

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT OF UNDP COUNTRY OFFICE IN ZAMBIA
Report No. 1990/Corr. 1
Issue Date: 21 March 2019

Corrigendum
Executive Summary, page i

Existing text

The audit covered the activities of the Office from 1 January 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately \$144 million.

Should read

The audit covered the activities of the Office from 1 January 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately \$44 million.

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ZAMBIA

Report No. 1990
Issue Date: 16 August 2018

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 21 May to 1 June 2018. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately \$144 million. The last audit of the Office was conducted by OAI in 2014.

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 **partially satisfactory/major improvement needed**, which means “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to inefficient project implementation, incorrect implementation of cost recovery, incorrect recording and accounting of prepayments, poor vendor management, and inaccurate reporting of common services balances in year-end common services certification.

Key recommendations: Total = 6, high priority = 5

The six recommendations aim to ensure the following:

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

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

Inefficient project
implementation
(Issue 2)

The following exceptions were noted from the performance audit of one project with two outputs (with start dates of 1 January 2012 and 1 January 2018, respectively). (a) Poor planning and lack of timeliness in project implementation. Project implementation was planned with an end date of 31 December 2014, but it was noted that the project ended on 31 December 2017, three years later than the initial end date; (b) Inefficient financial management. The project budget amounted to \$640,000 while the project expenditure as at 31 December 2017 was \$1.9 million, almost three times higher than the initially foreseen amount; and (c) Issues and risks affecting the project performance were not escalated to and discussed by senior levels in a timely manner, e.g. the Project Steering Committee.

Recommendation: The Office should ensure that adequate project management is carried out by: (a) undertaking evaluations in case of a need for major changes on a project; (b) signing annual work plans on time; and (c) ensuring that challenges and risks faced during implementation are followed up on by the Project Steering Committee / Office management and discussed and documented in the minutes of the Steering Committee meeting and that an action plan is developed by Office management for follow up.

Cost recovery
incorrectly
implemented (Issue 3)

The following exceptions were noted from the review of the implementation of cost recovery: (a) the stand-alone project created by the Office for cost recovery had not been reconciled and expenses were not charged against the respective development projects. A total of \$351,489 was charged to this project in 2017 and \$63,188 as of May 2018; (b) no workload study was completed to establish the attributable costs that qualified for cost recovery; (c) account codes used to allocate costs in the stand-alone project did not adhere to guidelines issued by the Office of Financial Resources Management; (d) the stand-alone project was incorrectly classified as a development project and not as a development effectiveness project; and (e) there was no indication that the implementation of direct project costs (DPC) had been discussed with the national counterpart or respective donors.

Recommendation: The Office should improve cost recovery as a matter of priority by: (a) consulting with the Office of Financial Resources Management on the status of the Office's stand-alone project with a view of reconciling it to zero and ensuring that going forward the stand-alone project is reconciled to zero regularly with costing being charged against the respective project; (b) completing a workload study to show the correct cost recovery and the attributable projects that these costs would relate to and amend the stand-alone project to only include the two prescribed accounts and change its classification to development effectiveness to facilitate correct recording and accounting for DPC; and (c) discussing the implementation of DPC with the donors and national counterpart, request budget revisions and ensure that project budgets include the respective DPC when being prepared and submitted to the national counterpart for approval.

Incorrect recording and
accounting of
prepayments (Issue 4)

From the review of 29 vouchers paid out to three construction companies totalling \$4.4 million (representing 92 percent of the selected voucher sample), the following was noted: (a) all three companies were given advances regardless of whether there was a request or not; (b) the sample contract that had been

provided to suppliers during the procurement phase included a milestone for site possession of 5 percent that was no longer included in the signed contract; (c) advances given of 15 percent instead of 10 percent in the contract were treated as a separate milestone instead of being factored into the contract milestone; (d) the purchase order created in Atlas (enterprise resource planning system of UNDP) had different milestone amounts from what was stated in the contract and therefore, the amounts paid per milestone could not be reconciled to the milestone that had been certified as completed; and (e) the Office was creating a separate voucher to reduce the advance paid to contractors – this voucher had no corresponding documentation, nor did it adhere to the organizational rules that the deduction must be equal to the percentage that was given as an advance.

Recommendation: For new and future contracts, the Office should improve accounting and recording of prepayments by: (a) adjusting the payment to correctly reflect the milestones that include a portion of the advance, as well as the milestones to include the 5 percent site possession rate; (b) clearly documenting any revisions and/or amendments to contract terms agreed with the contractor; and (c) adhering to the accounting principles stipulated in 'UNDP Programme and Operations Policies and Procedures'.

Poor vendor
management (Issue 5)

Analysis of the relevant Atlas query showed that 127 bank accounts had two or more different vendor identification numbers using the same bank account. Out of which, 96 bank accounts had similar vendor names which could be an indication of duplicate vendor records. For the remaining 31 bank accounts, each account was linked to two different vendor names.

From a review of a sample of 15 vendor profiles, it was noted that 5 had missing supporting documents. The Office had no systematic method or standard operating procedure in place to check for possible duplicate vendor profiles or to clean up the business unit's vendor database periodically. Six disbursements for three vendors were returned by the bank due to wrong bank details.

Recommendation: The Office should strengthen the management of the vendor database by: (a) preventing the creation of more duplicate profiles by agreeing on a standard naming convention to enter vendor details in the business unit and ensuring vendor creators and approvers check existence in Atlas before adding a new vendor; (b) confirming the vendor's banking details directly with the vendor's bank to ensure they are accurate before approving the vendor; and (c) performing regular periodic data clean-up exercise of the vendor database (quarterly) and investigating possible duplicate vendor profiles and deactivating and archiving vendor profiles that are no longer needed.

Inaccurate reporting of
common services
balances in year-end
common services
certification (Issue 6)

The Office did not report accurate year-end common services balances in the certification report for financial year 2017 that supported the financial assertion on common services. At the time of the audit, the Office was not able to provide the participating UN agencies a reliable status of common services. As of end 2017, the participating UN agencies stopped advancing their share of common services because they were under the impression that there were unspent balances carried over from past years. However, the Office had ongoing contractual obligations to meet and it was forced to pre-fund common services

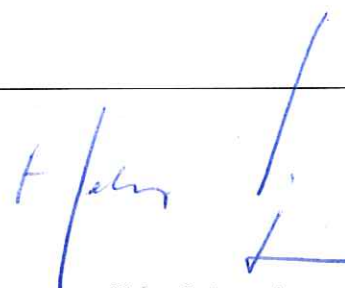
expenses. The value of common services expenses pre-funded by UNDP from 1 January 2015 to 31 March 2018 amounted to \$5.4 million. At the time of the audit, the Office had yet to adjust the figures to reflect a true fund status for each agency, including the share of UNDP.

Recommendation: The Office should strengthen accounting and reporting of common services by: (a) reconciling and verifying the common services revenue and expenses per fund and donor, cumulative since 1 January 2015, to confirm reliable closing balances as of 31 December 2017, and processing journals to correct the 2018 common services funds opening balances carried forward; (b) submitting a transparent account of expenses pre-financed by UNDP from 2015 to date to all contributing UN agencies and consulting with them to reach a formal agreement on balances due to and due from each agency as of end 2017; and (c) obtaining technical guidance from UNDP Headquarters to ensure the correct accounting method is implemented going forward to record and account for UNDP's own contribution and expenses relating to common services.

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 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.

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is positioned above the printed name.

Helge S. Osttveiten
Director
Office of Audit and Investigations