UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

THE UNITED REPUBLIC OF TANZANIA

Report No. 1599

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Report on the Audit of UNDP United Republic of Tanzania
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP in the United Republic of Tanzania (the Office) from 8 to 19 February 2016. 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, business continuity, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (Resident Coordinator Office, 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).

The audit covered the activities of the Office from 1 January to 31 December 2015. In view of a low risk rating during the pre-audit assessment, the audit did not cover the area of development services and the role of UNDP as part of One UN. The Office recorded programme and management expenditures of approximately $50 million. The last audit of the Office was conducted by OAI in 2012.

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 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." This rating was mainly due to weaknesses in programme management, project management, and finance.

Key recommendations: Total = **4**, high priority = **3**

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
	2	Medium
Reliability and integrity of financial and operational information	3	High
Effectiveness and efficiency of operations	4	High

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:

Lack of outcome evaluations during current programme cycle (Issue 1)	There were no outcome evaluations included in the Office's evaluation plan and no evaluations were undertaken during the current programme cycle, covering the period from 2011 to 2016. Instead, the Office had relied on the United Nations Development Assistance Framework (UNDAF) evaluation undertaken in 2015, which took into account the contributions of all United Nations development agencies. As also highlighted by the Evaluation Office's Assessment of Development Results, it was not clear what the contributions of UNDP to development in the Country were, since any contributions that may have been made over the years were clustered with those of other United Nations Agencies. <u>Recommendation</u>: The Office should ensure that outcome evaluations are conducted for each outcome at least once during the new programming cycle for the period 2016-2021.
Weak financial and legal controls over project implementation (Issue 3)	The audit identified inconsistencies within project implementation, such as: weak financial controls for project advances and inadequate legal safeguards. More specifically, for 9 out of 10 advances reviewed (with a total value of $926,000), cash advances were made to implementing partners without the Funding Authorization and Certification of Expenditure (FACE) forms being signed by a representative of the implementing partner. Furthermore, out of seven projects sampled, two projects did not have Letters of Agreement in place. Since Letters of Agreement define the support services that Offices are to provide to governments for implementing projects, it was not precisely clear what kind of support was to be provided by the Office for the two projects, or when and according to which organizations' policies and procedures. <u>Recommendation</u>: The Office should strengthen financial and legal safeguards over project implementation by: (a) granting advances to implementing partners only after the receipt of signed FACE forms; and (b) signing Letters of Agreement for all projects, so as to detail the type of services to be provided under the project and the duration.
Inadequate management of cash advances granted to staff (Issue 4)	Controls over the recovery of advances granted to staff were not adequate. Staff entrusted with organizational funds to facilitate workshops and sundry repairs and maintenance within the Office were not regularly accounting for these funds in a timely manner, and there was no effective follow-up carried out by the Office. The review of a random sample of 11 out of 64 vouchers paid out as project advances during 2015 with a value of $59,506 demonstrated the following: out of the total amount reviewed, $57,125 was only cleared between January and February 2016; and there were outstanding balances totalling $1,963 that had not been recovered from four staff members. The analysis of the dedicated account for project advances for 2015 showed a total of $10,285 in outstanding advances dating as far back as January 2015 that still had to be reconciled and accounted for. <u>Recommendation</u>: The Office should strengthen the reconciliation and accounting for advances by: (a) establishing the maximum allowable time for staff to report back on funds advanced, within the recommended time frame of seven days after the completion of the event; (b) ensuring that staff who are granted advances are held responsible and personally liable for any funds that

cannot be accounted for; (c) considering to engage with the local bank and request assistance with the disbursement of funds directly from the branches countrywide; and (d) considering to engage with the local network providers to explore the use of mobile money transfer providers and to request approval from Treasury to pilot this initiative.

Management comments and action plan

The Resident Coordinator 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
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I. About the Office

The Office, located in Dar es Salaam, Tanzania (the Country) had 45 staff at the time of the audit. Total programme expenditures in 2015, according to data in the Executive Snapshot, stood at $47 million. The focus areas of the Country Programme included poverty reduction, energy and environment, HIV/AIDS, governance, and crisis prevention and recovery.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic planning. The principal controls for governance and strategic planning were in place.

(b) Resident Coordinator's Office. The Office met the planning, reporting and coordination requirements and expenditures were adequately recorded in Atlas (enterprise resource planning system of UNDP).

(c) Partnerships and resource mobilization. The Office exceeded the resource mobilization target of $124 million for the programming cycle 2012-2016 and mobilized $132 million. Other risks identified in this area were considered low and the relevant recommendations were discussed and agreed with management.

(d) Human resources. Control procedures for recruitment, separation of staff and service contractors were adequate and in line with organizational procedures.

(e) Common services. The administration of common services was adequately managed.

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

(g) Information and communication technology (ICT). ICT controls were found to be in place and in line with information management and technology requirements.

(h) Safety and security. Safety and security controls over UNDP staff and assets were found to be adequate and functioning.

OAI made three recommendations ranked high (critical) and one recommendation 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) Strengthen the reconciliation and accounting for advances (Recommendation 4).
(b) Ensure that outcome evaluations are conducted (Recommendation 1).
(c) Strengthen financial and legal safeguards over project implementation (Recommendation 3).

Medium priority recommendation:
(a) Enhance oversight of project implementation (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Programme activities

1. Programme management

Issue 1 Lack of outcome evaluations during current programme cycle

According to the 'UNDP Programme and Operations Policies and Procedures', in order to account for the use of resources and ensure that lessons are learned for future programming, offices must undertake outcome evaluations for each and every outcome listed in the Country Programme Document, at least once during the programme cycle. Outcome evaluations are considered distinctly different from UNDAF evaluations.

The audit disclosed that no outcome evaluations were included in the Office's evaluation plan and no evaluations were undertaken during the current programme cycle, covering the period from 2011 to 2016. Office management explained that the number of outcome evaluations that had to be undertaken as per corporate requirements was too high, given the five outcome areas focusing on poverty reduction, energy and environment, HIV/AIDS, governance, and crisis prevention and recovery. Therefore, the Office decided not to undertake them. Instead, the Office relied on the UNDAF evaluation, undertaken in 2015, which took into account the contribution of all United Nations development agencies to the Country's development.

As also highlighted by the Evaluation Office's Assessment of Development Results, it was not clear what the contributions of UNDP to development in the Country were, since any contributions that may have been made over the years were clustered with those of other United Nations agencies.

Not conducting outcome evaluations may have a negative impact on donor confidence and resource mobilization, and may affect the Office's accountability and its ability to make informed decisions on programmes.

Priority	High (Critical)
Recommendation 1: The Office should ensure that outcome evaluations are conducted for each outcome at least once during the new programming cycle for the period 2016-2021.	
Management action plan: The Office will include outcome evaluations for each outcome into the Monitoring and Evaluation Plan for the 2016-2021 programming cycle to ensure that they are implemented during that period. **Estimated completion date:** August 2016	

2. Project management

Issue 2 Weaknesses in oversight of project implementation

In order to ensure effective oversight over projects, the 'UNDP Programme and Operations Policies and Procedures' stipulate that offices must ensure that the monitoring of projects takes place on a regular basis so as to ensure that financial expenditures are accurate and that projects are set to achieve their targets within allocated resources and time frames. Furthermore, project board meetings should be held on a quarterly basis and provide oversight and steering for projects; annual work plans are to be approved by project boards and issue/risk logs are to be maintained in Atlas for each project.

The audit reviewed a sample of seven projects, representing 53 percent of total programme resources and 34 percent of expenditures in 2015, and identified the following:

- Project board meetings were not held regularly for five projects.
- There were no project board meetings held for one project. The annual work plan for 2015 for this project, with expenditures amounting to $13 million, was not approved by a project board.
- In all cases, no issue/risk logs were found.

Failure to fully effectuate project monitoring and oversight may result in delays and inefficiencies in the implementation of projects without timely remedial action.

Priority	Medium (Important)

Recommendation 2:

The Office should enhance oversight of project implementation by:

(a) establishing project board meetings for all projects in order for the boards to undertake their steering and oversight functions;
(b) having all project annual work plans and planned project expenditures contained therein approved by project boards; and
(c) maintaining issue and risk logs in Atlas for all projects.

Management action plan:

The Office will:

(a) prepare the schedule for project board meetings for all current active projects for 2016;
(b) ensure that all project annual work plans are approved by project boards and implementation reports are presented by the head of the Project and Strategic Support Unit to the Country Director on a quarterly basis; and
(c) establish an issue and risk log monitoring system for the Office and a compliance reporting system on a quarterly basis to the Country Director. Issue and risk log reporting will be a standing agenda item on the monthly Programme and Operations Meetings

Estimated completion date: July 2016

Issue 3 Weak financial and legal controls over project implementation

According to the 'UNDP Programme and Operations Policies and Procedures', offices need to ensure that the necessary safeguards are in place for all projects implemented. This includes ensuring that FACE forms are signed by implementing partners prior to the release of financial advances, as well as signing Letters of Agreement for all projects where UNDP is either the implementing partner or the responsible party.

The audit identified the following inconsistencies:

- Weak financial controls for project advances. Ten advances were sampled from 2015 with a value of $1.1 million. It was noted that for 9 out of the 10 samples (with a total value of $926,000, representing 84 percent of the sample), cash advances were made to implementing partners without the FACE form being signed by a representative of the partner.

- Inadequate legal safeguards for project implementation. The sample review of seven projects, representing 53 percent of total programme resources and 34 percent of expenditures incurred in 2015, disclosed that two projects did not have Letters of Agreement in place. Since Letters of Agreement define the support services that offices are to provide to governments for implementing projects, it was not precisely clear what kind of support was to be provided by the Office for the two projects concerned, or when and according to which organizations' policies and procedures.

Priority High (Critical)

Recommendation 3:

The Office should strengthen financial and legal safeguards over project implementation by:

(a) granting advances to implementing partners only after the receipt of signed FACE forms; and
(b) signing Letters of Agreement for all projects, so as to detail the type of services to be provided under the project and the duration.

Management action plan:

(a) The Office will develop and implement new Standard Operating Procedures for FACE request form processing based on the following conditions:

- the FACE request forms are signed by authorized and designated implementing partners' signatories;
- the project managers certify that the forms are signed and the amounts requested conform to the annual work plan; and
- all project advance payments are verified by Programme Finance Units with reports to the Deputy Country Director (Operations) and Country Director on a quarterly basis.

(b) The Office will prepare and sign Letters of Agreement for all current active and new projects.

Estimated completion date: July 2016

B. Operations

1. Finance

Issue 4 Inadequate management of cash advances granted to staff

Effective controls over advances granted to staff for project purposes require, according to the 'UNDP Programme and Operations Policies and Procedures', that project cash advances be "closed and fully accounted for as actual expenses within 7 days after the last day of the one-time project activities." The controls must include steps to be taken for the organization to recover funds if there is insufficient proof that funds have been utilized.

The controls over the recovery of advances granted to staff were not adequate. Staff entrusted with organizational funds to facilitate workshops and sundry repairs and maintenance within the Office were not regularly accounting for these funds in a timely manner. There was no effective follow-up carried out by the Office on advances that had not been accounted for. The review of a random sample of 11 out of 64 vouchers paid out as project advances during 2015 (with a value of $59,506 out of a total of $418,300 and representing 14 percent of the total sample), identified the following:

- Out of the total amount reviewed, $57,125 was only cleared between January and February 2016.
- Outstanding balances totalling $1,963 had not been recovered from four staff members. There was insufficient documentation provided by the staff on the use of the advances granted to them. As a result, these would be deducted from the staff salaries.
- The analysis of the dedicated account maintained for project advances for 2015 showed a total of $10,285 in outstanding advances, dating as far back as January 2015, which still had to be reconciled and accounted for.

Not monitoring advances granted to staff may lead to the misappropriation and/or fraudulent use of funds going undetected.

Priority	High (Critical)

Recommendation 4:

The Office should strengthen the reconciliation and accounting for advances by:

(a) establishing the maximum allowable time for staff to report back on funds advanced, within the recommended time frame of seven days after the completion of the event;
(b) ensuring that staff who are granted advances are held responsible and personally liable for any funds that cannot be accounted for;
(c) considering to engage with the local bank and request assistance with the disbursement of funds directly from the branches countrywide; and
(d) considering to engage with the local network providers to explore the use of mobile money transfer providers and to request approval from Treasury to pilot this initiative.

Management action plan:

The Office will take the following actions:

(a) revise the Standard Operating Procedures on Advance Payments to staff members, to include the automatic recovery of outstanding advances from salaries after seven days;
(b) have recipients of advances sign an authorization to the Office to recover advances outstanding for more than seven days from their salaries and entitlements;
(c) finance the engagement with the local bank, following the agreement to pay recipients directly at locations nationwide; and
(d) complete the arrangement with the local network providers on the use of a mobile money transfer provider in consultation with the Treasury and Cash Management Unit at Headquarters.

Estimated completion date: August 2016

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 not included in this report.