

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



*Empowered lives.  
Resilient nations.*

**AUDIT**  
  
**OF**  
  
**UNDP COUNTRY OFFICE**  
  
**IN**  
  
**BELARUS**

**Report No. 1888**  
**Issue Date: 21 November 2017**

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## Report on the Audit of UNDP Belarus Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Belarus (the Office) from 11 to 22 September 2017. 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 2016 to 30 June 2017. The Office recorded programme and management expenses of approximately \$31 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 / some improvement needed**, which means, “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.” This rating was mainly due to challenges in the implementation of Direct Project Costing.

### Key recommendations: Total = 3 high priority = 1

The three recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendations 1 and 2); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (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. The high (critical) priority recommendation is presented below:

Challenges with Direct Project Costing implementation (Issue 1)	The Office had only collected a total of \$66,000 out of a \$436,000 (15 percent) target as of August 2017. The Government disagreed with the application of Direct Project Costing, which led to delays in approving 2016 Combined Delivery Reports for Project Nos. 86085, 96107, and 96108. The government counterpart indicated that there was no provision in the project documents relating to the charging of ‘development effectiveness’ (programme and programme support unit) costs. Further, there were donor constraints with regard to the inclusion of direct project costs within the programme budgets.
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Recommendation: The Office should strengthen the implementation of Direct Project Costing by: (a) ensuring that all elements of Direct Project Costing are clearly defined and routinely included in the project document and AWP, and agreed with all relevant parties; and (b) clarifying with the Government regarding the presentation of financial information, including Direct Project Costing within the AWP and Combined Delivery Report.

### Management comments and action plan

The UNDP Resident Representative and UN Resident Coordinator accepted all three 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.



Helge S. Osttveiten  
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## I. About the Office

The Office, located in Minsk, Belarus (the Office), covers the programme for the period 2016-2020 and includes four thematic areas: governance rule of law and human rights; health social inclusion gender equity; environment and green economy; and local government and development. National implementation of projects is the preferred modality. UNDP provides implementation support services at the request of the Government. There has recently been a reduction in delivery from \$16 million in 2016 to the projected delivery of \$10.1 million in 2017, following the conclusion of the Global Fund grants. A Management Change Team mission is scheduled to take place in November 2017 to assess the adequacy of the existing structure against projected future delivery. At the time of the audit, the Office had 22 staff members and 73 service contract holders.

## II. Audit Results

Satisfactory performance was noted in the following areas:

- (a) Operations/Human Resources Management. The review of recruitment and separation processes did not identify any reportable issues.
- (b) Operations/Procurement. The review of supporting documents for 21 sampled purchase orders for goods and services valued at \$1.8 million, and reviews of the procurement dashboard and bidding process disclosed that controls were in place and no reportable issues were identified.
- (c) Operations/Financial Resources Management. The review of supporting documents for 31 sampled vouchers valued at \$2.7 million, and reviews of bank reconciliation, finance dashboard, pay cycle processes, and the recording of value added tax disclosed that controls were in place and no reportable issues were noted.
- (d) Operations/ICT and General Administrative Management. ICT systems managed by the Office including hardware, software and system security were operating effectively. General administration controls were well established and functioning adequately. The management of assets was found to be in line with UNDP policies and procedures and no reportable issues were identified.
- (e) Operations/Staff and Premises Security. The Office was compliant with the Minimum Operating Security Standards. The Business Continuity Plan was last updated in July 2017.

OAI made one recommendation 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. 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.

### High priority recommendation:

- (a) Strengthen the implementation of Direct Project Costing (Recommendation 1).

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

- (a) Strengthen project management (Recommendation 2).
- (b) Enhance UNDAF implementation (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Governance

### 1. Leadership

#### Issue 1 Challenges with Direct Project Costing implementation

The 'UNDP Programme and Operations Policies and Procedures' state that direct project costs are levied for costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity (projects & programmes). These costs are included in the project budget and charged directly to the project budget for the development activity and/or service. The Direct Project Costing guidelines indicate that services that will result in direct project costs need to be disclosed transparently, agreed to by all concerned parties, and included in the project document and annual work plan (AWP).

There are two forms of Direct Project Costing:

- **Programme implementation and implementation support activities:** Costs incurred by UNDP to support project implementation by operations units including services relating to finance, procurement, HR, admin, security, travel, assets, general, and ICT.
- **Development effectiveness:** Activities and costs that support programme, quality, coherence and alignment. In the Office, these are costs associated with programme units and programme support units, e.g., strategic country programme planning/quality assurance, programme pipeline development, and programme policy advisory services.

During 2016, the Office collected a total of \$315,000 out of a target of \$320,000 (98 percent). However, for the current year, the Office had only collected a total of \$66,000 out of a \$436,000 (15 percent) target as of August 2017.

The main reasons for the low collection of direct project costs in 2017 were as follows:

- (a) The Government disagreed with the application of Direct Project Costing, which led to delays in approving 2016 Combined Delivery Reports for Project Nos. 86085, 96107, and 96108. The government counterpart indicated that there was no provision in the project documents relating to the charging of 'development effectiveness' (programme and programme support unit) costs.

The audit noted that the provision of UNDP country support services (attached as an annex to the project documents) only included support services vis-à-vis processing of financial transactions, procurement of goods and services, and hiring of personnel, and nothing on programme support. Confusion was created because the charges were described as programme and programme support unit costs, while the Office in fact was collecting direct project costs based on the operational support services provided. Furthermore, the government counterpart highlighted challenges in reconciling the figures presented in the AWP and in the Combined Delivery Reports. The Office explained that efforts had been made over recent months towards developing clearer budgeting procedures.

- (b) Donor constraints with regard to the inclusion of direct project costs within the programme budgets: The two largest donors for the Office are the European Union (EU) and Global Environment Facility (GEF), accounting for 51 percent and 19 percent, respectively, of the 2017 programme budget. The EU Delegation to the Country was of the opinion that development effectiveness costs should be covered by the general

management service cost, and that the use of a Local Price List for charging implementation support activities was in their opinion, not appropriate, since these were based on estimates rather than actual costs. The Office had two projects (\$16.6 million budget) with the EU, which were awaiting finalization, pending agreement of the project budget. Both the donor and Office suggested that these concerns be addressed at the corporate level between the respective head office of UNDP and the EU.

As there is already an ongoing discussion between UNDP Headquarters and the EU Delegation for a long-term solution, OAI is no longer making a recommendation in this regard.

Failure to fully implement Direct Project Costing may adversely impact the Office in being able to support local office costs. Furthermore, disagreements among donors and the Government on the application of Direct Project Costing may have an impact on the ability to mobilize resources, and on the ability to implement ongoing and future projects.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>  The Office should strengthen the implementation of Direct Project Costing by: <ul style="list-style-type: none"> <li>(a) ensuring that all elements of Direct Project Costing are clearly defined and routinely included in the project document and AWP, and agreed with all relevant parties; and</li> <li>(b) clarifying with the Government the presentation of financial information, including Direct Project Costing within the AWP and Combined Delivery Report.</li> </ul>	
<b>Management action plan:</b>  While this can be challenging to do in the ongoing projects, all new and pipeline projects include clearly defined Direct Project Costing under specific accounting codes and this will be continued further on.  The presentation and explanation of the financial information in the AWP and Combined Delivery Report, including GMS, Direct Project Costing and the Chart Field Tree Structure, which is in line with corporate requirements and templates was explained to the government ministry on 2 November 2017.  In addition, explanation of the presentation of the financial information in the AWP and Combined Delivery Report will be added to the agenda of the working level discussion with the government ministries planned for early December 2017.  There was already one meeting (8 August) with the relevant government ministry and line ministries to discuss various issues relating to project implementation, including financial reporting. Prior to the meeting, a letter from UNDP Headquarters to elaborate on the legal basis for Direct Project Costing was sent to the government ministry in August 2017.  <b>Estimated completion date:</b> December 2017	



## B. Programme

### 1. Programme / Project Design and Implementation

#### Issue 2 Weaknesses within project management

The audit selected six projects (Project Nos. 61054, 73130, 81657, 70895, 67546 and 90255) for detailed review, with a total expenditure of \$7.9 million, representing 70 percent of total programme expenditure in 2016. The audit noted the following weaknesses within project management:

##### (a) Protracted project registration

All international technical assistance projects are required to be registered as per the Country's national procedures. In four of the six sampled projects, processing of government registrations took between four and seven months. The Office had made several attempts to address the issue, including agreeing with the Government to streamline the process following a meeting between the UNDP Administrator and the Country's President. The Coordination Council, which was established to facilitate faster project registration, was not successful in reducing the registration time. The Office commented that the same challenge is faced by all donors within the Country. The issue on protracted project registration was also raised in the prior audit report (Audit Report No. 1044 issued in October 2012). The lengthy registration process contributed to the delay in project implementation, which could negatively affect the achievement of project results.

Considering that project registrations are beyond the control of the Office, OAI is not making a recommendation in this respect.

##### (b) Inadequate programme and project oversight

The 'UNDP Programme and Operations Policies and Procedures' state that offices must ensure adequate monitoring by preparing Back to Office reports following field visits, annual progress reports, and maintaining issue, monitoring and risk logs. The annual progress report should contain the following elements for the assessment of results: analysis of project performance (outputs produced); and issues, risks, lessons learned and how these will be incorporated as well as recommendations for addressing challenges. Each AWP should be endorsed by the Project Board at the start of the year prior to activities commencing.

- (i) Several issues were identified with the information contained with the annual progress reports reviewed. For example, the descriptive element within the narrative report was activity focused (e.g., providing information of number of meetings or study tours completed) with limited information on the achievement of project outputs (Project Nos. 73130 and 84642). Three of the six reports reviewed did not include a section on project risks, issues and lessons learned (Project Nos. 67546 and 61054). The results and resources framework of three projects did not include annualized output targets, which should be referred to when reviewing the annual project progress (Project Nos. 61054, 81657, and 73130). The Office confirmed that the format of the annual progress report would be updated to ensure consistent presentation of information.
- (ii) Delays in the endorsement of the AWPs were noted for Project Nos. 73130, 81657, 70895 (AWPs signed March 2017); and 96108 (AWP signed May 2017). Reasons for the delays included time taken by the Project Board to reach agreement on the yearly budget and activities.



(c) Delays in project implementation and finalization of exit strategies

According to the 'UNDP Programme and Operations Policies and Procedures', projects are formulated to be completed within a specified timeframe, resources and expected results. On an exceptional basis, projects are extended beyond their specified end dates to ensure activities are completed and outputs are realized.

The audit noted that three of the six sampled projects had been extended beyond their original end dates. The Office stated that these were caused by a variety of reasons including delays in obtaining construction permits, and the time required to recruit key project personnel. There were also monitoring activities required after the installation of energy saving measures, but these activities could only be undertaken during the winter months.

Project No. 96108, which had a budget of \$2.9 million (December 2015-December 2018) with a total expenditure of \$440,000 as of the audit fieldwork, had been unable to implement activities in the 2017 AWP. At the time of the audit, the Office had not been able to meet with the government counterpart despite numerous attempts, in order to agree on the implementation of the planned activities. The National Project Coordinator had raised several issues regarding the implementation of the project. It was later understood that the concern had arisen due to a misunderstanding in terms of how budget lines in the AWP could be reconciled with expenditure recorded within the Combined Delivery Report. The Government decided to carry out an 'enhanced review' of the project, that was completed in September 2017 (please refer to Issue 1).

In September, the donor visited the Country to meet with UNDP and the government counterpart, to determine whether to continue funding the project in its present form. The decision is expected to be made in the coming months.

The Office is at risk of not meeting its development objectives for the Country if these project management weaknesses are not addressed.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should strengthen its project management by:	
<ul style="list-style-type: none"> <li>(a) preparing annual progress reports that adhere to UNDP reporting requirements;</li> <li>(b) ensuring that AWP's are endorsed by the Project Boards at the start of each year; and</li> <li>(c) addressing the bottlenecks affecting timely implementation of project activities as well as establishing realistic project end dates.</li> </ul>	
<b>Management action plan:</b>	
The annual progress report template will be updated during the current cycle of annual reporting, December 2017-February 2018. A Back to Office report template has already been updated and shared with the staff for subsequent use.	
A stricter framework of internal deadlines will be enforced to keep track of the status of signature of the AWP's (January 2018).	

The Office is working to find ways to identify and eliminate bottlenecks that the Office can anticipate, influence and control. In particular: (1) the Office has introduced the practice of early recruitment of project managers and other staff in realistic anticipation of the project registration, so that they can start as soon as the project is registered; (2) the Office is identifying space that can be used as common project space so that future project teams can be placed as soon as the project is registered; (3) if some activities of the project are implemented at the local level, the Office already has regional coordinators in each region to support the smooth start of implementation; and (4) a more robust risk management system including a better effort to map risks, will be implemented to keep track of the bottlenecks and take corrective action wherever feasible.

**Estimated completion date:** March 2018

### C. United Nations Leadership and Coordination

#### Issue 3 Weaknesses in UNDAF implementation

The implementation of the United Nations Development Assistance Framework 2016-2020 (UNDAF) for the Country includes a formation of UNDAF results groups, whose roles include the development of joint AWP for each outcome area. Further, the UNDAF stipulates that the UN Country Team (UNCT) and the Government will hold annual review meetings to assess the progress of UNDAF implementation and make any required adjustments to achieve the specified outcomes.

The standard legal clauses must be attached to the UNDAF for it to serve as the legal agreement with the programme country Government.

The following weaknesses were noted:

- (a) Absence of joint AWP. At the time of the audit, the draft joint AWP covering the first year of the UNDAF had not been finalized. Therefore, no annual review of the UNDAF implementation for the year 2016 was conducted. The UN Development Operations Coordination Office (DOCO) indicated that the UNCT may adopt biennial works plans which will be reviewed on completion of the current AWP. The composition of the results groups was not agreed upon until October 2016, which contributed to the delay in drafting the work plans.
- (b) Missing legal clauses on privileges and immunities. The UNDAF (2016-2020) signed with the Government did not include the required legal clauses relating to privileges and immunities because each UN agency had separate pre-existing legal agreements with the Government.

The legal annex is required within the UNDAF to establish a legal basis for the implementation of the UNDAF by the UNCT. Furthermore, it eliminates the need for a Country Programme Action Plan.

Failure to address weaknesses in UNDAF implementation noted above could negatively impact the achievement of development outcomes.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>  The Resident Coordinator should enhance UNDAF implementation by: <ul style="list-style-type: none"> <li>(a) finalizing the joint AWP for each outcome area and conducting annual or biennial reviews; and</li> <li>(b) through consultation with the government counterpart and the UN Development Group, try to reach an agreement on the inclusion of the legal clauses on privileges and immunities in the UNDAF.</li> </ul>	
<b>Management action plan:</b>  <ul style="list-style-type: none"> <li>(a) Biennial work plans are being finalized and the UNDAF Results Report 2016-2017 is currently being prepared – both documents will be submitted to the UNCT by 15 December. As per the UNCT decision and agreement with the Government on 6 November 2017, the UNDAF Steering Committee co-chaired by the Resident Coordinator and the Deputy Foreign Minister and comprised of the key UNDAF stakeholders (line ministries, NGOs and donors) will hold a review meeting during the last week of January 2018. The priorities for the UNCT will be revised based on this review and the Mainstreaming, Acceleration and Policy Support mission will take place from 27 November to 1 December 2017.</li> <li>(b) The UNCT has undertaken several rounds of negotiations with the relevant government ministry both at the ministerial and working levels; however, the agreement has not been reached to date. The Government's position remains that the reference to privileges and immunities should be excluded. The issue was addressed to Headquarters several times (DOCO, UN agencies).</li> </ul> <p>Based on the UNCT's decision, the UN Resident Coordinator has sent letters to (i) the relevant government ministry and (ii) the Regional UNDG Chair and DOCO outlining the current status and seeking further guidance on resolving the issue (November 2017).</p>	
<b>Estimated completion date:</b>  <ul style="list-style-type: none"> <li>(a) UNDAF Biennial Review will be completed by the end of January 2018.</li> <li>(b) UNDAF legal annex – letters to the relevant government ministry and Regional UNDG Chair and DOCO to be sent by 10 November. Further steps depend on the feedback from Headquarters.</li> </ul>	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **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.
- **Partially 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.