UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ZAMBIA

Report No. 1331

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Report on the audit of UNDP Zambia
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Zambia (the Office) from 23 June to 4 July 2014. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January 2013 to 31 March 2014. The Office recorded programme and management expenditures totalling $132 million, including Global Fund expenditures. The last audit of the Office was conducted by OAI in 2010.

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

Overall audit rating

OAI assessed the Office as **satisfactory**, which means, "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity."

Key recommendations: Total = **5,** high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are five medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address incomplete financial sustainability planning, inadequate project management and oversight, insufficient maintenance of vendor data, weak procurement processes, as well as weak controls over fuel coupon management.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Lusaka, Zambia (the Country), at the time of the audit had 58 staff members and 29 projects, 22 of which were nationally implemented. Its programme activities focused on the following three areas: governance; poverty reduction and climate change; and disaster recovery. Total expenditure (excluding Global Fund) was $33 million in 2013, and $3.9 million as of March 2014. The Country enjoyed a stable political and economic environment and had an economic growth rate estimated at above 6 percent, which was driven by the copper and tourism industries.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination. A 'United Nations Development Assistance Framework' document was in place to guide the work of the United Nations Country Team on development issues for the period covering 2011-2015. Working groups were functional and met regularly within the framework of the United Nations Country Team to monitor progress towards outcomes and undertake other activities. Staffing in the Resident Coordinator's Office was found to be adequate, as were systems for planning, budgeting and reporting of activities by the United Nations Country Team. Joint United Nations programmes were operational and were in line with joint programming principles. The United Nations Country Team had just begun the process of developing (with the Government and partners) the new 'Delivering as One Sustainable Development Partnership Framework', to replace the existing 'United Nations Development Assistance Framework' in 2016.

(b) Programme management. Programme management was generally effective and the Office recorded a delivery rate above 90 percent (excluding Global Fund delivery) in 2013.

(c) Harmonized Approach to Cash Transfers. All steps to implement the Harmonized Approach to Cash Transfers had been taken.

(d) Human resources. Staff recruitment was generally in line with organizational procedures. Leave management procedures were adequately implemented in Atlas (the enterprise resource planning system used by UNDP).

(e) Finance. Control procedures over receivables, payment processing, disbursements and administration of petty cash were found to be adequate.

(f) Information and communications technology. The Office had an updated Disaster Recovery Plan in place. It was planning to conduct a peer review exercise for hardware and software compliance.

(g) Safety and security. The Office was compliant with the Minimum Operating Security Standards.

OAI made five recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.
Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

Medium priority recommendations, arranged according to significance:

(a) Adjust the Financial Sustainability Plan in order to reduce administration costs by 10 percent (Recommendation 1).
(b) Improve project management and oversight (Recommendation 2).
(c) Strengthen vendor management processes (Recommendation 3).
(d) Comply with procurement policies and procedures by processing all requests for goods and services through the Procurement Unit (Recommendation 4).
(e) Strengthen the management of fuel coupons (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

Issue 1 Incomplete Financial Sustainability Plan

Corporate structural changes mandated all UNDP offices to reduce operational costs funded from regular resources by 10 percent annually until 2016. Cost reduction plans presented in financial sustainability strategies are required to consider possible changes that are likely to affect their income and expenditure in the long-term.

OAI reviewed the Office's Financial Sustainability Plan and noted the following:

- The Office had yet to implement the Plan in order to achieve the required 10 percent annual cost reduction over the course of two years.
- Management had yet to consider the likely impact of Global Fund grant closures on the Office's long-term financial sustainability. Global Fund grants, which at the time of audit accounted for 75 percent of the Office's extra budgetary income, were due to be closed or transferred to the Government in June 2015 (malaria and tuberculosis grants) and August 2016 (HIV/AIDS grant).

Inadequate planning may compromise the Office's financial sustainability in the medium- to long-term if new resources are not mobilized.

Priority	Medium (Important)
Recommendation 1: Implement the Financial Sustainability Plan in order to reduce administration costs by 10 percent as per corporate requirements, and adjust office costs to account for upcoming changes in the Global Fund portfolio and resource mobilization outlook.	
Management action plan: (a) The first and immediate step in implementing the Financial Sustainability Plan will be a thorough briefing of the new Resident Coordinator/Resident Representative so that they understand the process by which the existing plan came about, and what the current and future implications are, and how they can be incorporated at the strategic level into ongoing work. Steps to finalize the functional analysis, rationalize the staffing levels, and align them with the corporate guideline by December 2014 will need to be agreed upon by the new management.	

(b) Resource mobilization is now being incorporated into a Joint Resource Mobilization Strategy across the United Nations Country Team for 2014 and 2015; beyond that, it will be part of the 'Common Budgetary Framework' and associated 'Joint Resource Mobilization Plan' as part of the 'Delivering as One Zambia – United Nations Sustainable Development Partnership Framework 2016-2021'.

Estimated completion date: December 2014

B. Project management

Issue 2 Inadequate project management and oversight

The UNDP 'Programme and Operations Policies and Procedures' require offices to enforce project management procedures for the implementation of projects. This includes signing Letters of Agreement with implementing partners, monitoring financial ceilings for micro-capital grants, ensuring that project budgets are adequately set up in Atlas, and having project steering committees meet regularly to ensure adequate project oversight.

OAI sampled five projects (58205, 60998, 69179, 61142 and 57870) and noted the following project management and oversight inadequacies:

- Out of the five sampled projects with government implementing partners, four (58205, 60998, 69179, 61142) did not have signed Letters of Agreement, which meant that legal and financial safeguards for implementing the respective projects were not complied with.

- Project steering committees did not meet regularly (at least quarterly) for four of the five sampled projects (58205, 60998, 69179 and 57870).

- For all sampled projects, budgets were not adequately set up in Atlas. As a result, outputs in Atlas budgets did not correspond with outputs in project documents. It could not be clearly assessed whether expenditures were in line with budgeted outputs.

- The financial ceiling of $150,000 for Micro-Capital Grant Agreements was not complied with in two out of four projects under award 64335. The Agreements were signed in November 2013 with two implementing partners, one totalling $214,000 and another totalling $200,000. These discrepancies were due to office oversight.

Inadequate management and oversight of projects might lead to the non-achievement of programme objectives.

Priority	Medium (Important)

Recommendation 2: Improve project management and oversight by ensuring that: (a) Letters of Agreement with implementing partners are signed for all projects before the release of funds; (b) project steering committees meet regularly (at least quarterly); (c) project budgets are set up in Atlas, so that outputs in Atlas correspond with defined outputs in project documents; and (d) the corporate limit of $150,000 per Micro-Capital Grant Agreement is enforced.
Management action plan: The Office will ensure that: (a) All nationally implemented projects have Letters of Agreement. (b) Steering committee meetings are held as planned. The Office will prepare a consolidated schedule of programme/project steering committee meetings by 31 August 2014 and will confirm that they are being held. (c) All programmes and projects set up in Atlas will be done in such a way that outputs in Atlas correspond with defined outputs in project documents. The Office is engaging the two non-governmental organizations whose grants were above the corporate limit of $150,000 to reduce the contractual amounts by 31 August 2014. The activities that will not be covered after the reduction of the grants will be implemented by the Government. In the future, management will ensure that there is adherence to the corporate limit of $150,000 for Micro-Capital Grant Agreements. **Estimated completion date:** December 2014

C. Procurement

Issue 3 <u>Insufficient maintenance of vendor data</u>

The 'Programme and Operations Policies and Procedures' require that vendor information be verified before it is entered into Atlas, and verification that the same vendor information has not previously been entered into the system. The policies also require the updating of vendor information, and the archiving of vendors that have not been used within the last three years.

The Office did not have standard procedures for verifying vendor information before creating vendors in Atlas. For example, 125 vendors shared the same bank account with one or more other vendors. Of the 125 vendors, 90 were duplicate entries. OAI selected a sample of 12 vendors (13 percent of duplicate vendors) and reviewed the process of creating and approving vendors in Atlas and observed the following:

- Out of the 12 duplicate vendors reviewed, the Office was unable to provide vendor profile forms for 7 of them, since the profile forms were not consistently filed.

- Of the five vendor forms provided, four were not dated or signed by the vendor or vendor approver confirming that information provided was verified and accurate.

The vendor list was not vetted regularly. As a result, out of a total of 3,089 vendors, 330 (11 percent) had not been used in the last three years.

Discussions with staff members responsible for entering vendor information in Atlas revealed that vendor details were not verified before being entered into Atlas due to a lack of familiarity with the process.

Duplicate vendors may lead to payments being made to incorrect payees, or even fraud.

Priority	Medium (Important)
Recommendation 3: Strengthen vendor management processes by: (a) establishing and implementing standard procedures for verifying vendor information prior to creating and approving vendors in Atlas; (b) ensuring that vendor forms are adequately completed and signed by the vendor and approver, confirming that information provided by the vendor was verified and accurate; (c) consistently filing vendor profile forms together with documents used for verification of information; (d) regularly reviewing the vendor list and archiving vendors that have not been used in the last three years as required by organizational policy; and (e) training staff members that are responsible for creating and approving vendors in Atlas so that they are familiar with relevant policies and procedures.	
Management action plan: The Operations Unit has now put in place measures for verifying vendors prior to creating and approving them in Atlas. All vendor forms are now being approved by the Deputy Country Director and in his absence the Operations Analyst. All vendor forms and verification documents for banking details are now being systematically filed. The Office has now centralized the entry of vendor profiles, including the Global Fund. Furthermore, the Office will review the list of vendors on a quarterly basis and archive vendors not used in the last three years as required by organizational policy. Training on the new vendor management system and familiarization with relevant policies and procedures will be held by 30 September 2014. **Estimated completion date:** September 2014	

Issue 4 <u>Weak procurement processes</u>

The UNDP 'Programme and Operations Policies and Procedures' require timely and competitive procurement processes. The policies further require that the task of purchasing of goods and services be allocated to the Procurement Unit.

OAI reviewed a sample of 53 purchase orders valued at $4.1 million out of 418 total purchase orders processed during the period under review, with a total value of $5.4 million (or 13 percent of total purchase orders, excluding Global Fund and Global Agency account purchase orders) for compliance with procurement policies and procedures and observed the following:

- Out of 53 sampled purchase orders, 7 valued at $76,100 (or 13 percent of sampled purchase orders) represented direct procurement, where requesting units directly procured (without evidence of competitive selection) and requested the Procurement Unit to issue purchase orders just to facilitate payment.

- Of the total sample of 53 purchase orders, 14 (26 percent) were reviewed for procurement lead times (i.e. from the time a request was made until the time a related purchase order was approved). There were undue delays in procurement processing for 7 out of the 14 purchase orders. OAI observed that in 6 out of the 7 cases, lead times ranged from one to six months, even though 3 of them were through Long Term Agreements. One procurement case carried out by the Office amounting to $3 million took two years to finalize.

The discrepancies were the result of inadequate procurement oversight.

Lack of adherence to procedures related to procurement could expose the Office to financial and fraud risks.

Priority	Medium (Important)
Recommendation 4: Comply with procurement policies and procedures by processing all requests for goods and services through the Procurement Unit, and identify and address possible delays in processing time.	
Management action plan: The Office has requested an immediate initial review of procurement workflow, as well as a review of the range of demand from clients, with a view to constructing an effective and efficient procurement system that meets the needs of clients as well as the control requirements. This review is to be completed by the end of August 2014 and should include service delivery targets for the procurement team as well as clear guidance for clients. Once agreed upon by senior management, the new system and processes will be promulgated to all staff and necessary training will be conducted. There will also be a briefing by senior management/procurement staff about the new process and will include representatives from all main client units. **Estimated completion date:** December 2014	

D. General administration

Issue 5 Weak controls over fuel coupon management

When an office uses a fuel coupon system to manage fuel for vehicles, organizational policy requires the establishment and implementation of control procedures over the coupon system.

OAI reviewed maintenance of fuel coupon books and noted the following control inadequacies:

- Requests in writing for coupon books to the fuel supplier only started in March 2014 at the request of the fuel supplier. However, the requests were still made without any supervisory authorization.
- Coupon books were not recorded in a log register when received and when issued for usage.
- There was no segregation of duties between custodianship and recording of coupon books. Both were under the responsibility of the same person.
- Consolidated monthly fuel consumption reports were not prepared and reconciled with supplier's invoices.

The weak controls over fuel management could lead to the possible misuse of fuel coupons.

Priority Medium (Important)

Recommendation 5:

Strengthen the management of fuel coupons by:

(a) documenting requests for fuel coupon books and obtaining signed authorization of fuel coupon requests from appropriate levels of management;
(b) maintaining a register to record coupon books received and issued;
(c) segregating duties between ordering/recording and custody of coupons; and
(d) compiling consolidated monthly fuel consumption reports and reconciling them with fuel supplier's invoices;

Management action plan:

A system for managing fuel coupons with adequate segregation of duties and preparation of consolidated fuel consumption reports on a monthly basis is under development. Under the new system, the Administration Assistant-Transport and Registry will request for coupons in writing. The coupons will then be received, kept securely and issued by the Administration Assistant-Finance who will also maintain a register of the coupons. The Transport Unit will produce monthly reports, which will be reviewed by heads of operations and finance units. It is intended that the coupon system will be gradually phased out as the Office explores the possibility of implementing a new system.

Estimated completion date: December 2014

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

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 that are considered moderate. Failure to take action could contribute to 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 <u>not included in this report</u>.