

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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PERFORMANCE AUDIT

OF

UNDP GOVERNMENT COST SHARING MANAGEMENT

Report No. 1895
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Report on the Performance Audit of UNDP Government Cost Sharing Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP Government Cost Sharing (GCS) management from 5 September to 24 November 2017. Performance auditing is an independent examination of a programme, function, operation, project, or the management systems and procedures of an entity to assess whether the entity is achieving economy, efficiency and results in the employment of available resources.

The audit aimed to assess whether the organization had put in place adequate guidance and controls to mitigate potential risks in implementing GCS projects. The audit determined whether Country Offices had established adequate governance structures, risk management practices and controls to effectively implement the terms of the GCS agreements.

The audit covered activities of GCS projects from 1 January 2016 to 31 July 2017.

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

Overall audit rating

OAI assessed the management of GCS 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 limited capacity to design and manage infrastructure projects, UNDP finance and procurement tools not being integrated, and weaknesses in PUDC programme¹ management.

Key recommendations: Total = 3, high priority = 3

| Objectives | Recommendation No. | Priority Rating |
|---|--------------------|-----------------|
| Appropriate governance structure at a corporate level, including effective HQ support to Country Offices and appropriate controls to mitigate risks arising from the implementation of GCS projects | 1, 2 | High |
| Established governance structures, risk management and controls to effectively implement the GCS projects | 3 | 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:

¹ The Emergency Community Development Programme (PUDC) or “Programme d’Urgence de Developpement Communautaire”

Limited capacity to design and manage infrastructure projects (Issue 1)

While UNDP was increasingly involved in projects with a building component, including new construction and alterations to existing buildings, it did not have a manual to establish minimum requirements and guidance and ensure adequate project design, construction management capacity or consideration and application of risk mitigation measures for these types of projects. The audit team was informed that the Bureau for Policy and Programme Support was involved with the Bureau for Management Services in developing a construction manual. However, this process had not been completed at the time of the audit mission.

Recommendation 1: The Bureau for Policy and Programme Support should develop a manual for implementing construction projects, which should include both the type and composition of technical teams, the quality of design, requirements, and appropriate tools to be used.

UNDP finance and procurement tools not integrated (Issue 2)

The UNDP Atlas Finance Module, Atlas Project Module, and the Advisory Committee on Procurement (ACP) Online system were not integrated. As a result, the information entered into the ACP Online system when offices submitted procurement cases for review was not validated/checked against the project budget, which resides in the Atlas Finance Module, to ensure that sufficient funds were available. Therefore, Country Offices could submit large procurement cases without the system ensuring that the funds were available at the project level, which means if further actions were taken to enter into commitments outside the system, it could then compromise UNDP's solvency and reputation. Further, UNDP managers were required to confirm/certify that appropriate funds were available to cover the cost of the contract when submitting a case through the ACP Online system. However, this confirmation was not corroborated by additional checks in Atlas to verify the fund availability at the project level.

Recommendation 2: The Bureau for Management Services should consider integrating the ACP Online platform with the Atlas Project Module, Atlas Finance Module, and the upcoming Atlas Contract Management Module.

Weaknesses in PUDC programme management (Issue 4)

The audit noted various weaknesses with regard to the Emergency Community Development Programme (PUDC) being implemented in Senegal, as follows:

- Absence of signed schedule of payments: The Government did not sign the agreement but rather continued transferring funds to the Office as they became available.
- Commitments not reflected in UNDP Atlas: The Office signed contracts and recorded commitments outside Atlas, and encouraged suppliers to continue the implementation even though they had not yet been paid. During the audit, OAI noted that funds were committed by the Office even without receiving the government contribution. The total unpaid bills for goods or services already delivered or provided was CFA13.6 billion (or \$24.5 million). The total outstanding commitments (signed contracts) as at 30 September 2017 was CFA 53.5 billion (or \$96.44 million including the unpaid bills of \$24.5 million).

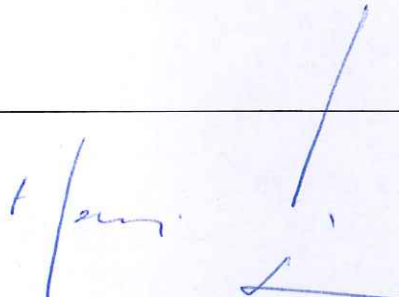
- No escalation of the non-payment by the Government of contributions: The Office had not updated the risk register for the PUDC programme, particularly on the delays in the government contributions.
- No agreement on value added tax (VAT) payments: UNDP Senegal was required by the Government to pay taxes and customs duties starting in April 2017. In 2016, the Office had discussions with the Government on this issue. An agreement was reached providing an exemption for all transactions until March 2017 and the Office to pay VAT for all transactions thereafter. This situation had not been communicated to the Regional Bureau or to the Legal Office for advice.

Recommendation 3: UNDP Senegal and the Regional Bureau for Africa should enhance management of the PUDC programme by ensuring that: (a) schedule of payments is signed prior to engaging in any projects, and appropriate follow-up procedures are followed to ensure that payments are received accordingly; (b) all commitments are reflected in Atlas and procurement functions are performed within their delegated procurement authorities only; (c) risk registers are updated to include risks emerging from the implementation of the PUDC programme; and (d) the Legal Office is consulted on how to resolve the issue of exemption from paying taxes and customs duties.

Management comments and action plan

The Director of the Bureau for Management Services, the Director of the Bureau for Policy and Programme Support, the Director of the Regional Bureau for Africa, and the Resident Representative of the Senegal Country Office accepted all recommendations and are in the process of implementing them. Comments and/or additional information provided have 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. Ostveiten
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I. About Government Cost Sharing management

Government Cost Sharing (GCS) management relates to government resources being provided to and managed by UNDP to implemented project activities. Per the UNDP intranet site, “government resources—either from its own revenue or loans by international financial institutions—are contributed to a national or local project in the country.”

In the past three years, there has been an increase in the number of large GCS agreements signed between UNDP and national governments. In some of these cases, UNDP was required to provide procurement and capacity building services in support of governments’ national programmes to improve basic services (e.g., road construction, education, health reform). For example, in Equatorial Guinea, Senegal, and Togo, UNDP was supporting the governments in large infrastructure projects. In Ukraine, UNDP was procuring health products and medicines.

These GCS projects transform UNDP Country Offices from small- or medium-delivery offices to larger entities; from portfolios consisting of small and pilot projects to large projects often exceeding \$100 million per year. The new projects create significant opportunities for UNDP to support governments in achieving the Sustainable Development Goals. However, if not managed properly, they could also impact UNDP’s reputation and negatively affect the partnerships between governments and UNDP.

Audit objectives

The aim of the audit was twofold. First, the audit assessed whether the organization had put in place adequate guidance and controls to mitigate potential risks in implementing GCS projects. Second, the audit assessed whether Country Offices established adequate governance structures, risk management practices and controls to effectively implement the terms of the GCS agreements.

The following questions guided the work of the audit in responding to the main audit objectives:

1. Has UNDP established an appropriate governance structure at a corporate level, including effective HQ support to Country Offices and appropriate controls to mitigate risks arising from the implementation of GCS projects?
2. Have Country Offices established the governance structures, risk management and controls to effectively implement the GCS projects?

The audit covered activities of the Office from 1 January 2016 to 31 July 2017. A sample of five Country Offices (Malaysia, Philippines, Senegal, Togo, and Ukraine) with GCS activities were selected for a closer review at GCS governance and capacity at the Country Office level. The audit team visited two of those Country Offices (Senegal and Ukraine).

Audit scope and methodology

The methodology included interviews and documentation reviews.

For Question 1, the team conducted a desk review of the ‘UNDP Programme and Operations Policies and Procedures’ (POPP) as well as other guidance and information on GCS and project management available on the UNDP intranet. Additionally, the team conducted interviews with Regional Bureaux and other HQ units (mainly the Bureau for Management Services) and a sample of Country Offices (Malaysia, Philippines, Senegal, Togo, and

Ukraine) to gather feedback on the relevance, completeness and usefulness of the guidance available (for sub-question 1.1) as well as the role of HQ units in managing GCS and its risks across UNDP (for sub-question 1.2).

For Question 2, the sample of Country Offices was selected based on data on the size of GCS in Country Offices as well as the planning discussions held with Regional Bureaux. The sample included Senegal and Ukraine, where the audit team performed site visits, as well as three additional countries: Malaysia, Philippines, and Togo, for which the team performed a desk review of documentation and held online discussions with the Country Offices. During the course of the audit, a project based in Sudan was also examined for issues related to receiving contributions in a non-convertible currency.

The above sample was used as a basis for the team to gather information on how Country Offices identify and manage their capacity requirements (for sub-question 2.1) as well as how they identify and manage risks associated with the implementation of GCS agreements and projects (for sub-question 2.3). The approach also included, for the Country Offices visited by the team, field visits to the project sites, as well as discussions with government counterparts where possible, to obtain feedback about the capacity and performance of UNDP in relation to the delivery of GCS projects in the country. For sub-question 2.2, in addition to interviews with Country Offices, the methodology included a review of Atlas (enterprise resource planning system of UNDP) or other financial information (such as schedules of payments) to build an overview of the cost recovery practices followed.

Audit criteria

Question 1: Has UNDP established an appropriate governance structure at a corporate level, including effective HQ support to Country Offices and appropriate controls to mitigate risks arising from the implementation of GCS projects?

- Section 4 of the UNDP Strategic Plan 2014-17 emphasizes the need for cooperation with emerging partners to “advance on shared goals.”
- Per the UNDP Accountability Framework, responsibilities and accountabilities should be consistent, clearly defined, and formally delegated.
- The Regional Bureaux terms of reference following the structural review provide for an enhanced oversight role across all aspects of Country Office programmatic and operational activities. Regional Bureaux are expected to: (1) support Country Offices to implement corporate financial policies; (2) act as the first point of contact to provide Country Office financial advisory services; and (3) provide coordination for more complex Bureau for Management Services financial advisory to Country Offices as needed.
- Updated guidance was provided to Country Offices by the Executive Office on 'Country Office Financial Monitoring & Financial Oversight', covering areas such as programme/project financial management.
- Article 3 of the UNDP Financial Rules and Regulations requires the Administrator to maintain an internal financial control mechanism to provide an effective examination and review of financial, management and operational activities. This will ensure the conformity of commitments and disbursements with the allocations, appropriations or other financial provisions decided upon by the Executive Board. Allocations are decided upon by the Administrator or with agreements with other United Nations organizations and other entities and effective, efficient and economic use of all resources administered by UNDP.

Question 2: Have Country Offices established the governance structures, risk management and controls to effectively implement the GCS projects?

- UNDP Financial Regulation 16.03 (b) states that “arrangements for the establishment and financing of UNDP programme activities shall be subject to the agreement between the programme country or countries and UNDP, in the form of project documents.”
- According to the programme and project management section of the POPP (defining a project), the Regional Bureaux should review Country Office capacity to implement the proposed programme (Country Programme). The Regional Bureaux should consult with the Bureau for Management Services and other HQ units as necessary. In addition, when considering direct implementation of a project by UNDP, the relevant Regional Bureau should determine whether the concerned Country Offices have adequate capacity to carry out the project(s).
- The programme and project management section of the POPP (initiating a project) sets out risk management requirements: “Risk is a major factor to be considered in designing and managing any project. Risks must be identified, assessed and prioritized. The possible actions to deal with these risks need to be considered and an appropriate action plan needs to be developed. These actions must be incorporated in the project work plan, and require periodic monitoring and reporting to ensure that all risk management activities are having the desired effect. Risks, including security risks should be identified and assessed using the project Risk Log, which shall be submitted to the Project Appraisal Committee as an annex to the project document. Once the Project ID has been created in Atlas, the risks should be recorded in the Atlas Project Management Module. The risk log should be maintained and updated as required in Atlas for the duration of the project.”
- According to the programme and project management section of the POPP (implementing a project), monitoring is one of the most important responsibilities of the project manager. Regular progress reporting to the project board should take place. Also, as a minimum and on annual basis, UNDP must perform the following monitoring activities: field visits, annual review report and annual project review.
- The Operational Guide of the Internal Control Framework for UNDP sets out requirements for ownership of controls and segregation of duties.
- Rule 107.02 of the Financial Rules and Regulations requires that cost-sharing contributions are due in advance of the related commitments and disbursements and should be set out in a written contribution schedule.
- Regulation 20.03 (b) requires that all commitments be made on the basis of supporting documents, which ensure that resources are available to cover the anticipated claim, in the form of an allocation or an allotment. Rule 120.01 (c) ii states that the purpose of committing funds is to ensure that the funds necessary to satisfy the claim are currently available in the relevant account. Rule 102.01 (d) indicates that the Chief Procurement Officer may implement use of an electronic committing process provided that adequate safeguards to ensure the integrity of the process are included and Rule 120-02 (c) requires resources to be committed as soon as a contract, agreement or undertaking of any nature has been entered into.

II. Audit results

OAI made three recommendations ranked high (critical) priority.

Low priority issues/recommendations were discussed directly and agreed with the relevant Regional Bureaux and are not included in this report.

High priority recommendations ranked according to significance:

- (a) UNDP Senegal and the Regional Bureau for Africa should enhance management of the PUDC programme (Recommendation 3).
- (b) The Bureau for Management Services should consider integrating the ACP Online platform with the Atlas Project Module, Atlas Finance Module, and the upcoming Contract Management Module (Recommendation 2).
- (c) The Bureau for Policy and Programme Support should develop a manual for implementing construction projects (Recommendation 1).

The detailed assessment is presented below, per audit area.

1. Has UNDP established an appropriate governance structure at a corporate level, including effective HQ support to Country Offices and appropriate controls to mitigate risks arising from the implementation of GCS projects?

UNDP had established a range of policies, procedures and governance structures to guide and support Country Offices in the implementation of GCS projects, including agreement templates, and overall project management content in the POPP that also applies to GCS projects.

At the time of the audit, certain relevant policies, such as the Memorandum for the Provision of Services was in the process of being introduced² to address the growing trend of service provision to governments through GCS projects. Further, relevant guidance and support for Country Offices was lacking pertaining to certain types of GCS projects, specifically construction projects.

Issue 1 Limited capacity to design and manage infrastructure projects

Delivering safe and functional infrastructure to beneficiaries/national partners is a prerequisite for successful partnerships and the delivery of the Sustainable Development Goals. The quality of the project design and of the management of construction operations are crucial factors in handing over functional and safe infrastructure.

While UNDP was increasingly involved in projects with a building component, including new construction and alterations to existing buildings, it did not have a manual to establish minimum requirements and guidance and ensure adequate project design, construction management capacity or consideration and application of risk mitigation measures for these types of projects.

The POPP did not include standard requirements for projects including infrastructure or construction aspects, to establish the minimum components to be addressed when considering or designing such projects, such as:

- Requirement for the Country Office to hire an engineer, and defining the general duties/responsibilities of said engineer.
- Maintenance of as-builts and drawings.

²Following the audit fieldwork, the Memorandum for the Provision of Services was approved and issued in December 2017.

- Requirements for submission of “Programme of Work”, showing the order of procedure and the method in which the contractor proposes to carry out the works and development of the corresponding engineer’s inspection schedule.
- Requirement for Certificate of Substantial Completion.
- Requirement for Performance Security, Insurance of Works, and Liability Insurance.
- Procedures for clearance of sites upon substantial completion of work.

This situation was acknowledged by three Regional Bureaux. One Regional Bureau indicated that UNDP implementing infrastructure projects was more a “learning-by-doing” process. As a result, Country Offices were implementing infrastructure projects as regular development projects, with generic project documents and terms of reference for the project managers, procurement specialists, and finance specialists, etc. The necessary expertise and capacity required for successful delivery of the complex infrastructure was not in place, nor was there any assurance that the risks related to the design and operational delivery of construction projects would be identified, monitored or mitigated. For example, in Togo, the project was managed by the Operations Manager, while in Senegal, the project was managed by staff members with other responsibilities as well as coordination with a National Project Director appointed by the Government. The audit team also noted that the project documents for both Senegal and Togo were generic and did not include details that would support their successful implementation. The project document used in Togo was identical in format and content to the one in Senegal, and therefore it was not clear to what extent a situational analysis was carried out to validate the project activities.

The audit team was informed that the Bureau for Policy and Programme Support was involved with the Bureau for Management Services in developing a construction manual. However, this process had not been completed at the time of the audit mission. The availability of sufficient support as well as manuals are paramount to protect the organization’s credibility and reputation and attract new funding.

| | |
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| Priority | High (Critical) |
| Recommendation 1: | |
| The Bureau for Policy and Programme Support should develop a manual for implementing construction projects, which should include both the type and composition of technical teams, the quality of design, requirements, and appropriate tools to be used. | |
| Management action plan: | |
| Management (Bureau for Management Services and the Bureau for Policy and Programme Support) is in the process of finalizing relevant contract templates (International Federation of Consulting Engineers contract), and policy guidance. | |
| Estimated completion date: June 2018 | |

Issue 2 UNDP finance and procurement tools not integrated

UNDP developed tools to allow Country Offices to implement projects and carry out their operations. These included the Atlas Finance Module, the Advisory Committee on Procurement (ACP) Online system, and the E-Tendering system.

The UNDP Atlas Finance Module, Atlas Project Module, and the ACP Online system were not integrated. As a result, the information entered into the ACP Online system when Country Offices submitted procurement cases for review was not validated/checked against the project budget, which resides in the Atlas Finance Module, to ensure that sufficient funds were available. Therefore, Country Offices could submit large procurement cases without the system ensuring that the funds were available at the project level, which means that if further actions were taken to enter into commitments outside the system, it might compromise the viability of UNDP's financial statements.

UNDP managers were required to confirm/certify that appropriate funds were available to cover the cost of the contract when submitting a case through the ACP Online system. However, this confirmation was not corroborated by additional checks in Atlas to verify the fund availability at the project level. Offices can submit numerous procurement cases to the procurement oversight bodies without corresponding funds being available, as the commercial commitment is made at the purchase order approval stage and at the contract award stage. For example, UNDP Senegal submitted over \$184 million worth of contracts without sufficient funds being available, and proceeded to enter into commercial commitments outside of the Atlas system thereafter (refer to Issue 4 for details).

Further, when Country Offices then make financial commitments or sign contracts, they need to comply with the Financial Rules and Regulations and ensure that project funds are available and reflect these commitments by raising e-requisitions and purchase orders in Atlas. However, as there was no Contract Management Module in Atlas, there was no automated process to issuing contracts, or control in the Atlas system requiring offices to raise a requisition and purchase order at the time of contract signature. Contracts could be signed outside Atlas and financial commitments would not be reflected in Atlas until a payment was made, in breach of UNDP's policies and procedures. Thus, management cannot rely on the data generated by the system regarding the financial standing of the project or office, which then compromises the organization's dashboards. During the audit, OAI learned that the Office of Information Management and Technology was developing a new Contract Management Module integrated into Atlas.

As noted in Issue 4, two out of five Country Offices reviewed (Senegal and Togo) were signing contracts and entering into commitments with suppliers outside of Atlas (i.e., raising manual purchase orders or waiting until payment is due to raise the purchase orders). This practice sidesteps the existing system controls and was used to avoid constraining the limited cash availability in these countries. Such commitments should have been recorded in Atlas by raising a purchase order in the amount equal to the total financial obligation, and, in the absence of funds, the Country Offices could make use of the Atlas override functionality. After the audit, the Regional Bureau for Africa indicated that it was ensuring that all purchase orders were entered in Atlas for all procurement processes executed in 2017. It had also taken actions to ensure that the Country Office does not commit to contracts without having the resources available.

Since the tools were not integrated, HQ units relied on the self-certification by Country Offices, which was insufficient to provide assurance of the accuracy of the underlying data, as seen in Senegal and Togo, exposing UNDP to major financial and reputational risks.

| | |
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| Priority | High (Critical) |
| Recommendation 2: | |
| The Bureau for Management Services should consider integrating the ACP Online platform with the Atlas Project Module, Atlas Finance Module, and the upcoming Atlas Contract Management Module. | |

Management action plan:

The feasibility and costs of integrating ACP Online and E-Tendering will be reviewed by March 2018. An integration of the E-Tendering and the Contract Management Module will be assessed once the operation of these modules matures and under consideration of the availability of funds and the complexity involved.

Estimated completion date: March 2018

Issue 3 Insufficient documentation requirements for GCS projects

UNDP Financial Rule 107.02 states: "Cost-Sharing contributions shall be set forth in the project document and/or in an agreement with the contributing party. These contributions shall be due in advance of the related commitments and disbursements according to a schedule of payments agreed to in writing by UNDP." This position was confirmed by the Legal Office which considers that the project document is sufficient when entering into a funding agreement with a government and that UNDP offices are not required to sign a separate GCS agreement.

However, OAI considered that the GCS agreement template offered more assurance to UNDP and would help to clearly articulate and enforce various legal provisions. For example, the following provisions included under the GCS template were not reflected in the project documents:

- Contribution paid in a different currency than the US dollar (Para. 4)
- Cost recovery requirements (Art. II)
- Requirement for the contribution to be paid in advance of the implementation of planned activities (Art. IV)
- Ownership of assets (Art. V)
- Audit clauses (Art. VI)

Insufficient policy/guidance regarding the required documentation for cost-sharing agreements, may expose UNDP to financial or legal risks.

Comment

Subsequent to the audit fieldwork, the Bureau for Management Services took corrective action by updating the POPP to include all GCS provisions in the project document template. The audit team reviewed the supporting documentation and validated actions taken. Therefore, OAI did not make a recommendation.

2. Have Country Offices established the governance structures, risk management and controls to effectively implement the terms of GCS projects?

The audit team reviewed a sample of six GCS projects managed by the Country Offices in Malaysia, Philippines, Senegal, Togo, and Ukraine. Significant governance, risk management and control issues were identified at the Senegal Country Office, as explained below.

Issue 4 Weaknesses in PUDC programme management

UNDP Senegal signed a project document with the Government of Senegal to implement the Emergency Community Development Programme (PUDC). The total revised budget amounted to CFA 123 billion (or \$223.2 million) and covered the period from February 2015 to February 2018.

As of September 2017, the total financial delivery of the PUDC programme was \$129.6 million, this amount excludes \$96.44 million of outstanding commitments. The Government of Senegal made contributions totalling \$128.7 million as of August 2017.

(a) Absence of signed schedule of payments

UNDP Financial Rule 107.02 states: "Cost-Sharing contributions shall be set forth in the project document and/or in an agreement with the contributing party. These contributions shall be due in advance of the related commitments and disbursements according to a schedule of payments agreed to in writing by UNDP."

The project document signed between the UNDP Senegal and the Government of Senegal for the PUDC project did not include a schedule of payments. The Office prepared and shared a draft GCS agreement with the Government in May 2016, which included a schedule of payments. However, the Government did not sign the agreement but rather continued transferring funds to the Office as they became available. The audit noted that over 51 payments were made between 2015 and 30 September 2017 for a total amount of \$128.6 million (average payment was \$2.5 million). The audit was also informed that the Government's 2018 budget only included \$30 million for the PUDC programme, which was less than the current commitments.

The lack of a signed schedule of payments created uncertainties as to when the next transfer of funds would be done and the amount to be paid, which could affect the implementation of project activities.

(b) Commitments not reflected in UNDP Atlas

Although the Office did not have an agreed-upon schedule of payments, it continued implementing the project activities and making further commitments. A consequence of this practice was that the Office signed contracts and recorded commitments outside Atlas, and encouraged suppliers to continue the implementation even though they had not yet been paid. During the audit, OAI noted that funds were committed by the Office without receiving the government contribution. Many suppliers had completed their work, or delivered the goods and services without being paid. The total unpaid bills for goods or services already delivered or provided was CFA13.6 billion (or \$24.5 million). The total outstanding commitments (signed contracts) as at 30 September 2017 was CFA 53.5 billion (or \$96.44 million including the unpaid bills of \$24.5 million).

Contrary to the requirements of the Financial Rules and Regulations, purchase orders had not been raised in Atlas at the time the financial obligation was created and were only being raised at the time of payment. Although some flexibility regarding implementation of projects without funding could be expected, the volume of this activity in Senegal exposed the organization for a significant risk and was not sustainable.

A similar issue was noted in the PUDC programme implemented by UNDP Togo. Out of the total commitments of \$18.6 million, only \$5.5 million was reflected in Atlas.

(c) Risk register not updated

Per the UNDP Policy on Enterprise Risk Management (ERM), all offices are required to update the risk register on a quarterly basis. This should be an integral part of quarterly monitoring of work plans. When appropriate, this monitoring exercise should update the risk level and the treatment status. The updates may also include additional information as seen appropriate and important by the respective office.

The Office had not updated the risk register for the PUDC programme, particularly on the delays in the government contributions. The Regional Bureau was also not informed. Therefore, the Bureau had not been involved in determining the appropriate mitigation actions related to the outstanding contributions from the Government and outstanding payments to vendors.

(d) No agreement on value added tax (VAT) payments

The Convention on the Privileges and Immunities of the United Nations indicates under section 7 that the United Nations, its assets, income and other property shall be: (a) exempt from all direct taxes; (b) exempt from customs duties and prohibitions and restrictions on imports and exports in respect of articles imported or exported by the United Nations for its official use; and (c) exempt from customs duties and prohibitions and restrictions on imports and exports in respect to its publications.

UNDP Senegal was required by the Government to pay taxes and customs duties starting in April 2017. In 2016, the office had discussions with the Government on this issue. An agreement was reached providing an exemption for all transactions until March 2017 and the Office to pay VAT for all transactions thereafter. This situation had not been communicated to the Regional Bureau or to the Legal Office for advice.

The above situation was the result of a lack of formal written documentation of the various agreements made between the UNDP Senegal and the Government.

Subsequent to the audit fieldwork, OAI issued a memo on 9 October 2017 informing both the Regional Bureau and the Bureau for Management Services on the issue of VAT payments in Senegal.

The Regional Bureau indicated that based on the Senegal experience, it sent an oversight mission to Togo in December 2017 and held several telephone discussions with UNDP Togo to ensure that the weaknesses in the Senegal PUDC would not be replicated in the Togo PUDC. The Regional Bureau indicated that it would continue to ensure proper oversight for the PUDC programmes in Senegal and Togo, based on the weaknesses identified by the audit team.

These issues may negatively impact UNDP's image with stakeholders and impact the Financial Statements, as UNDP would be required to include a provision covering the relevant contingent liabilities.

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| Priority | High (Critical) |
| Recommendation 3: | |
| UNDP Senegal and the Regional Bureau for Africa should enhance management of the PUDC programme by ensuring that: | |
| (a) schedule of payments is signed prior to engaging in any projects, and appropriate follow-up procedures are followed to ensure that payments are received accordingly; | |

- (b) all commitments are reflected in Atlas and procurement functions are performed within their delegated procurement authorities only;
- (c) risk registers are updated to include risks emerging from the implementation of the PUDC programme; and
- (d) the Legal Office is consulted on how to resolve the issue of exemption from paying taxes and customs duties.

Management action plan:

- (a) The revised project document includes a schedule of payments and appropriate follow up was ensured. The Country Office prepared a disbursement plan in order to monitor and request the government contribution. However, the Government did not meet this schedule. With the support of the Regional Bureau for Africa, a new template of payment was shared on 14 November 2017, with the Government requesting a clear and detailed payment schedule and corresponding amounts.
- (b) According to the Regional Bureau for Africa and the Bureau for Management Services guidance, the Country Office has already reflected all commitments in Atlas. The Country Office with the support of the Regional Bureau for Africa has put in place a process of payment to be applied every time cash is received.
- (c) The risk log in the Integrated Work Plan has been updated and will be monitored on a quarterly basis, and the Country Office has also now been raising risks to the Regional Bureau for Africa/HQ.
- (d) The Country Office will liaise as recommended with the Regional Bureau and Legal Office in regard to taxes and customs duties exemption.

Estimated completion date: March 2018

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.