UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

MOZAMBIQUE

Report No. 1449

Issue Date: 10 July 2015

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Report on the audit of UNDP Mozambique
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Mozambique (the Office) from 13 to 27 April 2015. 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, and general administration).

The audit covered the activities of the Office from 1 January 2014 to 28 February 2015. The Office recorded programme and management expenditures totalling $24.6 million. The last audit of the Office was conducted by OAI in 2011.

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** which means, "Internal controls, governance and risk management 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." This rating was mainly due to inadequate financial sustainability planning and incorrect recording of operational costs, and delays in the financial closure of operationally closed projects.

Key recommendations: Total = **4**, high priority = **2**

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendations 2 & 4); and (c) effectiveness and efficiency of operations (Recommendation 3).

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:

Inadequate financial sustainability planning and incorrect recording of operational costs (Issue 1)	The Office implemented its Financial Sustainability and Effectiveness Plan in 2013, which provided for a shift in funding for some staff posts and a shift in operational costs from the administrative budget to the programme budget. The workload study that was completed for this plan did not yield the required 10 percent reduction in operational costs and this led the Office to find alternate

methods to reduce costs and maintain financial sustainability. The Office charged a total of approximately $892,800 for salaries and general operating costs against programme resources. The cost recovery process applied for charging these costs to particular development projects was not clearly justified nor could it be linked to the relevant workload study. Operational expenditure funded from extrabudgetary resources was understated by a total of $106,897 due to an incorrect allocation of Value Added Tax (VAT) refunds, as well as unidentified deposits and contributions received from other agencies.

Recommendation: Improve financial sustainability planning and recording of operational costs by: (a) revising the previous workload study to accurately reflect the allocation of project support costs; (b) discussing the apportionment of project support costs with donors and the national counterpart; (c) reversing 2015 expenditures incorrectly allocated to projects; and (d) adhering to the organizational procedures for accounting and reporting for VAT and contributions received from other agencies, and where possible crediting VAT refunds back to the correct projects.

Delays in the financial closure of operationally closed projects (Issue 2)

There was no evidence of proper follow-up on operationally closed projects to ensure that the necessary steps were taken to financially close them. The audit disclosed that 85 operationally closed projects between 2004 and 2012 had yet to be financially closed. A $3.2 million funding deficit was linked to these projects, and the Office management was in the process of analysing and reconciling this amount.

Recommendation: Strengthen project closure activities by: (a) liaising with the Accounts and Client Services Division in the Office of Financial Resources Management to review the number of projects that have been operationally closed and requesting guidance and assistance on how to resolve the funding deficits and financially close the projects concerned; (b) developing and implementing effective controls that will ensure that projects are financially closed within 12 months after operational closure; and (c) improving the monitoring of project expenditure to avoid future funding deficits.

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.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Maputo, Mozambique (the Country), had 53 staff and personnel at the time of the audit. Its programme activities focused on governance, capacity-building and addressing the economic disparities, with a special emphasis on women and youth. The Office's programme was developed with the Government taking into account the 'United Nations Development Assistance Framework' and in consultation with civil society organizations. It was fully aligned with the Country's poverty reduction strategy. The Country was among those piloting the Delivering as One initiative.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Development activities. Working groups met regularly within the framework of the UN Country Team to coordinate programming and other activities. A Monitoring and Evaluation Plan was in place and planned activities were being completed.

(b) Resident Coordinator Office. Systems for planning and reporting were found to be generally adequate.

(c) Role of UNDP - One UN. The Office was primarily responsible for the coordination of the Delivering as One initiative and the consolidation of the common budgetary framework. No exceptions were noted.

(d) Harmonized Approach to Cash Transfers. The Office was in the process of implementing the new Harmonized Approach to Cash Transfers policy. No reportable issues were noted.

(e) Programme management. Programme delivery was within the acceptable range when compared with the Regional Bureau's average delivery rate.

(f) Partnerships and resource mobilization. As a result of the Delivering as One initiative, the Office did not have a separate resource mobilization strategy, but had an effective system in place to track donor contributions and pipeline initiatives.

(g) Asset management. The management of assets was found to be in line with established policies and procedures.

OAI made two recommendations ranked high (critical) and two 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) Improve financial sustainability planning and recording of operational costs (Recommendation 1).
(b) Strengthen project closure activities (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(a) Improve the administration and management of common services (Recommendation 4).
(b) Improve procurement and vendor management processes (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Financial sustainability

Issue 1 Inadequate financial sustainability planning and incorrect recording of operational costs

UNDP developed a Financial Sustainability and Effectiveness Plan in 2012, which called for offices to reduce operational costs by 10 percent on an annual basis from 2013 to 2015 and to ensure that the offices were financially sustainable. In addition, the recently introduced Direct Project Costing policy requires that eligible direct staff costs be appropriated against the relevant development projects. The appropriated costs are to be based on staff time directly attributable to the project. Staff time to be directly attributed to the project should be determined through a workload study and through consultations with respective development partners for the recovery of these costs.

The Office implemented its Financial Sustainability and Effectiveness Plan in 2013 that provided for a shift in the source of funding of some staff posts, and a shift in operational costs from the administrative budget to the programme resources. The workload study that was completed for this plan did not yield the required 10 percent reduction in operational costs, and this led the Office to find alternate methods to reduce costs and achieve its financial sustainability objectives.

The audit noted the following weaknesses regarding the alternate methods used by the Office:

- The Office charged approximately $892,800 ($278,600 in 2014 and $614,200 in 2015) for salaries and general operational costs to programme resources. This represented 3.8 percent of programme resources for the period. The cost recovery process applied for charging these costs to particular development projects was not clearly justified nor could it be linked to the relevant workload study. There was also no evidence that the shift in staff costs and associated operational expenditures to programme resources had been communicated to donors and to the national counterpart.

- Operational expenditure funded from extrabudgetary resources was understated by a total of $106,897 ($85,260 in 2013 and $21,637 in 2014). This was due to an incorrect allocation of VAT refunds as well as unidentified deposits and contributions received from other agencies. Funds received were incorrectly credited against expenditure instead of being allocated against the correct balance sheet accounts.

Management indicated that the Office was in the process of launching a new workload study, the results of which would be used for the future distribution of costs. Communication with donors and counterparts on support costs to be charged to projects took place in 2014, and the Office was to continue the discussion with the newly elected Government. Due to budget limitations, the Office would be able to reverse incorrectly attributed expenditures only for 2015, and not for 2014.

Inadequate planning and incorrect recording of operational costs may put the financial sustainability of the Office at risk.

Priority	High (Critical)
Recommendation 1: Improve financial sustainability planning and recording of operational costs by: (a) revising the previous workload study to accurately reflect the allocation of project support costs; (b) discussing the apportionment of direct project support costs with donors and the national counterpart; (c) reversing 2015 expenditures incorrectly allocated to projects; and (d) adhering to the organizational procedures for accounting and reporting for VAT and contributions received from other agencies, and where possible crediting VAT refunds back to the correct projects.	
Management action plan: Management will implement the recommendation. **Estimated completion date:** December 2015	

B. Programme activities

1. Project management

Issue 2 Delays in the financial closure of operationally closed projects

UNDP's 'Programme and Operations Policies and Procedures' stipulate that projects should be finalized and financially closed within 12 months after their operational closure.

There was no evidence of proper follow-up on operationally closed projects to ensure that the necessary steps were taken to financially close them within 12 months. Specifically, a total of 85 projects were operationally closed between 2004 and 2012 but they had not been financially closed at the time of the audit. There was a funding deficit of $3.2 million linked to these projects. At the time of the audit, the Office was still in the process of analysing and reconciling to establish whether these deficits were actual over-expenditures or the result of incorrect accounting of project expenditures that needed to be rectified.

Management acknowledged that the clearing and subsequent financial closure of these projects was a challenge due to the time lapsed since the time the projects were operationally closed. Further, management was facing an additional challenge, as in some instances there was no longer a valid cooperation agreement with the respective donors. Therefore, the Office would not be able to request additional funding in case the project expenditure that resulted in the deficit was found to be justified. This was mainly due to inadequate monitoring of both ongoing and operationally closed projects.

Delays in the financial closure of projects may result in duplicate and/or fraudulent transactions that could remain undetected. Unresolved cost-sharing deficits may lead to inaccurate reporting and strained relations with donors.

Priority	High (Critical)
Recommendation 2: Strengthen project closure activities by: (a) liaising with the Accounts and Client Services Division in the Office of Financial Resources Management to review the number of projects that have been operationally closed and requesting guidance and assistance on how to resolve the funding deficits and to financially close the projects concerned; (b) developing and implementing effective controls that will ensure that projects are financially closed within 12 months after operational closure; and (c) improving the monitoring of project expenditure to avoid future funding deficits.	
Management action plan: A task force will be created to ensure no more operationally closed projects not financially closed for more than 12 months. The Office will continue to liaise with the Bureau of Management to address the closure processes of the projects that are still not financially closed. **Estimated completion date:** June 2016	

C. Procurement

Issue 3 Lack of compliance with procurement policies and procedures

UNDP's 'Programme and Operations Policies and Procedures' require that all procurement valued at $50,000 and above should be subjected to review by the appropriate procurement committee. All procurement above the value of $2,500 should be initiated by raising a requisition and preparing a purchase order. Financial management policies and procedures that give guidance on vendor management stipulate that vendors that have been inactive for three years should be archived.

From a total of 325 purchase orders valued at $2.2 million processed during the period under review, the audit selected a sample of 26 purchase orders amounting to $867,000 (39 percent of total purchase orders). Two purchase orders totalling $265,000 had not been submitted to the respective procurement committee for review, as required. These purchase orders related to customs and excise duties, and project audit services.

A review of the vendor management process disclosed the following:

- The vendor database was not regularly monitored. Out of a total of 2,961 active vendors, only 417 (14 percent) had been used in the last three years.

- Vendors were inconsistently vetted. Out of a sample of 26 vendor forms, 8 did not have documentary proof of the vendors' identity (identification for individuals or business registration in the case of companies), or any indication that the vendors' banking details had been verified by the Office.

Not submitting purchase orders valued at $50,000 or above to the appropriate procurement committee may prevent the Office from achieving best value for money or expose UNDP for future liabilities. In addition, lack of effective monitoring and due diligence of vendors may lead to incorrect payments that may go undetected.

Priority	Medium (Important)

Recommendation 3:

Improve procurement and vendor management processes by:

(a) submitting all procurement cases valued at $50,000 and above to the appropriate procurement committee, including the two purchase orders that were not previously submitted; and
(b) archiving all vendors that have been inactive for over three years and establishing a thorough vetting process for new and existing vendors.

Management action plan:

Management will implement the recommendation.

Estimated completion date: December 2015

D. General administration

Issue 4 Incorrect accounting of common services contributions and payments

The International Public Sector Accounting Standards for reporting on year-end balances, with respect to common services, require offices to generate year-end reports for certification purposes that show amounts due to or from contributing agencies.

- The Office had set up common services and contribution fund category codes and separate accounts for each contributing agency in Atlas (enterprise resource planning system of UNDP) as required. The management of common services was monitored through an Excel spreadsheet maintained outside of Atlas. The Excel spreadsheet figures did not match the balances shown in Atlas for 2014, and there was no evidence to show that the Office was reconciling these two sources of information. For example, the Excel spreadsheet showed a balance of $64,104, while Atlas showed a balance of $187,390.

- Payments made by the Office for common services were not apportioned against each agency's account based on the mutually agreed basis of apportionment.

Management indicated that there were capacity constraints due to continuous vacancies in the Finance Unit from 2010 to December 2014. However, the Office had recruited a national consultant who was aware of UNDP procedures in order to train the newly recruited finance staff who would be responsible for the administration of common services.

The lack of reconciliation and the incorrect accounting for contributions and payments made for common services increases the risk that agency balances for common services may be incorrect. This may have a negative impact on the reliability of the information reported as part of the year-end certification for common services.

Priority	Medium (Important)
Recommendation 4: Improve the administration and management of common services by: (a) reconciling the common services fund account balances shown in Atlas to the Excel spreadsheet to ensure that amounts reported on to agencies and shown in Atlas can be relied on; and (b) allocating contributions received from agencies against the correct common services fund code and agency account code.	
Management action plan: Management will implement the recommendations. **Estimated completion date:** December 2015	

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>.