing partners in line with POPP and that all project monitoring activities are carried out and documented.	Regional Bureaux monitor the assessment of NIM implementing partners in line with POPP. IP assessments for a sample of 24 projects selected by auditors were submitted for verification in 2016.	Implemented per action plan. BoA verified sample of NIM assessments to implementing partners.	√				
5.	2014	38	UNDP agreed with the Board recommendation that Argentina and Brazil country offices (a) use an updated TORs for NIM auditors, and (b) conduct capacity assessments of government auditors as per headquarters guidelines.	We provided supporting documents on how the UNDP has addressed the UNBOA recommendation: On (a) Transmittal letters requesting the governments to use UNDPs TORs with English translations and (b) Supreme Audit Institution (SAI) assessments carried out for Argentina had been done in 2009 and for Brazil done in 2014.	Implemented as per the action plan.	√				
6.	2014	42	UNDP agreed with Board recommendations that Argentina, Brazil and Papua New Guinea country offices collaborate with programme government counterparts to set realistic and attainable	Argentina, Brazil and Papua New Guinea will establish realistic budgets for projects implemented with government counterparts and	The Board noted that UNDP still has a slow pace on project budget implementation therefore, the recommendations					√

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			projects activities and budgets in line with available resources; and monitor implementation progress at the country level to minimize implementation delays and the need to reduce budgets at the year end	monitor implementation on a regular basis.	has been re-iterated in the 2015 long form report since the same challenge has occurred in the year ended 31 December 2015.					
7.	2014	47	UNDP agreed with Board recommendation that Country Offices prepare a resource mobilization implementation plan in compliance with the guidelines established in the resource mobilization toolkit	BERA has worked with regional bureaus to send messages out to country offices on the need to develop resource mobilization plans with a submission deadline of 30 June 2016 to enable UNBOA select a sample for validation. Attached are messages sent out from BERA and sample emails sent by bureaus.	Management efforts are noted, UNDP planned to implement this recommendation by 30 September 2016. Once implemented the Board will assess the adequacy of the actions taken by country offices in preparing the plans.		√			
8.	2014	50	The Board reiterates its previous recommendation that UNDP submits the combined delivery reports in a timely manner, duly signed by UNDP and implementing partners in compliance with POPP.	UNDP has developed a CDR documents library to enable regional bureaus monitor the submission of CDRs in a timely manner and ensure appropriate follow up with implementing partners. The document library was launched in April 2016. It is important to highlight that whilst UNDP has control over the timely preparation and submission of CDR to	The Board noted during interim audit that there were still some challenges in timely signing of CDR in 2015, therefore recommendations has been reiterated in the 2015 long form report.	√				

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				the implementing partner it has limited control over the timelines for subsequent signing by an IP due various reasons like key persons within the ministries traveling or out of the office for one reason or another.						
9.	2014	55	UNDP agreed with the Board's recommendations that, Country Offices: (a) prepare progress reports for all projects in a timely manner, and (b) perform and document all requirements for projects monitoring including the update of risks logs in Atlas and to conduct project board meetings.	In line with the project quality assurance system currently being rolled out in three phases, Regional Bureaus will work with COs to ensure that (a), progress reports are prepared on a timely manner; and (b), Requirements for project monitoring are documented including assurance for risk management and that project risks are recorded and regularly updated.	The observation on project monitoring and reporting has recurred in 2015 audit therefore, we recommendation is reiterated.					√
10.	2014	59	UNDP agreed with the Board recommendations to (a) exert more effort to financially close all projects which are in operationally closed status for more than 12 months; (b) ensure that appropriate projects completion checklists are completed, final CDR for financial closure of projects are generated and timely certified by responsible parties and final review	There were two project closure compensatory procedures that were issued by the CFO in October 2015 and February 2016 to support offices that were unable to obtain documents from previous years to enable them close their projects. These have been attached for ease	Board issued new similar recommendation on project closure and therefore re-iterate the recommendations in the report for the year ended 31 December 2015.					√

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			reports are prepared consistently for operationally closed projects, (c) ensure projects' Board meetings are conducted in a timely manner and projects are evaluated as planned, reconciliations of expenditure are certified and lesson learnt reports are prepared in a timely manner; and (d) make efforts to refund amount due to donors in line with POPP and donor agreements.	of reference. UNDP developed a pilot project closure workbench that pulls data from Atlas to validate the balances in the checklist (automated checklist) as well as has all the reports associated with closure uploaded. The guidelines to accessing the project closure workbench which was used by COs to upload requested documentation is also attached. In a few of the instances where the closure checklist was unavailable we have referenced the automated project closure from Atlas project closure workbench. It is important to highlight that most lessons learnt are incorporated in the final project report or final evaluation document.						
11.	2014	63	UNDP agreed with the Board's recommendations that (a) all country offices develop and implement comprehensive HACT assurance plans for performing macro and micro assessments in a timely manner considering their programmatic cycles; and (b) wherever there is a shared	UNDP specific guidance on HACT has been made available in POPP and includes the need to develop joint assurance plans where there is a shared Implementing partner and a joint HACT working group.	The Board has issued a new recommendation on HACT during our interim audit in 2015, and therefore re-iterate the recommendation.					√

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			Implementing Partner, the joint HACT Working Groups should develop a comprehensive Joint HACT assurance plan which will cover all components highlighted in the POPP.	Regional bureaus will work with COs to ensure to ensure timely completion of macro and micro assessments in line with programmatic cycles and POPP.						
12.	2014	68	UNDP agreed with Board's recommendation to (a) introduce timelines and robust quality assurance process for POPP updates, approval and implementation; and (b) ensures that POPP, IPSAS policies and other applicable guidelines have updated contents in line with stipulated timelines.	Regards to part (a) BOA recommendation and agreed management action was to develop a quality assurance framework which UNDP has demonstrated is in place. Updates to POPP are an ongoing continuous process all year round as due dates for updates are staggered all year-around. There is therefore no end point at which UNDP can say POPP updates are all completed. The additional comments on ongoing POPP updates were to highlight to UNBOA additional efforts but in line with what was required of part (a) UNDP management has effectively demonstrated that a QA framework is in place. On (b) In order to keep in step with IPSASB updates	The Board noted the 2015 IPSAS reviews by UNDP and considers the recommendation being fully addressed.	√				

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				UNDP reviews the annual IPSAS changes, looking for the impact on accounting policy, presentation, POPP and systems. In addition UNDP annually completes the Ernst and Young disclosure checklist and, through its involvement with the UN System Task Force and Accounting standards, follows the IPSASB deliberations on amendments and changes to the IPSAS.						
13.	2014	74	UNDP agreed with the Board's recommendations to ensure that country offices comply with the segregation of duties for bank reconciliation, assets management and leave management in line with its Internal Control Framework.	<p>1. With regards to segregation of duties for bank reconciliation, treasury runs below queries by each Country Office to check the ICF compliance for Bank Reconciliation, Vendor Approval, and Bank Signatories.</p> <p>2. On segregation of physical verification coordinator and asset focal point functions both the mid-year certification instructions to RR and 2nd quarter closing instructions reminded offices to adhere to this requirement. 3. On leave management, in</p>	The recommendation on segregation of duties for bank reconciliation and assets management has been implemented based on verification performed during the country offices audit in 2015.	√				

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				Feb 2015 the organization moved away from using the manual leave attendance record cards. The new process ensures appropriate segregation of functions in line with the ICF.						
14.	2014	78	UNDP agreed with the Board recommendation to (a) adhere to the service contract user guide on the proper use of the service contracts by ensuring that service contracts staff are recruited for only those functions and duties as stipulated in service contract user guide; and (b) amend the terms of contracts for service contracts to clearly define the support functions and duties of the service contracts.	On (a) UNDP has sent out emails to COs to monitor compliance with the SC guideline requirements on the use of SCs. Sample emails and monitoring statistics have been attached for ease of reference. On (b) Messages were sent out by the director OHR on compliance with ICF requirements, FAQs on renewal and termination of SCs, and automation to amend SCs in ATLAS. These clarifications memos have also been provided. Concurrently the SC guidelines have been updated to provide better clarify (a copy of changes attached). The updating of generic TORs (which was to have been done comprehensively for	UNDP management need to provide the way forward on the process of developing of Terms of Reference for Service Contract and guidance on the standards for developing Service Contract Terms of Reference aligned with the overall program results as stated in its action plan. A clear time line needs to be spelled out on the development of Terms of Reference and alignment of the overall results.		√			

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				all Job Descriptions) was not possible due to funding constraints and the enhanced monitoring and visibility of having SCs in Atlas has been used as alternate control measures to ensure that COs use SCs in line with the guidelines.						
15.	2014	86	UNDP agreed with the Board recommendation to (a) develop a clear action plan to ensure that PMD is used in talent management and assessment of results, competency domains and staff capacity; and (b) ensure country offices introduce an oversight mechanism such that PMD plans and assessments are completed in a timely manner, reviewed and approved by respective managers.	On (a), performance assessment results have always been a factor in requirements, with internal candidates being required to submit copies of their last 3 PMD documents as part of the recruitment process. Same requirement was reconfirmed and applied during the HQs structural change process in 2014 and 2015. Results of the performance assessments are now being integrated into the profiles of staff in the Candidate Pools. Furthermore, many HR processes – recruitment, succession, and performance management and development – have been largely aligned around the corporate	The Board has issued similar PMD observation during the current audit. Therefore, the Board reiterate the recommendation.					√

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				core competency framework. (b)Regular monitoring and reporting on completion of performance assessments and plans resulted in over 73% compliance with 2015 performance assessments by the end of the year (2015). Work is currently on-going to ensure that there is an improvement not only in compliance as such, but also in timeliness, so that the corporate target for 2016 assessments is reached by the deadline.						
16.	2014	90	UNDP agreed with the Board's recommendation that: (a) OIST adopts a framework for carrying out, documenting and integrating management of all IT-related risks (security, service delivery, project delivery etc.) into the overall UNDP Enterprise Resource Management; and (b) all units within OIST comply with the established unit level strategic planning process.	OIST has implemented the recommendations of the UNBOA. It has ensured that the enterprise risk log is updated by all sections of OIST and not just the information security section. In addition, OIST holds quarterly meetings to update the risk log with the current status of the risks or to consider new risks. These actions are fully compliant with the proposed UNDP enterprise risk policy	The Board assessed UNDP's actions by OIST updating the risk log and consider the recommendation has been implemented.	√				

No	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
17.	2014	95	UNDP agreed with the Board's recommendation to include in its contractual arrangements with UNICC the need and frequency of the report required under the International Standards on Auditing on Assurance Engagements (i.e. ISAE Type II reports) which will give reasonable assurance to both UNDP and the Board on the operating effectiveness of the UNICC controls within the annual financial reporting period.	UNDP requested and it was approved at the UNICC Management Committee meeting of Oct 2015 that UNICC perform annual ISAE 3402 Type 2 audits. Evidence is the final minutes from the 22 October UNICC Management Committee on audit matters.	The Board reviewed minutes (which serve as a binding commitment as confirmed by UNDP) of UNICC Management Committee meeting of 22 Oct 2015 that UNICC perform annual ISAE 3402 Type 2 audits.	√				
18.	2014	102	UNDP agreed with the Board's recommendation to (a) reconcile regularly performance indicators, baseline and targets contained in the annual work plans; and (b) supervise and monitor data quality, timing and completeness of information keyed in by country offices into the platform/tool of baseline, milestones and targets.	As to the audit action plan (a), UNDP adjusted and streamlined the original IRRF in response to the EB decision 2014/11. Based on the streamlined IRRF, the corporate-wide baseline, milestones and targets (BMT) review exercise was completed in December 2014. UNDP conducted the Development Evidence Lessons Learned Exercise in Q3 and Q4 2015 with a view to further strengthening the	The Board reviewed UNDP management actions and consider the recommendation has been implemented.	√				

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
				quality the IRRF data across the organization. (b) The exercise intensively reviewed the quality of development evidence and issued a review report for all 135 COs with specific and customized recommendations on how to improve the quality of data followed by a series of training for RBx, Regional Hubs and COs. As a result, all COs (100%) took actions and enhanced the quality of IRRF data in the Corporate Planning System.						
19.	2014	105	The Board recommends that UNDP: (a) investigate the errors in the process of reinstatement of POs balances ; (b) institute quality assurance mechanisms for Atlas External Access when reinstating the POs (c) Ensure a mandatory reference field is completed for reinstated purchase orders carried over from prior periods; and (d) ensure compliance with POPP requirements on raising separate POs for goods and services expected to be received in the respective financial periods	On (a) and (b) Quality assurance mechanisms have been instituted by Brazil CO to mitigate against the risk of errors during the process of reinstating POs with balances with respect to external access partners. Brazil CO has adopted a "PO log" for the roll-over of POs. This log captures details of PO fields to ensure no errors when reinstated. Efforts are underway to address parts (c) and (d).	In progress. Management efforts are noted. The Board awaits results of the investigation done to validate implementation of parts (a) and (b). Parts (c) and (d) of the recommendation are yet to be implemented, with due date of December 2016.		√			

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
20.	2014	108	UNDP agreed with the Board's recommendation to: (a) liaise with UN entities and conclude term of references to the Office of the Ombudsman services and reach final agreement; and (b) work with UN entities and arrive at the agreed milestones for clearing long outstanding unresolved balances.	UNDP has reconciled all balances with other UN entities for financial year-end 2015. There is one item with the UN and UNDP has raised the rejected medical case with a target to bring the matter to conclusion by August 31 2016 in line with the recommendation to set milestones and targets for resolution of outstanding matters. Given the consultations between management of the UN Secretariat and the Funds and Programmes UNDP was able to release the accrual set aside for the United Nations Ombudsman.	Accrued UNDP's share in the Office of Ombudsman Services from previous periods \$ 2,518,560 already resolved. We still have long outstanding unresolved balances for UN current account on Medical (\$ 166,053.41) and Payroll (\$ 139,778.38) from the extract of UN reconciliation statement as at 31 December 2015.		√			
21.	2014	113	UNDP agreed with the Board's recommendations that (a) Papua New Guinea and Myanmar country offices dispose of all assets which have been retired from use in a timely manner; and (b) de-recognize in the books/ISR all the assets which have already been physically disposed of and those which have been transferred to the	For MMR: Items identified as disposed have now been removed from the ISR. • Items with no Tag or incorrect ID's have been tagged and corrected. • For PNG: Inconsistent Serial ID's have been corrected • Unavailable TAG	The Board reviewed management action in implementing the recommendation and closed it.	√				

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						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			Government.	Numbers have been added • Fully depreciated assets not seen by auditors and marked as missing are in the office as they were not checked properly during the audit.						
22.	2014	118	UNDP agreed with the Board's recommendations to revisit the regular resources operational and other resources reserve calculation methodology and identify possible alternatives taking into account (a) current UNDP operations; (b) current strategic plan and risk management framework; (c) the impact of the IPSAS framework on the calculation of the reserve and (d) the ongoing structural change.	<p>UNDP has engaged a consultant (KPMG) to revisit its current operational reserve methodology and calculations to ensure that it takes into account recent changes to operational, strategic, risk management, accounting and structural frameworks.</p> <p>The consultant report has been separately emailed to UNBOA due to the confidentiality.</p> <p>UNDP considers this recommendation implemented as the requirement was for UNDP to revisit its methodology which has been done.</p>	Evidence supporting management explanations have been verified, and the recommendation is closed. The consultant recommended that no changes in the current methodology and calculations of operational reserve.	√				
23.	2014	124	UNDP agreed with the Board's recommendations to: (a) prepare a formal	(a) Benefit realisation plan was endorsed by	The Board reviewed management	√				

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			structural change benefit realization plan including lessons learnt so far, and (b) ensure monitoring mechanisms are used so that long term benefits are sustained in line with the formal benefit realization plan.	the EG at its meeting last week has been emailed. b) Please refer to document section "Annex: Structural Changes Implemented and Impact Delivered". This chart provides a summary for each recommendation of the structural changes by listing each 1) recommendation, 2) changes implemented related to recommendation, and 3) impact delivered related to recommendation.	actions to implement the recommendation and is satisfied to close it.					
24.	2014	129	UNDP agreed with the Board's recommendations to: (a) monitor and address staff complaints, claims or concerns over structural change from all channels including those from the staff council and facilitate their timely clearance to avoid reputational damage to UNDP; (b) strengthen opportunities for open, constructive dialogues and communications with staff and staff council in the ongoing structural changes; and (c) Establish plans for	(a) Throughout 2014, UNDP continued to monitor and address staff issues related to the structural change implementation. One important forum for discussions with the Staff Council was the establishment of the Staff Council Liaison Committee, which included key members of the Staff Council and UNDP Management. Given the complex and cross-	(a) In progress. In interim audit in Sept/Oct 2015 there were 17 cases of Request for Management Evaluations related to the structural change in respect of 14 individual staff members, while as of 31/12/2015 and 01/04/2016 cases of RMEs increased to 20		√			

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			team buildings and staff motivation for confidence rebuilding; and embed a culture that motivates and sustains the structural change.	<p>Bureau nature of the structural changes, this Committee included the Director BMS and/or Director OHR, UNDP Chief of Staff, and the Special Adviser to the Administrator</p> <p>(b) As noted in (a), regular meetings of the Staff Council Liaison Committee were held from December 2013 to the completion of the structural change people realignment processes in September 2015.</p> <p>(c) The culture change envisaged as part of the structural changes has been continuously discussed, in parallel with UNDP's annual Global Staff Survey (GSS) exercise, the results from which were available in early 2015. In December 2014, the Organizational Performance Group (OPG) specifically discussed culture change and the role of senior managers, with another discussion in February 2015, with Bureau Deputy Directors. Specific</p>	<p>RMEs relating to 14 individual staff members. The trend of cases of RMEs relating structural change has been increasing as explained above, while in 2014 the Board among other issues recommended timely clearance of all staff complains emanating from restructuring. The Board considers that more efforts need to be exerted in this area.</p> <p>(b) In progress. The Board is of the view that it is difficult to rely on informal meetings or meetings without minutes. The Board suggests that since structural change is a very crucial activity, all meetings between Management and Staff Council requires to be formalized and minutes taken.</p>					

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				components of the discussion included the three themes of empowerment, collaboration, and innovation. In parallel, the Global Staff Survey results were analysed and results have been provided to each Bureau's leadership- inclusive of Country Offices within each region.	(c) In progress. The Board reviewed Bureau Action Plans in relation to 2014 GSS. However, we noted that the 2014 GSS was carried out in Nov/Dec 2014 while UNDP structural change was completed in 2015. The Board is of the view that GSS should have been conducted after completion of the structural change. At that point the Board would have been able to assess implementation of audit recommendation, i.e. "Establish plans for team buildings and staff motivation for confidence rebuilding; and embed a culture that motivates and sustains the structural change".					

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
25.	2013	53	UNDP agreed with the Board recommendation that it ensure that the project completion checklist is used consistently for the financial closure of development projects, including the preparation of final review reports.	As per sample of financially closed projects selected by UNBOA for validation to see if this recommendation is implemented, find attached a table referencing the supporting documents both checklist and final audit reports for this sample.	Based on the sample of 21 projects from 21 COs, the Board's verification revealed that the recommendation has been satisfactorily implemented.	√				
26.	2013	84	UNDP agreed with the recommendation of the Board to review the causes of recurring modified audit opinions and take remedial action, as required, through engaging the regional bureaux and respective implementing partners.	Various actions have been taken by RBX to address the risks associated with NIM projects with recurring modified audit opinions 3 or more times. In Tunisia one project has changed cash transfer modality and the other has changed to DIM modality. In Argentina the project has changed cash transfer modality. In Bangladesh the micro assessment rates the risks as moderate. For one of the years the audit ratings was an error and the auditor changed the opinion to unqualified therefore CO does not have 3 years recurring modified opinions.	The Board considers the recommendation has been implemented' based on actions taken. The information has been attached in CARDS and clarifications provided by the CO and RBAP.	√				
27.	2013	91	UNDP agreed with the recommendation of the Board that it: (a) assess risks	UNDP has ascertained that there was no loss to us or the donor and	Part (a) Implemented as		√			

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			surrounding executing the national implementation modality to find out why assurance procedures other than an audit could not detect the suspected irregular procurement procedures and improve controls; and (b) continue engaging with the partner Government to ascertain more facts about the matter in order to establish the actual loss the projects suffered and possibilities of recovery from the individuals involved.	have a letter from the government (which has previously been shared with UNBOA directorate) confirming that should this be determined then they will absorb the loss. The case is part of a judicial process of a sovereign nation which process UNDP has no control on. In line with agreed practice, UNDP will continue to enquire regularly through the official channels about the status of the judicial process and will report to update UNBOA as soon as any new developments are known. From UNDPs part all aspects of the recommendation have been implemented.	per the measures taken by CO with the support of OAI and RBLAC. (b) In progress – The Board acknowledges the sovereignty of a nation for which UNDP has no control. However, since the judicial process in on-going the Board keeps the recommendation as In-progress until ruling of the case. This is useful for management to continue updating the Board on the development of the judicial process.					
28.	2013	94	UNDP agreed with the recommendation of the Board that, unless there is a bilateral agreement with the donor(s) concerned, it make every effort to refund amounts due to donors and clear all balances exceeding 90 days in the 2013 account (refunds pending to donors) as required by the Programme and Operations Policies and Procedures and year-end closure instructions.	Noting that the recommendation of timely processing refunds to donors has been repeated in the 2014 audit report (A/70/5/Add. 1) para 59(d).UNDP acknowledges UNBOA comments regarding the POPP updates on processing of donor refunds, however wishes to state that POPP	Considered implemented based on the actions taken by management to refund amounts due to donors, and the continuous communications and follow-up made with donors.	√				

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				content is an internal management tool to enhance controls and UNDP management has considered the reality of donor refunds.						
29.	2013	101	UNDP agreed with the recommendation of the Board that it (a) enforce its guidance notes to country offices on the implementation of the revised harmonized approach to cash transfers framework; and (b) follow up with regional bureaux and work with country offices to ensure that pending macro- and micro assessments for the respective programming cycle are conducted as planned.	UNDP has sent out guidance note to UNDP offices on HACT compliance. The rollout message was sent out in February 2015 with revised and updated policies in line with the 2014 revised HACT framework published in January 2015. As a way of monitoring, UNDP launched a HACT monitoring dashboard for all offices. Follow up messages have been attached to indicate that this is an ongoing matter and guidance to offices has been provided. UNDP has implemented the recommendation through communication and guidance to COs and establishing a monitoring mechanism.	The Board has reviewed management actions towards roll out of revised HACT framework and considers the recommendation has been implemented.	√				
30.	2013	129	UNDP agreed with the recommendation of the Board that it review the current Atlas payroll profiles	Update no 2: To address the Audit recommendation, the following changes had	The Board has assessed the changes implemented by	√				

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						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
			to restrict the granting of conflicting roles in line with the internal control framework on payroll administration.	been implemented: 1. For BES and JPOSC staff, who administer the human resources and serve as the First Authority on payroll: a. GP Administrator role has been completely removed from their ARGUS profiles; b. UN_HR_BES_Service Center role, which is granted through the special instructions and provides access to HR pages for IP and NYGS staff, has been amended to remove Payroll related functions: UN_Global Payroll Admin and UN_HR_GBL_PAY_ADMIN. Please note that these HR pages are not accessible through the standard ARGUS HR Administrator role because management of IP staff and NYGS staff is centralized and not open to COs and HQ Units. 2. For IPMU staff who administer the payroll and serve as the Second Authority, a. HR Administrator role has been completely removed from their ARGUS profiles.	management and considers the recommendation has been implemented.					

N o	Audit Report Year	Para Ref	UNBoA Recommendations	UNDP Response	Board's Assessment	Status after Verification				
						Implemented	Under Implementation	Not Implemented	Overtaken by events	Reiterated
31.	2013	138	UNDP agreed with the recommendation of the Board that it implement an automated e-mail notification to staff members and their supervisors for approvals of advance leave beyond the approved limit of 10 days.	The additional warning when staff apply for advance annual leave is now in Atlas eServices and has been implemented. A warning in My Leave/e-Services will be shown to the staff member and his/her supervisor when the leave is requested, if the annual leave balance has / will result in a negative balance if the request is approved.	The Board has assessed the additional warning functionality in Atlas eservice and considers the recommendation has been implemented.	√				
Total						17	7	0		7
Percentage						54	23			23

Annex II: Cases of fraud and presumptive fraud: Disclosure by management

(a) Cases Received and Resolved in 2015

<i>No</i>	<i>Region</i>	<i>Date reported or detected</i>	<i>Nature</i>	<i>Description of the issue</i>	<i>Remedial action against the persons involved</i>	<i>Loss \$</i>	<i>Amount recovered \$</i>	<i>Management action to deter recurrence</i>
1	Africa	21-Jan-15	Theft and embezzlement	Staff member allegedly forged a document in order to procure stationery.	Closed; there was insufficient credible information to justify investigative follow up.	\$200	0	Implementation to be determined
2	Arab States	30-Jan-15	Entitlement fraud	Service contractor fraudulently claimed \$5,510 in medical expenses through falsified invoices. The insurer withheld payment of the claim.	Country Office terminated the SC after receiving an investigation report.	0	N/A	Implementation to be determined
3	Asia and the Pacific	17-Feb-15	Theft and embezzlement	External party stole a UNDP vehicle.	Closed after assessment as an investigation was not likely to be successful.	Amount unknown (value of the car)	0	Implementation to be determined
4	HQ	6-Feb-15	Failure to comply with other obligations	A staff member allegedly helped an Individual contractor from another agency answer written test questions during a recruitment exercise.	Investigation report issued.	No financial loss	N/A	Implementation to be determined
5	Africa	19-Feb-15	Entitlement fraud	A staff member allegedly submitted fraudulent medical insurance claims in the amount of \$12,183 for himself and his dependents. The insurer withheld payment of the claim.	Closed after assessment due to Ebola virus outbreak. Investigators could not carry out investigative activity relating to medical facilities and practitioners due to situation in-country.	0	N/A	Implementation to be determined
6	Europe and Commonwealth of independent states	30-Jan-15	Entitlement fraud	Service contractor fraudulently claimed \$4,413 in medical expenses with false invoices. The insurer withheld \$2,367 from the claim.	SC not renewed; Investigation report sent to CO.	\$2,046	0	Implementation to be determined

7	Africa	16-Mar-15	Procurement fraud	Vendor allegedly submitted fake certification in its bid for a procurement process.	Investigation report sent to VRC.	0	N/A	Implementation to be determined
8	Arab States	24-Mar-15	Entitlement Fraud	The son of a retired staff member allegedly submitted false documentation in order to continue receiving pension payments 4 years after the death of the beneficiary.	Closed after assessment; Subject is not a UNDP staff member.	\$10,113	0	The CO stopped certifying the Certificates of Entitlements (CE) in absentia and requires the beneficiaries to come in person to prove their identity, or sends someone at their place of residence. CO also reviewed the pensioners' data and documents for similar cases.
9	Latin America and Caribbean	3-Apr-15	Entitlement fraud	Four service contractors allegedly claimed false medical expenses for a total amount of \$22,613, \$11,685 which was paid.	Closed after assessment; the SCs were terminated in 2013.	\$11,685	0	Implementation to be determined.
10	Africa	14-Apr-15	Theft and embezzlement	Employees of an implementing partner allegedly embezzled money from the Common Humanitarian Fund (CHF).	Closed after assessment; the funds were reimbursed and the employees dismissed.	\$40,622	\$40,622	CHF Advisory Board asked the implementing partner for reimbursement.
11	Africa	23-Jun-15	Theft and embezzlement	An NGO allegedly did not finish the work it was contracted to do and refused to return funds advanced to it.	Closed after assessment; there was insufficient evidence to confirm fraud.	\$47,949	0	Matter has been referred to the Legal Office.
12	Arab States	13-Jul-15	Entitlement fraud	Service contractor allegedly submitted \$18,184 in fake medical invoices, some of which were not paid by the insurer. The subject reimbursed the remainder of what had been fraudulently claimed.	Service contract had expired before investigation completed; an investigation report was sent to CO and a note to file was placed in the SC's file.	\$14,670	\$14,670	Implementation to be determined.

13	Africa	1-Sep-15	Entitlement Fraud	Service contractor allegedly submitted \$3,961 in false medical claims.	Closed; the subject's contract ended.	\$3,961	0	Implementation to be determined
14	Asia and the Pacific	1-Sep-15	Misrepresentation, forgery and false certification	Service contractor misrepresented his contractual situation in order to obtain simultaneous contracts.	Investigation report sent to CO; SC expired and was not renewed.	No financial loss	N/A	Implementation to be determined
15	Latin America and the Caribbean	2-Oct-15	Entitlement fraud	Service contractor submitted four forged medical invoices. Some payments were withheld.	Country Office did not renew SC after receiving an investigation report and recovered the loss from the SC's final entitlements.	\$600	\$600	Implementation to be determined
16	Asia and the Pacific	21-Dec-15	Entitlement fraud	Staff member allegedly presented false medical claims for his dependent.	Closed; the subject had retired.	\$2,278	0	Implementation to be determined
Subtotal (a)						134,124	55,892	

(b) Cases received in 2015 and still pending

<i>No</i>	<i>Region</i>	<i>Date reported or detected</i>	<i>Nature</i>	<i>Amount involved</i>	<i>Description of the issue</i>
1	Asia and the Pacific	18-Jan-15	Procurement fraud	Amount unknown	Allegations of corruption, procurement irregularities (favouring certain vendors, asking for kickbacks etc.) and improper recruitment against a Service Contractor.
2	Asia and the Pacific	29-Jan-15	Procurement fraud	Loss amount unknown	Bid specifications were allegedly modified to favour a vendor. The contract value is \$16.5 million
3	Asia and the Pacific	26-Jan-15	Procurement fraud	Estimated: \$100,000	Allegations concerning a sub-recipient of Global Funds.
4	Latin America and the Caribbean	20-Feb-15	Entitlement fraud	\$56,000	Allegations of medical entitlement fraud against a national staff member and dependents.
5	Asia and the Pacific	3-Mar-15	Procurement fraud	No apparent loss	Service contractor allegedly falsified documents to conceal the project's noncompliance with regulations and rules.

6	Asia and the Pacific	25-Feb-15	Procurement fraud	Amount unknown	Allegations of corruption against CO procurement staff and two project managers.
7	Africa	1-Nov-14	Procurement fraud	Amount unknown	Three staff members allegedly asked an Implementing Partner for cigarettes and beer in exchange for funds.
8	Africa	23-Mar-15	Procurement fraud	Amount unknown	One former head of procurement, three current staff members, and 8 local vendors/suppliers in IT allegedly colluded in awarding contracts to the vendors.
9	Africa	Mar-15	Procurement fraud	Amount unknown	Staff members allegedly asked for complimentary hotel nights, as a form of commission, for facilitating UNDP conferences at those venues. They also allegedly claimed 100% DSA for those nights and allegedly abetted, concealed and/or conspired to instruct vendors to amend their bids at various stages during the procurement process, including before and after the final contract had been awarded.
10	Africa	Mar-15	Procurement fraud	Amount unknown	UNV allegedly colluded with a company that asked for commissions from vendors that are awarded UNDP contracts.
11	Africa	Mar-15	Procurement Fraud	Amount unknown	A vendor allegedly colluded with UNDP personnel during procurement processes to win bids.
12	Africa	17-Apr-15	Procurement fraud	\$4,290	Implementing partner allegedly embezzled funds and entered into a fake contract with an internet provider (services not provided as claimed).
13	Africa	25-Apr-15	Misuse of UNDP resources	Estimated \$135,000	Allegations of misuse of Global Fund grant resources (non-compliant expenditures and stolen IT equipment) by a Sub-Recipient.
14	Africa	18-May-15; 23-July-15; 1-Sept-15	Entitlement fraud	Estimated \$10,284	Three staff member allegedly submitted false medical claims.
15	Africa	19-Jun-15	Entitlement fraud	\$6,666	Staff member allegedly submitted false medical claims.
16	Latin America and the	19-Jun-15	Abuse of authority and misuse of UNDP resources	Amount unknown	A local staff member allegedly used UNDP vehicles for his personal use without paying.

	Caribbean				
17	Europe and the community of independent states	Proactive mission in 2015	Procurement fraud	Amount unknown	Vendors allegedly misrepresented their ownership and physical location.
18	Africa	23-Jul-15	Entitlement Fraud	Amount being assessed	Staff member submitted false medical insurance claims.
19	Africa	28-Jul-15	Procurement fraud	Loss amount unknown	Vendor allegedly colluded with UNDP personnel to circumvent competitive procurement processes. The contract value is at least \$815,422.
20	Africa	28-Jul-15	Procurement fraud	Amount unknown	Vendor alleged to have colluded with a staff member to supply toner cartridges that were not needed.
21	Africa	31-Jul-15	Procurement fraud	Amount unknown	Two procurement staff members are allegedly responsible for conducting improper procurement processes.
22	Asia and the Pacific	16-Aug-15	Theft and embezzlement	Estimated to be at least \$123,000	Implementing partner (NGO) allegedly engaged in corrupt practices with project funds.
23	Asia Pacific	24-Aug-15	Procurement fraud	Amount unknown	Service contractor allegedly asked for bribes in exchange for allocating project funds.
24	Asia Pacific	29-Aug-15	Theft and embezzlement	Amount unknown	Executive director of implementing partner (NGO) allegedly embezzled funds.
25	Africa	9-Aug-15	Procurement fraud	Amount unknown	Country Office personnel allegedly purchased equipment that did not conform to the contract. Some of the equipment is also allegedly missing.
26	Asia and the Pacific	24-Aug-15	Procurement fraud	Unknown	UNDP manager allegedly falsified fuel reimbursement claims and demanded payments from staff before granting them benefits of employment to which they are entitled.
27	Arab States	26-Aug-15	Theft and embezzlement	\$1.2 million	Government official allegedly embezzled funds from a UNDP-funded project.

28	Latin America and Caribbean	27-Aug-15	Entitlement fraud	\$512 monthly	Staff member allegedly claimed a rent subsidy that was higher than that to which he was entitled.
29	Latin America and Caribbean	27-Aug-15	Entitlement fraud	Amount being assessed	Local staff member allegedly claimed a dependency allowance for a child that was not his dependent.
30	Europe and the Commonwealth of Independent States	15-Sep-15	Procurement fraud	\$17,000	NGO Implementing Partner, whose director has left the country, allegedly stole GEF/SGP funds.
31	Africa	30-Sep-15	Procurement fraud	Amount unknown	Vendors that are allegedly linked together bid against each other in the same procurement process and allegedly submitted false documentation.
32	Latin America and the Caribbean	30-Sep-15	Theft and embezzlement	\$1.1 million	Staff member allegedly manipulated data in Atlas in order to transfer UNDP funds to himself and others.
33	Latin America and the Caribbean	9-Oct-15	Procurement Fraud	Amount unknown	A consultant allegedly colluded with a company to favour it in a bidding process.
34	Africa	22-Oct-15	Procurement fraud	Amount unknown	Vendor allegedly received contracts through the assistance of a staff member who was his friend and business partner.
35	Other headquarters business unit	6-Oct-15	Other failure to comply with obligations	Amount unknown	Allegations of bribery against UNDP personnel.
36	Africa	13-Nov-15	Procurement fraud	Amount unknown	Staff members allegedly favoured personnel and vendors with whom they had a personal relationship.
37	Africa	18-Nov-15	Procurement fraud	Amount Unknown	A contract was allegedly awarded to a vendor without a competitive process.

38	Arab States	18-Nov-15	Procurement fraud	Amount unknown	A governmental implementing partner allegedly used corrupt practices to favour a preferred bidder.
39	Europe and the Commonwealth of Independent States	2-Dec-15	Entitlement fraud	\$850	Staff member allegedly presented false medical claims.
40	Africa	21-Dec-15	Entitlement fraud	\$7,462	Five staff members allegedly presented false medical claims.
Subtotal (b)				2,761,064.00	
Total (a + b)				2,895,188.00	