

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



**AUDIT**

**OF**

**UNITED NATIONS CAPITAL DEVELOPMENT FUND**

**Report No. 2608**  
**Issue Date: 2 October 2023**

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## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About UNCDF</b>	<b>1</b>
<b>II. Audit results</b>	<b>2</b>
<b>A. Governance</b>	<b>3</b>
<b>B. Capital deployment management</b>	<b>7</b>
1. Grants management	8
2. Loans and guarantees	11
<b>C. Development activities</b>	<b>13</b>
1. Project administration	13
2. Project results	15
<b>D. Operations</b>	<b>17</b>
1. Procurement	17
2. Human resources	19
3. Administrative services - Travel	21
4. Information and communication technology	22
<b>Definitions of audit terms - ratings and priorities</b>	<b>24</b>

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

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the United Nations Capital Development Fund (UNCDF) from 1 March to 30 April 2023. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) Governance - Governance framework, financial sustainability
  - 1. Organization objectives/priorities
  - 2. UNCDF business model viability
  - 3. Resources needed to achieve the organization's objectives/priorities, as determined by the organization
  - 4. Effectiveness of the Internal Control Framework
  - 5. Organizational structure and reporting lines
  - 6. Financial sustainability
  - 7. Working environment and working relations
- (b) Capital deployment management - Grants, loans and guarantees
  - 1. Grant management:
    - i. Grant making process, including the sourcing, solicitation, offer evaluations, grantee selection
    - ii. Grant disbursement, including the compliance with disbursement conditions
  - 2. Concessional loans and guarantees management
- (c) Development activities
  - 1. The alignment of the project portfolio with the 2022–2025 Strategic Framework and the reporting modalities on the results
  - 2. Usage of the different capital and development triggers
  - 3. Project design, management, monitoring, and closure
  - 4. Project risk management
- (d) Operations – Procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of UNCDF from 1 January 2021 to 31 December 2022. UNCDF recorded programme and management expenses of approximately \$226 million. The last audit of UNCDF was conducted by OAI in 2020 and concluded that systems of governance, risk management and control were 'satisfactory/some improvement needed'.

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

### Overall audit rating

OAI's opinion is that the systems of governance, risk management and control within UNCDF are **partially satisfactory/major improvement needed** in some areas. In OAI's view, issues identified by the audit could significantly affect the achievement of the objectives of UNCDF.<sup>1</sup>

In OAI's view, the control environment within UNCDF was less effective than when the prior audit was carried out in 2020. In the intervening period, UNCDF has grown its programme portfolio. This has likely

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<sup>1</sup> See 'Definition of audit terms' on page 24

stretched management controls and contributed to pressure points throughout the organization. The audit team found examples of reduced or absent oversight and supervision across a number of first and second line teams, including grant management, procurement and human resources. Some of these reductions in control were taken consciously with revisions to UNCDF’s Operating Manual, most recently in November 2020. While OAI recognizes that UNCDF is a distinct organization with a unique mandate and offer, there is a risk that changes to the operating model which is not aligned with UNDP’s Programme and Operations Policies and Procedures (POPP) may compound over time and cause UNCDF’s and UNDP’s risk appetites to become misaligned. OAI recommends that UNCDF apply the UNDP POPP standards, unless there is strategic advantage to flex rules within a risk tolerance agreed with UNDP.

Alongside these issues, OAI found that UNCDF lacked an effective strategic workforce plan to consistently align resources to risk and deliverables, and to ensure it had the right people in the right places to deliver UNCDF’s objectives. Key human resources issues to address include the following: ensuring resources are optimally geographically located to preserve UNCDF’s “last mile” commitments; filling vacancies; and delivering on gender commitments. OAI recommends that UNCDF managers complete a strategic workforce review to analyse UNCDF’s resourcing and skills requirements needed to deliver its Strategic Framework 2022–2025.

### Next steps

The scope of audit was broad. As such, it provides a wide-ranging commentary on the nature of risk facing UNCDF, both strategic and operational. Given the audit opinion and some serious issues identified through this audit, OAI will carry out targeted follow-up audits in 2024 and 2025, most likely focused on grant and loan management, and procurement controls.

### Key recommendations Total = 10, high priority = 4

The 10 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	2	High
	1, 4	Medium
Effectiveness and efficiency of operations	6, 7	High
	5, 8, 10	Medium
Safeguarding of assets	3	High
Compliance with legislative mandates, regulations and rules, policies and procedures	9	Medium

NOTE: Some recommendations may have multiple objectives.

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

Ineffective strategic resourcing and organizational structure (Issue 2)

A number of issues were observed with respect to resourcing and the organizational structure of UNCDF, as follows: (a) no documented rationale for UNCDF staff and personnel geolocation; (b) shortfall in core funding; (c) high number of vacancies; (c) lack of gender balance at the management level; and (d) potential duplication and fragmentation of work.

Recommendation: UNCDF, in coordination with UNDP, should conduct an organizational review, including an assessment of its cost structure, to enhance UNCDF's organizational performance, optimize its business model, and assess its organizational design and business processes.

Deficiencies in the grant management system platform (Issue 3)

The audit review highlighted the following issues: (a) some shortcomings in the electronic grant management system platform; (b) weak oversight over grantees, including lack of detailed work plans and budgets; and (c) inadequate management oversight of coral reef grant.

Recommendation: UNCDF should improve the grant management process by: (a) enhancing controls of the E-investment platform including tightening the access controls; (b) including clauses on audits and investigations, and on representations and warranties to performance-based agreements, and annexing detailed work plans and budgets of the grantees' activities to the agreements; and (c) matching sufficient management oversight capacity and accountability to the risk level of its grants – the question of how to match resources to risk should be considered through the organizational review (recommendation 2).

Inadequate monitoring, reporting and oversight of project results (Issue 6)

The following exceptions were noted: (a) inadequate monitoring of indicators; (b) ineffective use of the transparency portal; and (c) inadequate design of exit strategies and sustainability schemes. These were observed to be mainly due to a gap in oversight capacities.

Recommendation: UNCDF should reinforce its monitoring and planning capacity by: (a) setting corporate performance targets; (b) ensuring that an adequate monitoring and evaluation system is in place; (c) augmenting corporate planning and results monitoring capacities; (d) assessing the design of the transparency portal; and (e) ensuring that long-term sustainability schemes are incorporated in all programmes and projects.

Weaknesses in procurement processes (Issue 7)

There were weaknesses in the monitoring and oversight over procurement activities for programmes and projects. The grants modality was being used in lieu of competitive and transparent procurement processes in some instances. There were several control lapses relating to procurement processes, including delays in the creation of purchase orders.

Recommendation: UNCDF should strengthen oversight over procurement activities by: (a) assessing the roles and responsibilities relating to procurement activities, both at Headquarters and Regional or Country Office levels and ensuring the degree of Headquarters and regional monitoring and oversight reflects procurement risk levels; and in so doing (b) ensuring that the appropriate modality is used when procuring professional services, and that purchase orders are raised in a timely manner.

**Implementation status of previous OAI audit recommendations:** Report No. 2198, 14 May 2020.

Total recommendations: 6

Implemented: 5


Withdrawn: 1



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**Management comments and action plan**

The UNCDF Officer-in-Charge accepted all 10 recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate. Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

  
Chris Taylor  
Director  
Office of Audit and Investigations



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## I. About UNCDF

The United Nations Capital Development Fund (UNCDF) was established in 1966 by the General Assembly with a unique mandate “to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans.” The mandate was modified in 1973 to focus on “first and foremost the least developed among the developing countries.”

UNCDF is headed by an Executive Secretary, who is accountable to the UNCDF Managing Director, who is also the UNDP Administrator. It has its Headquarters in New York, with three Regional Offices in Dakar, Senegal; Addis Ababa, Ethiopia; and Bangkok, Thailand as well as a Liaison Office in Brussels, Belgium. It operates in 41 programme countries.

UNCDF is accountable for two very important practices, namely: the Local Transformative Finance practice and the Inclusive Digital Economies practice. The Local Transformative Finance practice provides financing and policy expertise to local and regional governments, cities acting as agents of local transformation, domestic capital market participants, as well as regulatory and budgetary authorities. On the other hand, the Inclusive Digital Economies practice focuses on enabling individuals to harness the power of innovative digital services in their daily lives.

In addition to conventional development tools like grant-making and technical assistance, UNCDF's Local Development Countries Investment Platform (LDCIP) team actively promotes the utilization of loans and guarantees in projects managed by the Local Transformative Finance and Inclusive Digital Economies practices.

At the time of the audit, the total number of personnel in UNCDF was 460, with 95 personnel at Headquarters, 117 in the Regional and Liaison Offices, and 248 at the country level.

According to its 2022–2025 Strategic Framework, UNCDF focuses on supporting countries to achieve three development outcomes or strategic goals: (a) catalyse additional flows of capital; (b) strengthen market systems and financing mechanisms; and (c) accelerate inclusive, diversified and green economic transformation.

To achieve these strategic goals, UNCDF covers five priority areas, classified into the following: Flagship areas, which include (a) inclusive digital economics, and (b) Local Transformative Finance; and Emerging areas, which include (c) women's economic empowerment, (d) climate, energy and biodiversity finance, and (e) sustainable food systems finance.

During the period from 1 January 2021 to 31 December 2022, UNCDF spent \$226 million on development activities, an increase by 71 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan-Dec 2021 \$'000	Expenditure Jan-Dec 2022 \$'000
Local Climate Adaptive Living (LoCAL)	13,948	19,278
Inclusive Digital Economies-Leaving No One Behind	5,875	9,468
Development Initiative for Northern Uganda (DINU)	7,111	7,369
Better than Cash Alliance (BTCA)	6,920	6,131
Remittances for Development	5,548	7,257
<b>Total</b>	<b>39,402</b>	<b>49,503</b>

The largest sources of funding of UNCDF's development activities for the period covered by the audit were:

Donor	Funding for the period \$million
The Multi-Partner Trust Fund Office (MPTFO)	60
European Union	37.9
Government of Sweden	25
<b>Total</b>	<b>122.9</b>

## II. Audit results

The key findings in this report are subdivided into the four thematic areas covered by this audit, as set out in detail on page 1. Those four areas are:

- Governance
- Capital management
- Development activities
- Operational

OAI made four recommendations ranked high (critical) and six recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

**High priority recommendations**, arranged according to significance:

- (a) Conduct an organizational review, including an assessment of its cost structure (Recommendation 2).
- (b) Improve grant management processes (Recommendation 3).
- (c) Reinforce monitoring and planning capacity (Recommendation 6).
- (d) Strengthen oversight over procurement activities (Recommendation 7).

**Medium priority recommendations**, arranged according to significance:

- (a) Review and clearly define UNCDF's and UNDP's working arrangements (Recommendation 1).
- (b) Improve the management of loan and guarantee activities (Recommendation 4).

- (c) Ensure quality standards for programming and compliance with Social and Environmental Standards (Recommendation 5).
- (d) Improve the management of the human resources function (Recommendation 8).
- (e) Improve travel planning and management (Recommendation 9).
- (f) Improve IT function and risk management (Recommendation 10).

The detailed findings are presented below, per audit area:

## A. Governance

### Issue 1 Unclear administrative arrangements between UNDP and UNCDF

#### (a) Unclear institutional arrangements for administration and accountability

UNCDF was established as an autonomous organization in 1966 and UNDP's Administrator was nominated to perform the function of Managing Director of UNCDF. The Managing Director has overall responsibility for the operations of UNCDF and in this capacity as the UNCDF Managing Director, the UNDP Administrator delegates specific authorities to UNCDF's Executive Secretary, in line with Annex A of the Policy on Delegation of Authorities.

In exercising the delegated authorities, the Executive Secretary is required to observe UN Staff Rules and Staff Regulations, UNDP Financial Regulations and Rules (including Annex I), the Internal Control Framework, and policies promulgated in the UNDP Programme and Operations Policies and Procedures (POPP). Annex I of the UNDP Financial Regulations and Rules contains the financial regulations and exceptions applicable to UNCDF.

However, there are no documents that clearly articulate the governance structure and framework to be adopted by UNCDF, or the practical administrative and institutional arrangements between UNCDF and UNDP. This leads to the risk of creating ambiguity in terms of oversight, operational and administrative support between these two organizations.

UNCDF agreed that while there are some oversight arrangements in place, there is a need to clarify the administrative arrangements between UNCDF and UNDP. Management also cited the 2023 report of the UN Board of Auditors, which requested UNCDF to "redefine in collaboration with UNDP its institutional and operational relationship with the latter, after having considered various possible options ranging from integration to increased segregation."

#### (b) UNCDF Operations Manual

A practical illustration of the risks relating to administrative arrangements between UNCDF and UNDP is provided by revisions made to the UNCDF Operations Manual. UNCDF developed an Operations Manual, which was approved by its Executive Secretary to guide its staff when undertaking operations and programmes. This Operations Manual has been updated several times since 2010, most recently in 2021.

Based on the audit review, it is not clear to what extent UNDP's POPP and UNDP's Financial Regulations and Rules are applicable to UNCDF, either in their entirety or only partially. Furthermore, it is well understood that UNCDF's operations are unique and significantly differ from those of UNDP, and therefore UNDP's POPP cannot be expected to provide comprehensive policy and procedural guidance when carrying out the work of UNCDF. However, as changes are made to the Operations Manual there is a risk that UNCDF's risk appetite will become misaligned from UNDP's. This risk compounds over time with successive revisions.



UNCDF indicated that it would update its Operations Manual to clarify that it will follow UNDP's POPP in all areas, except the additions and amendments contained in Annex 1 of UNDP Financial Regulations and Rules. The UNCDF Operations Manual will also include adjustments to the POPP (notably sections related to the Internal Control Framework) to reflect its non-resident agency status, as well as any operational guidance specific to UNCDF.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
<p>UNCDF, in collaboration with UNDP, should review and clearly define UNCDF's and UNDP's working arrangements and their administrative collaboration. This includes:</p> <ul style="list-style-type: none"> <li>(a) clarifying the administrative arrangements for UNDP to discharge its administrative responsibilities; and</li> <li>(b) updating the UNCDF Operations Manual, which should include only the areas mentioned in the UNDP Financial Regulations and Rules, Annex 1, and its issuance and approval should be in line with the Policy on Delegation of Authorities and the appropriate governing mechanisms.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) In order to further clarify the institutional and operational arrangements between UNCDF and UNDP, UNCDF in collaboration with UNDP has drafted an 'Administrative Arrangements Agreement' between both organizations. This draft agreement, which is currently under review, is aligned with the General Assembly resolutions related to UNCDF, notably in terms of reflecting UNCDF's status as an autonomous constituted and independent accounting entity, as well as with the functions of the UNDP Administrator as the Managing Director of UNCDF. It will also align with updates UNDP is making on its Accountability Framework to reflect hosted entities. The Administrative Arrangements Agreement will form the basis of future service level agreements between UNCDF and UNDP.</li> <li>(b) UNCDF will replace its Operations Manual with 'Supplementary Guidelines to the POPP' to ensure compliance with the POPP in all areas except the additions and amendments contained Annex 1 of UNDP Financial Regulations and Rules to reflect UNCDF's capital mandate. The UNCDF Supplementary Guidelines to the POPP will also include adjustments with the necessary internal controls and oversight, to reflect its non-resident agency status, structure and lower resource envelope. In line with Annex A, Policy on Delegation of Authorities, UNCDF will submit the updated Supplementary Guidelines to the POPP to the Managing Director of UNCDF for review and approval.</li> </ul>	
<b>Estimated completion date:</b> December 2023	

**Issue 2**      Ineffective strategic resourcing and organizational structure

The achievement of results, as well as organizational effectiveness, rely on the adequacy of the office's organizational structure and strategic resourcing plan. UNCDF's human resource model needs to ensure its people operate within a well-defined structure, with clear roles, responsibilities and reporting lines. It should support the achievement of gender balance in staffing, which is one of the key goals of the UN system and a top priority of the Secretary-General. The resourcing model needs to secure adequate resources and align them with key risks and objectives, to ensure best value for money and efficiency.

The following issues were observed with respect to the resourcing and organizational structure of UNCDF:

(a) Missing documented rationale regarding UNCDF staff and personnel geolocation

UNCDF is headquartered in New York and operates in three Regional Offices: Dakar, Addis Ababa, and Bangkok. At the time of the audit, it was present in 39 countries through its programmes and offices. In addition, UNCDF had staff based in various other locations, as follows:

Staff Type	HQ (New York)	Regional Offices	Programme Countries	Other (Brussels, Bangkok, Geneva, London, etc.)	Total
Staff	53	27	73	24	177
Service agreement	42	27	117	30	216
UN Volunteers		4	58	5	67
Total	95	58	248	<b>59</b>	460

The above contrasts with UNCDF’s objective to operate “in last mile territories” where few other organizations are present.

Based on the audit review undertaken, there was no clearly documented rationale for the geolocation of current staff. While it may have been necessary for UNCDF to place staff in certain locations at a particular point in time, given the changing landscapes of its operations and activities globally, it may be an appropriate time to review its current structure to align its organizational staff force and structure to its business operational needs.

Realizing the need to review and optimize its organizational structure, UNCDF indicated that it has already developed a draft scope of work with the UNDP Bureau for Management Services Operational Performance Team to undertake a data-driven organizational performance review to optimize UNCDF’s organizational structure and business processes in a financially sustainable manner.

(b) Core funds

UNCDF had a shortfall of around \$10 million in core funding in 2021 and 2022. In both years, UNCDF received around \$15 million in core funding whereas it indicated that a minimum of \$25 million in core funding would have been needed to cover its programming. UNCDF clearly expressed its resourcing requirements in its Strategic Framework 2022–2025, which were necessary to achieve the results requested by Least Developed Countries (LDCs). Shortfalls in core funding create pressure points across the organization, and create risks around oversight and supervision (discussed elsewhere in this report).

UNCDF confirmed that it did have a resource mobilization strategy covering both public and private sector donors. Further, UNCDF stated that this issue would be addressed through the organizational performance review, which would include financial modelling and an assessment of whether expenditures should be charged as core or non-core.

(c) Vacancies

Based on the latest organization chart of UNCDF, there were 42 vacancies, including the positions of the Head of the Evaluation Unit, the Head of the Partnerships, Policy and Communications Unit as well as positions within the Global Fund for Coral Reefs (GFCR) and Nature Asset Team (nine positions). Having a high number of vacant posts, including key positions, could negatively affect UNCDF’s ability to fully execute its mandate.



UNCDF explained that of the 42 vacant positions, only 9 were fixed-term agreement posts performing corporate functions. The remaining were project posts, some of which were under recruitment and others of which needed to be removed from the organization chart because the projects ended. UNCDF recognized the significance of filling key positions. However, in the recent past, UNCDF faced challenges due to the COVID-19 pandemic and the decline in its core funding, which negatively impacted recruitment processes and resulted in the postponement of recruitments to avoid budget deficits. UNCDF confirmed that it would explore a new budget allocation methodology to prioritize the allocation of core resources to fill key posts that perform critical management and oversight functions. Management was also exploring detail assignments as a temporary measure pending the recruitment of key functions.

(d) Lack of gender balance at the professional level, especially at the senior management level

Based on the review of human resources data, it was noted that out of 32 senior professional posts (P5 and above), 9 were encumbered by female staff and 23 by male staff, or a ratio of 28 percent female staff. For all professional posts, the ratio of female staff stood at 43 percent (46 female staff versus 62 male staff) and this was below gender parity and the UN’s commitment to gender equality.

UNCDF stated that it recognized the importance of improving gender balance and remained fully committed to promoting gender equality, particularly at senior management levels.

Inadequacies in the organizational structure may lead to inefficiencies, affecting UNCDF’s ability to efficiently and effectively deliver development results, and increasing financial and reputational risks for the office.

(e) Potential duplication and/or fragmentation of work

External communication with donors was part of the responsibility of various staff based in the field as well as Headquarters. According to the staffing list, there were five staff members, five service agreement holders and three United Nations Volunteers with "communications" as part of their job titles. The Headquarters-based positions focused more on corporate communications and the field-based positions dealt with project -specific communications. However, matrix reporting lines between the positions in the field and those in Headquarters did not exist. Altogether, this may potentially lead to miscommunication, whereby the message from the field is not in line with or contradicts the corporate message (or vice versa), and/or duplication of work in cases where the same information is independently produced in the field as well as in Headquarters.

UNCDF explained that this issue validated the 2022 end-of-year report of the Officer-in-Charge, which highlighted the need to review and establish a cost-effective and efficient organizational structure to reduce duplication and fragmentation, improve UNCDF’s client focus towards LDCs, and ensure that UNCDF is fit-for-purpose to deliver on its ambitious Strategic Framework.

UNCDF further stated that it developed annual communication strategies, which included communication priorities and strategic messaging. UNCDF recognized the need for greater coordination between Headquarters-based and field-based communication personnel.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
UNCDF, in coordination with UNDP, should conduct an organizational review, including an assessment of its cost structure to enhance UNCDF’s organizational performance, optimize its business model, and assess its organizational design and business processes. The organizational review should include:	

- (a) reassessing the rationale for geolocating staff in non-programme countries and creating a long-term plan with the purpose of relocating programme staff to programme countries or Regional Centres;
- (b) developing a strategy for the timely recruitment of current vacant posts, taking into account the financial resources available to UNCDF and its resource mobilization prospects;
- (c) addressing the gender gap at the senior and professional levels; and
- (d) developing a corporate communication strategy, clarifying responsibilities, and defining reporting lines between field and Headquarters staff.

**Management action plan:**

UNCDF will be working with UNDP's Bureau for Management Services Operational Performance Team to undertake an organizational performance review to optimize UNCDF's organizational structure. More specifically the following will be done:

- (a) The organizational performance review will include a comprehensive review of the geographic distribution of UNCDF staff to enhance staff presence in programme countries, notably LDCs; increase cost-efficiencies; and improve UNCDF's overall financial sustainability. The organizational performance review will include a functional analysis to clarify roles and responsibilities as well as reporting lines across the organization.
- (b) The organizational performance review will also analyse UNCDF's business processes related to operations, including human resources. As part of this analysis, UNCDF will enhance policies and procedures to improve the effectiveness and efficiency of its recruitment process.
- (c) UNCDF has finalized its new Gender Equality Strategy and Action Plan to promote gender equality programmatically and institutionally.
- (d) UNCDF will continue to develop annual communication strategies. This will include consolidating the practice-level communication and partnerships plans and adopting one UNCDF communication and partnerships plan (PCAP) with a detailed strategy, roles and responsibilities, resource requirements and timelines. The PCAP will be adopted by UNCDF management as part of the annual planning process and integrated into the next Strategic Framework (2026–2029). UNCDF will also use the organizational review to clarify responsibilities and reporting lines between communication and partnerships field and Headquarters staff.

**Estimated completion date:** March 2024

## B. Capital deployment management

UNCDF operates as a “hybrid organization” that is both a development organization and a development finance institution. At a practical level, this means that UNCDF complements traditional grant-making and technical assistance with increased and mainstreamed use of financing capabilities and instruments, including loans, guarantees and blended finance funds across areas of technical expertise.

## 1. Grants management

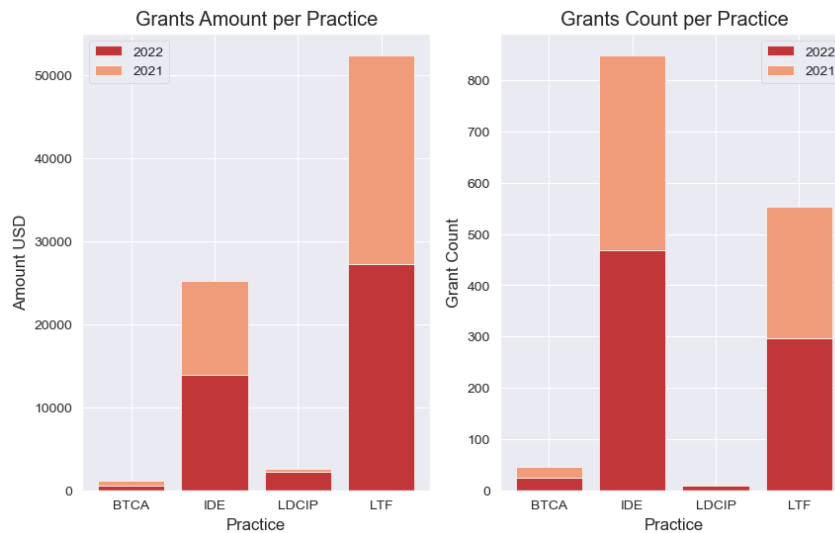
UNCDF disbursed \$81.3 million in 1,468 payments related to 593 grants between 1 January 2021 and 31 December 2022 (refer to Table 1 and Figures 1 and 2 for more details).

**Table 1**

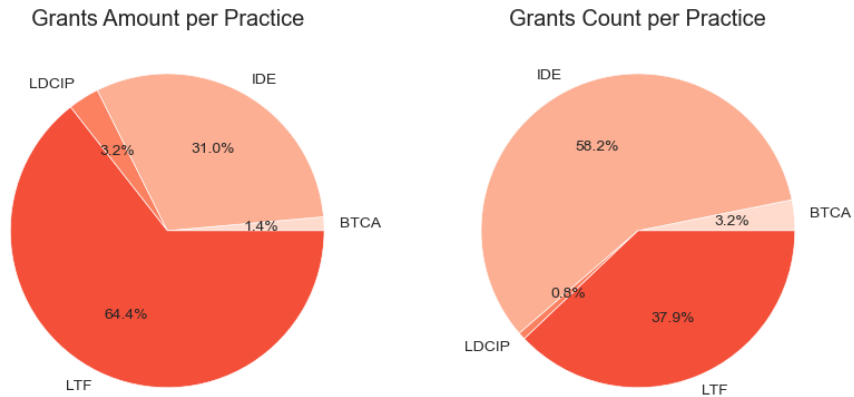
Practice (*)	2021		2022	
	Amount (in \$'000)	Count	Amount (in \$'000)	Count
LTF	25,174	257	27,215	296
IDE	11,271	380	13,901	469
LDCIP	415	2	2,195	9
BTCA	622	22	522	24
Total	37,482		43,833	

(\*) LTF: Local Transformative Finance; IDE: Inclusive digital economies; LDCIP: Local development countries investment platform; BTCA: Better than cash alliance

**Figure 1**



**Figure 2**



The average amount per disbursement was \$55,664 (refer to Table 2 and Figure 3 for more details):

**Table 2**

Practice	Disbursement Average (\$'000)
BTCA	25
IDE	30
LDCIP	237
LTF	95

**Issue 3** Deficiencies in the grant management system platform

(a) Shortcomings of the grant management platform

In 2021, UNCDF launched the E-investment platform (plug and play) and phased out its previous email-based system to manage grant applications together with other grant management related processes. This was accompanied by the introduction of standard operating procedures to guide overall grant management for the benefit of users. This platform was used by both Inclusive Digital Economies (IDE) and Local Transformative Finance practices, each responsible for managing access and setting up programmes for their practice.

The UNDP Information Security Policy requires appropriate restrictions to be applied on access to sensitive or protected information to ensure access is available only to authorized individuals. It also requires that procedures be established for monitoring the use of information systems, and that results of the monitoring activities be reviewed regularly.

Whilst the newly launched E-investment platform had enhanced controls in various aspects of the grant management process, the review highlighted some areas where it could be improved further. For example, the review noted the following:

- Advance review forms were edited on the final day of advance reviews.
- A screening form was altered after the submission deadline.
- Some applications were submitted; however, these were not reviewed.

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The audit also disclosed that there were 16 users with administrative rights who had full access to the platform and programmes. Even though the platform had activity logs that recorded user activities, there was no process in place to review and analyse the logs to determine whether usage complied with authorized usage. This created a risk that privileged accounts could potentially be misused (though the audit did not identify evidence of such).

UNCDF recognized the limitation of the platform and stated that since the third quarter of 2022, it has been working on designing a holistic system in Quantum<sup>2</sup> that links grants management and financial disbursements to replace the plug and play platform.

(b) Weak oversight over grantees, including lack of detailed work plans and budgets

During the audit period, UNCDF disbursed over \$81.3 million to various grantees, with at least \$29 million allocated to private businesses. The performance-based agreements signed with grantees outlined specific milestones to be achieved before the disbursement of grant funds.

The audit disclosed that some performance-based agreements had work plans and budgets attached to them, although these were neither detailed enough nor comprehensive. These performance-based agreements should have been accompanied with detailed work plans that outlined the necessary activities to achieve the objectives and milestones of the project.

Furthermore, the performance-based agreements did not include clauses related to audits and investigations, or representations and warranties. These clauses were essential for ensuring accountability, transparency, and compliance with regulations.

UNCDF stated that its legal agreements were cleared by UNDP's Office of Legal Services and have been in place for many years. At the same time, UNCDF prioritized the inclusion of audit, investigation, representation and warranties its grant agreements. Management added that it took the initiative to revise all the grant disbursement modalities in 2021 and 2022 and included detailed clauses on risk management, audit, fraud and corruption reporting, investigations and warranties. These revisions were sent to UNDP's Office of Legal Services in 2022 and UNCDF was awaiting clearance.

In the meantime, the absence of detailed work plans may result in difficulty in monitoring fund usage by grantees, therefore increasing the risk of misappropriation or misuse of UNCDF financial resources.

(c) Inadequate management oversight of coral reef grant

In 2021 and 2022, a total of 10 grants valued at \$5.1 million were approved for the Blue Bridge projects under the GFCR. These grants were created when the GFCR secretariat was part of a multi-donor trust fund before it moved into UNCDF in 2022. As such, the sourcing, evaluation, and selection of grantees were not carried out in accordance with UNCDF/UNDP procedures.

The performance-based agreements signed with the grantees included specific milestones that needed to be achieved before the disbursement of grant funds. The audit team noted that project deliverables were not systematically and formally recorded and reconciled to expected outputs prior to the release of performance based payments, although the management team did produce performance evidence in

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<sup>2</sup> Quantum is UNDP's enterprise resource planning which was rolled out in January 2023 that has also been adopted by UNCDF

subsequent exchanges during the audit closure process. Consequently the audit team was unable to reconcile expected performance to disbursements that had begun in 2 of the 10 grants.

The above gives rise to the risk of misuse of financial resources, which may pose reputational risks to UNDP and UNCDF.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
<p>UNCDF should improve the grant management process by:</p> <ul style="list-style-type: none"> <li>(a) enhancing controls of the E-investment platform including tightening the access controls;</li> <li>(b) including clauses on audits and investigations, and on representations and warranties to performance-based agreements, and annexing detailed work plans and budgets of the grantees' activities to the agreements; and</li> <li>(c) matching sufficient management oversight capacity and accountability to the risk level of its grants – the question of how to match resources to risk should be considered through the organizational review (recommendation 2).</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) UNCDF will assess the suitability of migrating to the Quantum recognition module as its E-investment platform. UNCDF agrees with the need to tighten the user rights of its plug and play platform during this interim period and will develop standard procedures to improve management and access controls of the platform.</li> <li>(b) UNCDF has assessed streamlining the number of its grant disbursement modality agreement templates in order to reduce transaction costs for UNCDF and UNDP. It will use the legal templates from the POPP for Letters of Agreements, low value grants, and performance-based agreements, which include the use of the risk, audit, representation and warranties clauses. For the reimbursable grant agreement template, which is unique to UNCDF, while waiting for a response from the Office of Legal Services, UNCDF will use the risk, audit, representation and warranties clauses from the performance-based agreements in the POPP.</li> <li>(c) UNCDF is strengthening its management oversight capacity and accountability of its grants by (i) recruiting a Chief Risk Officer; (ii) assessing how to match resources with risk through the organizational review, notably by strengthening the risk management capacity in its Programme Management and Support Office (PMSU); (iii) strengthening the role of management oversight and accountability over grant management in its new Supplementary Guidelines to the POPP; and (iv) requiring all grant management projects to use the Quantum risk register for all projects and phase out from the SharePoint platform. Specifically, with regard to the GFCR, with the transfer of the GFCR secretariat to UNCDF completed, UNCDF will ensure full compliance with UNCDF policies and procedures.</li> </ul>	
<b>Estimated completion date:</b> June 2024	

## 2. Loans and guarantees

### Issue 4 Weaknesses with loans and guarantee activities

UNCDF has a distinct mandate within the United Nations to provide grants and loans. Since 2016, UNCDF has diversified its project funding approaches to include loans and guarantees. As of the audit date, UNCDF's loan activity committed a cumulative total of \$8.58 million, disbursing \$5.76 million (including \$1.72 million in 2021 and \$0.27 million in 2022) to private businesses. Additionally, UNCDF committed \$1.23 million in guarantees, of which \$0.31 million were active as of the reporting date.

On 31 December 2022, the loans balance amounted to \$3.16 million, with an associated impairment of \$0.82 million, which represented 26 percent of the total value of the loans. Consequently, the net value of the loans was \$2.34 million. The guarantee portfolio recorded liabilities of \$0.11 million as a result of non-performance of underlying loans.

UNCDF's capital reserves are boosted by reflows from capital that is recovered and redeployed, and by new funds originating from interests and fees.

(a) Investment strategy

The loans and guarantees portfolio was managed within a team of 15 staff members, of which the management team estimate approximately 3.5 FTEs work exclusively on the L&G portfolio. The total team running costs in 2022 were approximately \$4.79 million, of which approximately \$2.27 million was funded from core resources. Apart from managing the loans and guarantees portfolio, these staff and personnel were also involved in managing a number of other investment-related, technical and business advisory activities. Nonetheless, *prima facie*, these were significant management costs to oversee a modest proportion of UNCDF's overall investment portfolio.

The audit team noted that UNCDF's Annual Work Plan for 2023 included a commitment to deliver on strategic objectives, including loans and guarantees activities. However, the audit team noted that there was no overarching investment strategy in place that analysed the strategic opportunity for loans and guarantees across UNCDF operations, and that defined the optimal quantum of activity. In short, it was not clear whether UNCDF should look to significantly ramp up activity in this space, or reduce its loan book to save management costs. As a result, there is a risk that UNCDF will not be able to maximize the strategic advantage it holds in being able to use loans and guarantees as a funding modality.

UNCDF stated that the loan and guarantee activities initiated in 2016 were relatively new, which explained the absence of a well-defined strategy. UNCDF recognized this gap and stated that it was working on developing a strategy for UNCDF's loan and guarantee activities that would complement existing annual plans and lay the foundation for evaluations in 2024. Further, in OAI's view, it may also be an opportune time for UNCDF to review its staffing resource in line with the loan and guarantees portfolio that it would be managing.

(b) Impact Investment Committee

According to UNCDF's Loan and Guarantee Policy, the Impact Investment Committee is responsible for considering prospective loans and guarantees and providing advice to the approver on whether to accept or reject proposals. The Terms of Reference of the Committee were updated in November 2019 to strengthen the independence of decision making. However, the Loans and Guarantees Policy was not updated to reflect these changes. Consequentially, the audit team identified examples of non-compliance with the Loan and Guarantee Policy, such as the second line of management oversight i.e. Head of the LDCIP team holding voting rights. The audit team also noted that expert advisers to the Committee, holding International Professional Service Agreements (IPSA) contracts, were initially selected and appointed by the Head of the LDCIP. Although expert members do not hold voting rights, they are important and influential committee members. A competitive process to appoint to these positions could enhance the



Committee’s standing, and avoid any risk of the perception that members are insufficiently remote from the management team.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
<p>UNCDF should improve the management of its loan and guarantee activities by:</p> <ul style="list-style-type: none"> <li>(a) developing a consolidated investment strategy to guide and drive its loans and guarantee activities toward achieving its development objectives;</li> <li>(b) reassessing and optimizing its staffing resources when undertaking the organizational review as planned in the near future (see also recommendation 2); and</li> <li>(c) updating the loans and policy guidance to reflect changes to the Impact Investment Committee Terms of Reference, and creating a competitive process to select expert committee members in the future.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) UNCDF will develop a comprehensive investment strategy to refine its loans and guarantees operations, and more generally its investment-related activities. The strategy will consolidate a number of existing documents that UNCDF already has in place and draw on evaluations of its direct investments, including capital grants, loans and guarantees, to revenue-generating recipients and towards achieving development objectives.</li> <li>(b) UNCDF notes that the staff involved in managing the loan and guarantee portfolio also have other functions, including oversight, resource mobilization, and product development. UNCDF will reassess and optimize its staffing resources related to its investment activities as part of the organizational review.</li> <li>(c) UNCDF has updated the Terms of Reference of its Impact Investment Committee (now called the Investment and Disbursement Impact Committee – “IDIC”) to enhance the effectiveness and efficiency of its transaction appraisal and approval process. Members of the IDIC are internal to UNCDF to ensure that UNCDF has the capacity to assess, implement and monitor approved transactions. A review of the Loan and Guarantee Policy is underway. It will be updated to reflect the new Terms of Reference of the IDIC and submitted to the Managing Director of UNCDF for review and approval.</li> </ul>	
<b>Estimated completion date:</b> March 2024	

## C. Development activities

### 1. Project administration

**Issue 5** Ineffective monitoring for quality of programming and Social and Environmental Standards

All country, regional and global programmes and projects are required to adhere to the Quality Standards for Programming and Social and Environmental Standards.

The audit team reviewed a sample of 14 projects and noted that none of them fully complied with the quality assurance appraisals at the design, implementation, and closure stages.

Furthermore, whenever the Social and Environmental Screening Procedure was conducted by UNCDF at the programme level, it was not cleared by the required reviewers. In this regard, the appraisal of six programmes revealed that none of the Social and Environmental Screening Procedures were signed by the Project Appraisal Committee Chair, and that the review and approval by the quality assessor and the quality assurance approver were not consistently documented.

Deficiencies in carrying out the necessary quality assurance and Social and Environmental Screening Procedures was a consequence of changing the programming standards required under the POPP. The audit team noted that UNCDF had used internally developed templates to undertake quality assurance and Social and Environmental Screening Procedures; however, these were simplified assessments that lacked the same level of rigor embedded in the UNDP tools, which were developed for this purpose.

Failure to ensure adequate quality assurance appraisals and Social and Environmental Standards may hamper programme effectiveness and jeopardize UNCDF's programmes and operations, particularly by exposing the organization to social and environmental risks, and situations involving individual or collective grievances linked to the initiatives supported by UNCDF. Changes from POPP standards may result in the misalignment of UNDP and UNCDF risk appetites (per issue 1).

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
UNCDF should ensure that:	
<ul style="list-style-type: none"> <li>(a) quality assurance appraisals are conducted at the design, implementation, and closure stages as per the UNDP POPP;</li> <li>(b) Social and Environmental Screening Procedures are reviewed and approved in line with UNDP corporate policy, and that they thoroughly identify, analyse, and document potential social and environmental risks, and incorporate the necessary mitigation or adaptation measures; and</li> <li>(c) adequate monitoring is in place for ensuring that corporate programming standards are timely adhered to.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) In line with UNCDF's new draft Supplementary Guidelines to the POPP, UNCDF will follow UNDP POPP related to quality assurance at the design, implementation, and closure stages. UNCDF will also develop standard operating procedures as part of the Supplementary Guidelines to provide more detailed guidance to implement quality assurance measures at the design and appraisal stages. Continued quality assurance will also be conducted in Quantum through the programme and project management modules. Dedicated training workshops and webinars will be delivered to the staff to ensure awareness and strengthen knowledge of these policies and tools.</li> </ul>	

- (b) In line with UNCDF's new draft Supplementary Guidelines to the POPP, UNCDF will follow UNDP POPP related to compliance with Social and Environmental Standards and will propose an internally managed process to handle complaints regarding social and environmental concerns. Monitoring Social and Environmental Standards will also be conducted in Quantum in the PPM module.
- (c) UNCDF will strengthen its monitoring capacity to ensure that corporate programming standards are adhered to in a timely manner by recruiting an Results based Management Specialist, and while the recruitment is ongoing, filling this gap through a detailed assignment. The organizational review process will notably strengthen the capacity of its PMSU as the corporate mechanisms for ensuring adherence to corporate programming standards. In addition, the PPM Results Configuration in Quantum for UNCDF has been agreed to and is expected to go live with "UNDP's Go Live" for results reporting. This Quantum solution will create the system needed to link projects with the Integrated Results and Resources Matrix (IRRM) and ensure accurate and timely reporting.

**Estimated completion date:** June 2024

## 2. Project results

### Issue 6 Inadequate monitoring, reporting and oversight of project results

All UNCDF programming activities are required to adhere to monitoring standards and policies to track performance through the collection of appropriate and credible data and other evidence, analyse evidence to inform management decision-making, adjust programming as necessary to improve effectiveness and efficiency, and report on performance and lessons to facilitate learning and support accountability.

The corporate IRRM is a tool for monitoring key development and organizational results to be achieved by UNCDF with its partners.

The audit team noted the following during its review:

#### (a) Target setting

Out of the 18 indicators reviewed in the corporate IRRM, 15 indicators either had an achievement rate of over 55 percent during the first year of programme implementation or were completely achieved for the whole 2022–2025 programme cycle. This "overachievement" may be attributed to insufficient planning of programmatic activities. Rather, targets should be stretched but achievable, and in that context management could expect to have a broader range of success and failure across their performance indicators.

#### (b) Data consolidation and reporting

The review of the projects' reports revealed disparities between the results reported in the IRRM platform and the project reports used as data sources for indicators in two out of the six programmes sampled. UNCDF acknowledged this and stated that it was working with UNDP to enable Quantum to automatically consolidate data to address this issue.

In terms of global reporting, UNCDF's corporate Transparency Window was created to demonstrate the organization's utilization of resources in promoting effective public and private finance. The audit team noted that it did not show any information regarding UNCDF's work and had not been updated since 2020. Additionally, no data had been provided to the International Aid Transparency Initiative.



UNCDF attributed these issues to a lack of capacity for ensuring clear indicators, adequate data collection mechanisms and analysis processes, as well as technical challenges in optimizing the new Quantum platform. UNCDF acknowledged that there was a need to streamline the number of independent corporate platforms to enhance data quality, transparency and accountability.

(c) Inadequate design of exit strategies and sustainability schemes

As per the UNCDF Operations Manual, programme and project documents must outline the methods through which results will be sustained and/or scaled up, aligning with the UNCDF maturity model. Additionally, the POPP underlines the necessity for project governance mechanisms to assess the sustainability plans of projects, including arrangements for transition and phase-out, to ensure their compliance with the established requirements.

A sample of 14 projects was examined, of which 6 did not have clearly defined sustainability schemes accounting for contextual, institutional, technical, and financial aspects. Furthermore, in three out of five field visits reviewed, projects designed to offer affordable finance and Business Development Services did not possess well-defined exit strategies, particularly failing to address the consequential needs of emerging entrepreneurs and Small and Medium Enterprises. UNCDF stated that there were several exit strategies and sustainability dimensions designed for various projects and programmes, which were based on the applied modality of respective programme intervention. Whilst this may have been the intention, based on the audit team's review it was noted that comprehensive articulation of these exit strategies and sustainability dimensions were not well documented (or their absence, where justifiable, was not explained).

The issues mentioned above may result in not being able to adequately measure organization-wide results. Furthermore, weaknesses relating to strategic planning and coordination may have a negative impact on programme quality and effectiveness.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
UNCDF should reinforce monitoring and planning capacity by:	
<ul style="list-style-type: none"> <li>(a) setting corporate performance targets that are demanding but achievable, and which track progress towards goals across the span of the programming period;</li> <li>(b) ensuring that an adequate monitoring and evaluation system is in place for consolidating and supporting programme/project data monitoring, to better manage, visualize and use reliable information;</li> <li>(c) augmenting corporate planning and results monitoring capacities to ensure that the required accountability in programme oversight is in place;</li> <li>(d) assessing the design of the Transparency Window portal to showcase and report on information based on the work and/or achievements of UNCDF, considering the requirements of the International Aid Transparency Initiative; and</li> <li>(e) ensuring that long-term sustainability schemes are incorporated in all programmes and projects, which should be designed through a collaborative process that engages key stakeholders and aim to address barriers and constraints that may hinder the viability of development initiatives.</li> </ul>	

**Management action plan:**

- (a) UNCDF is undertaking a mid-term evaluation of its Strategic Framework 2022–2025, including its IRRF. The evaluation will provide an opportunity to review the quality and feasibility of corporate performance indicators and targets and put forward recommendations for the Executive Board’s consideration. At the practice level, UNCDF will prepare an integrated work plan on an annual basis to better plan and track progress towards achieving corporate performance targets. UNCDF will put in place a system to track progress, starting with an assessment of the feasibility of using Quantum or SharePoint.
- (b) UNCDF has designed and submitted a request to UNDP Quantum for a consolidated platform in Quantum to link its financials and automate reporting on its IRRM and UNCDF risk log. This integrated platform will enable UNCDF to ensure that there is an adequate monitoring and evaluation system in place.
- (c) UNCDF will strengthen its corporate planning and results monitoring capacity by: (i) recruiting an RBM Specialist and while the recruitment is ongoing, filling this gap through a detail assignment; (ii) undertaking the organizational review process to notably strengthen the capacity of its PMSU as the corporate mechanisms for ensuring adherence to corporate planning and results monitoring.
- (d) UNCDF will assess the feasibility of developing a Transparency Window portal, notably by reviewing the options offered by Quantum to meet International Aid Transparency Initiative requirements.
- (e) UNCDF will ensure sustainability and exit strategies are reflected in its programme design by aligning its programme design with the POPP, as outlined in recommendation 1.

**Estimated completion date:** June 2024

**OAI Response:**

OAI acknowledges the action taken to implement the recommendation. Evidence supporting all actions will be reviewed as part of the standard follow-up procedure after the issue of the final report.

**D. Operations**

**1. Procurement**

**Issue 7**      Weaknesses in procurement processes

In 2021 and 2022, UNCDF issued 2,435 purchase orders with a total value of \$40.5 million. The audit team reviewed a sample of 21 purchase orders amounting to \$1.3 million in detail. The following issues were noted:

- (a) Incorrect use of grant modality for procurement of services

According to UNDP Financial Regulations and Rules, the procurement function includes all actions necessary for the acquisition of property and services, including works.



The audit team noted that UNCDF had utilized the grant modality for obtaining services from a range of service providers in 32 instances amounting to \$5.9 million. Typically, for the nature of services obtained by UNCDF in these instances, a competitive process should be used to ensure value for money is obtained. However, in these 32 instances, UNCDF had not used the procurement modality. By not using the appropriate procurement modality, UNCDF risks not obtaining best value for money with regard to the services obtained.

(b) Delays in the creation of purchase orders

Typically, a procurement transaction requires the creation of a requisition, followed by a purchase order in the enterprise resource planning system. The creation and approval of purchase orders result in the commitment of funds, and this should be done immediately after the approval of procurement contracts, which enable proper commitment and monitoring of funds. However, during the audit review, it was noted that a number of requisitions, purchase orders and receipts/payments were created in the enterprise resource planning system when the invoices were due and payments were to be made to vendors.

UNCDF was aware of this practice and indicated that it had advised UNCDF offices in various countries to avoid this and not delay the creation and approval of requisitions and purchase orders during the procurement process to better monitor fund commitments and contract management. Despite this, the delays in creating requisitions and purchase orders were pervasive, which results in the risk of not being able to monitor fund commitments and fund utilization effectively.

(c) Limited oversight over procurement activities for programmes and projects

UNCDF's organizational structure had limited procurement staff resources at the Headquarters level. Large parts of procurement activities were being undertaken by operational personnel in Regional Offices and countries where UNCDF has programmes and offices.

At the start of every year, projects are required to input their procurement plans that are available at Headquarters. However, the plans submitted did not indicate whether support was required from Headquarters.

UNCDF explained that the FMS procurement team at Headquarters conducted risk-based checks and oversight activities, such as reviewing procurement terms of references, reviewing solicitation documents, assisting with responses to procurement review committees and reviewing documents prior to the issuance of procurement contracts. Whilst these were done, the audit team noted that these may not be sufficient and comprehensive in providing effective oversight over procurement activities that take place outside of Headquarters.

(d) Other observations

The audit identified one instance where payments to a vendor exceeded \$50,000 for the calendar year, but the contract had not been submitted to the CAP Committee for prior review and approval. In total, the vendor had been paid \$140,263, of which \$131,225 was paid in 2021. This was attributed to a one-off oversight owing to staff turnover.

<b>Priority</b>	High (Critical)
<b>Recommendation 7:</b>	
UNCDF should strengthen the oversight over procurement activities by:	

- (a) assessing the roles and responsibilities relating to procurement activities, both at Headquarters and Regional or Country Office levels and ensuring the degree of Headquarters and regional monitoring and oversight reflects procurement risk levels; and in so doing
- (b) ensuring that the appropriate modality is used when procuring professional services, and that purchase orders are raised in a timely manner.

**Management action plan:**

- (a) In the upcoming organizational review, UNCDF will align functions within the organization to enhance oversight and segregation of duties of key operation functions. This may include using regional operations teams that are independent from projects to perform key operations functions, including procurement.
- (b) In addition to (a), UNCDF will align with the UNDP POPP (as outlined under recommendation 1) with regard to the use of grants for the procurement of services. Strengthening the quality assurance process at the design stage of proposals will also create the necessary distinction between grants and professional services as reflected in the Supplementary Guidelines to the POPP.

**Estimated completion date:** March 2024

## 2. Human resources

### Issue 8 Inadequacies in human resources processes

UNCDF's human resources activities were performed by an HR Specialist (at the P4 level), supported by an HR Associate (at the G7 level). As of 31 December 2022, UNCDF employed 177 staff on fixed-term contracts and 210 non-staff on personnel service agreement contracts. The two human resource staff were responsible for implementing corporate human resources programmes, ensuring compliance with the POPP as well as ensuring successful performance in human resources management for more than 380 staff and personnel.

The audit team noted the following issues:

- (a) From the review of 20 fixed-term recruitments, 3 cases were noted to have discrepancies between the initial recruitment strategy (i.e., proposed recruitment and selection approach) when compared to the interview reports (i.e., actual approach). These discrepancies included instances where four candidates were interviewed rather than three, and written scores were included together with the interview scores during the selection process. UNCDF explained that these recruitment strategies had been changed on the basis of business needs, but the audit team could not verify when these changes took place and who signed off on the changes.
- (b) In 10 of the 20 recruitment cases reviewed, the recruitment strategy was not signed by the hiring manager. In another eight cases, the strategies were not signed by the hiring manager and the names of other staff involved in the recruitment strategy were not included.
- (c) Of 22 personnel service agreement (PSA) contract processes reviewed, 3 were classified as International Professional Service Agreements (IPSA), level 12, but were not approved by the Executive Secretary; they were instead approved by a manager within UNCDF. According to the section in the IPSA policy, the authority to create positions and issue any IPSA 12 contract (or above) is delegated to the UNCDF Executive Secretary. UNCDF informed the audit team that they were in the



process of reviewing its PSA recruitment processes in order to streamline procedures to ensure all PSA recruitments are reviewed and approved according to the IPSA policy taking into consideration UNCDF's business model.

- (d) The service contract modality was discontinued as of 1 June 2021. Yet, as of the date of the audit, four non-staff personnel were still contracted under this modality. According to FMS, these contracts were set to expire in early 2023; however, the contracts were extended following the hiring manager's request.
- (e) According to system data, only 52 percent of staff completed all mandatory training modules.

The foregoing issues were in part due to limited staff resources as the human resource staff were not able to consistently oversee full compliance with the relevant human resource policies and procedures.

Inadequate human resources staffing capacity may negatively impact the human resources function.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>	
<p>UNCDF should improve the management of the human resources function by:</p> <ul style="list-style-type: none"> <li>(a) ensuring that various stages of the recruitment and selection process are clearly documented and aligned to the recruitment strategy, including the details of individuals involved;</li> <li>(b) obtaining approval from the Executive Secretary for all IPSA contracts classified as IPSA 12 and above; and</li> <li>(c) ensuring that the service contract modality is discontinued.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) In the organizational review, subject to availability of funds, UNCDF will review the staffing level of critical oversight functions including human resources to ensure the unit has adequate capacity to perform human resource-related tasks and activities efficiently. Management is in discussions with UNCDF practice areas to put in place an interim solution through detail assignments to help provide the necessary human resource capacity on an interim basis prior to implement long-term solutions arising from the organizational review. The business process component of the organizational review will also enhance the efficiency and effectiveness of the recruitment and selection process.</li> <li>(b) The business process component of the organizational review will include controls to ensure that the approval of the Executive Secretary is obtained for all IPSA 12 and above.</li> <li>(c) UNCDF will ensure that the service contract modality is discontinued by not renewing existing service contracts and not issuing new service contracts.</li> </ul>	
<b>Estimated completion date:</b> March 2024	

### 3. Administrative services - Travel

#### Issue 9 Travel planning and follow-up

During the audit period, UNCDF processed 3,888 travel requests amounting to approximately \$7.2 million. Of these, 1,439 trips totalling \$4.1 million related to travel undertaken by UNCDF staff, and 2,449 trips totalling approximately \$3.1 million related to travel undertaken by non-UNCDF staff (i.e., consultants).

The review of 39 official travel trips showed that 19 were booked less than 14 days before the start date of the travel. According to the POPP, travellers are strongly encouraged to purchase airline tickets at least 21 days in advance of travel when traveling in business class, and at least 14 days in advance when traveling economy. This policy is designed in order to secure the best opportunity to confirm the lowest fare.

The audit team noted that there were no accompanying justifications when trips were booked late. From a review of the documentation, it appeared that contributing factors included a lack of forward planning, the length of time it took to finalize detailed itineraries, and delays in senior management approval.

Travel claims are required to be submitted by the traveller to the authorizing unit within two weeks from completion of travel. It was noted that 5 claims were not provided to the audit team and in 15 cases, claims were not submitted within two weeks of travel. There was one case where the claim was submitted 121 days after travel completion.

UNCDF indicated that a quarterly email was sent to remind all staff to submit international travel plans via the travel portal for approval by the Deputy Executive Secretary. The communication emphasized the need to make travel bookings 14 to 21 days in advance as recommended by the travel policy. UNCDF explained that in some instances, this was not possible due to last minute notifications and changes in travel plans.

Notwithstanding the above, the lack of adequate travel planning and failure to book travel as early as possible may result in UNCDF paying higher fares and/or inefficient use of resources.

<b>Priority</b>	Medium (Important)
<b>Recommendation 9:</b>	
UNCDF should improve travel planning and monitoring by:	
<ul style="list-style-type: none"> <li>(a) strengthening the existing travel planning process (quarterly and <i>ad hoc</i> travel approval and purchasing air tickets in advance);</li> <li>(b) providing written justification for travel beyond the allowed timelines; and</li> <li>(c) requiring travellers to submit travel claims within 14 days or requesting travellers to reimburse the amounts due.</li> </ul>	
<b>Management action plan:</b>	
UNCDF will:	
<ul style="list-style-type: none"> <li>(a) continue to monitor and track advance booking to reduce the number of travel bookings made below the 14-21 day window;</li> </ul>	

- (b) streamline its procedures for submitting *ad hoc* travels and start sending out monthly emails to remind travellers to request approval and book *ad hoc* international travel at the beginning of every month; and
- (c) enhance its monitoring of travel bookings to track the instances travel is made in less than the 14–21-day window and follow up with travellers for justification, as well as to require travellers to submit travel claims within 14 days.

**Estimated completion date:** December 2023

#### 4. Information and communication technology

##### Issue 10 IT strategy and risk management

The Information Systems Audit and Control Association (ISACA) defines IT governance as the processes that ensure the effective and efficient use of IT in enabling an organization to achieve its goals. It helps establish and monitor accountability for IT activities to ensure that IT-enabled investments support enterprise objectives.

The audit team noted the following:

##### (a) Absence of an IT strategy

UNCDF has a mandate and Strategic Framework that calls for initiatives that support its investment and programmatic agenda. While IT plays a critical role in enabling these initiatives and operations, no IT strategy was developed to drive digital initiatives and set the digital direction for UNCDF to ensure it was aligned to the overarching strategic objectives.

UNCDF explained that it relies on UNDP for all its information technology needs and support and is fully aligned with UNDP's IT strategy. Due to resource constraints, UNCDF did not consider it a priority for the organization to pursue an IT strategy different from UNDP's or to recruit its own technical IT capacity. However, given that UNCDF's IT needs are unique, the reliance on UNDP's IT strategy to drive its IT requirements may lead to the risk that IT investments may not be aligned to its overarching objectives.

Further, UNCDF may be unable to appropriately determine the direction required for its digital transformation and to rationalize and prioritize IT initiatives.

##### (b) Insufficient resources allocated to data management

In recent years UNCDF took significant steps to enhance its data management capabilities, which included the engagement of a Business Intelligence (BI) Analyst in May 2021. The Analyst's main function was to automate existing reports. Furthermore, the Analyst developed a portal (UNCDF Toolkit for Data Transparency) through which all the UNCDF dashboards could be accessed. However, technical documentation on the work done and user guides were not maintained, which could result in future maintenance issues as well as issues with the use of the portal. This was a result of having only one resource assigned to data analytics initiatives to support UNCDF business needs.

While UNCDF engaged an intern in March 2023 to assist the BI Analyst, considering the criticality of the data management process, this still posed a risk for UNCDF as the intern was only a temporary solution and did not address the underlying issue of limited resources.



UNCDF explained that the BI Analyst was fully supported by UNDP staff to ensure access rights to UNCDF data and to support UNCDF with its data management needs.

(c) No security evaluation for UNCDF applications

UNCDF has two cloud-based applications that have not undergone a security evaluation, namely, (i) the plug and play apply platform used for grant issuance, and (ii) the Financial Information and Management System (FIMS) used for managing loans and guarantees.

Security evaluations for applications is an integral part of risk management and failure to assess and implement key security controls before deployment can pose vulnerabilities to the IT environment.

<b>Priority</b>	Medium (Important)
<b>Recommendation 10:</b>	
UNCDF should improve its IT function and risk management by:	
<ul style="list-style-type: none"> <li>(a) developing an IT strategy, aligned with the UNCDF Strategic Framework, that outlines the current IT landscape, future IT direction, and developing a roadmap outlining initiatives required to implement the strategy;</li> <li>(b) recruiting or procuring additional capacity for data management; and</li> <li>(c) conducting security assessments of applications that are not yet assessed and any new applications it plans to acquire.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) UNCDF will continue to work closely with UNDP and follow UNDP's IT strategy. UNCDF's senior management team will continue to be responsible for monitoring the needs to make any changes to this approach as UNCDF's business continues to grow.</li> <li>(b) UNCDF will review its data management capacity as part of its organizational performance review exercise.</li> <li>(c) All applications procured outside the corporate applications that carry UNDP's license will be reviewed and shared with UNDP to identify security and compatibility with UNDP's IT security policy.</li> </ul>	
<b>Estimated completion date:</b> March 2024	

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## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Fully Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.