UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

NIGERIA

Report No. 1920

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Report on the Audit of UNDP Nigeria
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Nigeria (the Office) from 9 to 20 April 2018. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately $31 million. The last audit of the Office was conducted by OAI in 2015.

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 weaknesses in project implementation.

Key recommendation: Total = **3**, high priority = **1**

The three recommendations aim to ensure the reliability and integrity of financial and operational information.

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:

Weaknesses in project implementation (Issue 1)	The review of seven development projects with a total expenditure of approximately $10 million disclosed the following: projects were implemented without reviews from the Local Project Appraisal Committee; steering committee minutes were missing; there was a lack of quarterly progress reports; and there was no evidence of supervisory checks ensuring that the necessary project appraisal steps were regularly undertaken prior to project approval. In one case, $1.34 million was paid to a private company on behalf of the implementing partner in two installments of approximately $736,000 and $599,000 each, and these funds were not accounted for. In addition, there was no prior capacity assessment of the implementing partner.

Recommendation: The Office should strengthen project implementation by establishing supervisory checks and, for the funds totalling $1.34 million that were expensed to the company and not accounted for, by following up with the implementing partner and undertaking site visits to obtain evidence that activities planned were implemented and funds were used for intended purposes.

Implementation status of previous OAI audit recommendations: Report No. 1518, 5 October 2015
Total recommendations: 4
Implemented: 4

Management comments and action plan

The UN Resident Coordinator and UNDP Resident Representative 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 Abuja, Nigeria (the Country) started implementation of the new Country Programme (2018-2021) in January 2018. It had 56 staff members: 42 local and 14 international staff at the time of the audit. Various armed groups continued to undermine security and cause instability in the north-eastern regions of the Country. In 2016, the Office, supported by the Regional Bureau for Africa and other headquarters units established a sub-office in Maiduguri, Borno State, for the implementation of recovery programmes in response to the humanitarian and development situation in north-east Nigeria. At the time of the audit, the Office led the implementation of two large regional programmes: The Integrated Regional Stabilization Programme covering Cameroon, Chad, Niger and Nigeria; and the Small Arms Programmes. The Country is one of the largest oil producing countries in Africa; however, it reported a negative GDP growth (-1.6 percent) in 2016 but in 2017 the World Bank Report predicted growth of more than two percent. The Country's general elections were planned for 2019.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. Internal procedures and governance structures put in place were found to be adequate.

(b) ICT and general administration management. Controls and processes for ICT and general administration management were found to be adequate.

(c) Human resources. Internal procedures for human resources management were adequate. Issues identified were considered low risk.

(d) Procurement. Internal processes and controls for procurement were adequate.

(e) Staff and premises security. Controls over staff and premises security were found to be adequate.

OAI made one recommendation ranked high (critical) and two recommendations ranked medium (important) priority.

Medium priority recommendations that had been implemented as advised by the Office after the audit fieldwork (and independently validated by OAI) prior to the issuance of this report are not included in the report.

Low priority issues/recommendations were discussed directly and agreed with the Office and are also not included in this report.

High priority recommendation:

(a) Strengthen project implementation by establishing supervisory checks and by following up with the implementing partner and undertaking site visits (Recommendation 1).

Medium priority recommendations, arranged according to significance:

(a) Improve direct project cost implementation (Recommendation 2).
(b) Ensure micro-assessments are undertaken prior to the engagement and payment of funds to implementing partners and responsible parties (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Programme

1. Programme/Project design and implementation

Issue 1 Weaknesses in project implementation

The 'UNDP Programme and Operations Policies and Procedures' require all development projects to be subjected to a project appraisal process prior to implementation. They also require project oversight to be performed by an independent steering committee. To monitor implementation and progress, quarterly progress reports on finances and activities of the project should be produced. Senior management is responsible for the establishment and articulation of the appropriate collaborative relationships and supervisory checks ensuring that project resources are duly accounted for.

The audit team reviewed a sample of seven development projects with total expenditure of approximately $10 million, out of 30 projects with total expenditure of $27 million for the period from 1 January 2017 to 31 March 2018 (or 37 percent of the total project expenditure). The following issues were noted:

- Three projects were implemented in 2017 without being subjected to any Local Project Appraisal Committee review.

- For three projects, there were no steering committee minutes and for five projects there was a lack of quarterly progress reports.

- There was no evidence of supervisory checks ensuring that steering committee meetings were regularly held and the necessary project appraisal steps were regularly undertaken prior to the projects' approval.

- In one case of a project's implementation, $1.34 million was paid to a private company on behalf of the implementing partner in two installments of approximately $736,000 and $599,000 each in October 2017 and February 2018, respectively, and these funds were not accounted for. The main objective of the project was to increase the pool of skilled resources and to reduce any shortages of labour resources through collaboration with the private sector. The review of the respective transactions disclosed the following:

  - The implementing partner had individually identified and partnered with a local company for the implementation of project activities on its behalf; this company also appointed another private company to identify individual vocational training centres to conduct skills trainings. There was no contractual relationship between the Office and the private company contracted by the implementing partner.
  - At the time the private company was engaged by the implementing partner and the direct payment funds were disbursed, no prior capacity assessment of the implementing partner had taken place. The results of the capacity assessment undertaken later regarding the company's procurement function indicated that procurement staff were pending to be hired.
  - The request for direct payment from the implementing partner was incorrectly used to release funds for implementation of project activities instead of a request for advance payment to a party responsible for implementation. As a result, the two payments were expensed through national implementation modality expense account 71810 – Contractual Services Individual Implementing Partners, instead of being recorded as national implementation modality advances under account

16005. There was consequently no requirement for the implementing partner to report back on the expenditure.

- There were no clearly defined collaboration arrangements for the project, thus making it difficult to articulate management arrangements and clear project inputs prior to the signing of the project document.

During the audit fieldwork, it was noted that projects starting in 2018 were being subjected to a Local Project Appraisal Committee review process and implementing partners were being assessed. The Office's management mentioned that they had introduced a new systemic process of maintaining these activities, including project reporting requirements.

Weak project management and implementation may result in not achieving anticipated project results.

Priority	High (Critical)

Recommendation 1:

The Office should strengthen project implementation by establishing supervisory checks and, for the funds totalling $1.34 million that were expensed to the company and not accounted for, by following up with the implementing partner and undertaking site visits to obtain evidence that activities planned were implemented and funds were used for intended purposes.

Management action plan:

The Office is committed to strengthening project management and quality assurance and plans to undertake the following actions:

- Ensure that steering committee meetings are regularly held and its decisions properly recorded and signed.
- Ensure that all quarterly project status reports are received and are quality assured by the Project Management Support Unit.
- Strengthen capacity of the recently established Project Management Support Unit to provide project quality assurance and implementing partners' capacity assessments in full compliance with the 'UNDP Programme and Operations Policies and Procedures'.
- Undertake a comprehensive spot check on the project and where necessary sign elaborate Letters of Agreement with the implementing partner to guide the partnership moving forward.

With regards to $1.34 million unaccounted for, the Office engaged the implementing partner to provide financial reports and receipts to ascertain that funds paid to the contractor/vendor through a direct payment modality were used for approved activities. The implementing partner has since submitted financial reports and receipts totalling $927,051 (Naira 307,104,866). The implementing partner has yet to submit documents for the remaining $426,759. The Office will undertake comprehensive checks on the implementing partner to ascertain that funds were utilized in line with the contract and steering committee (Governing Council) approved expenditure structure.

Estimated completion date: December 2018

B. Operations

1. Financial resources management

Issue 2 Direct Project Costing not properly implemented

According to the 'UNDP Programme and Operations Policies and Procedures', the option for prefunding direct project costs requires eligible projects to budget for such costs, and secondly, it requires offices to create a stand-alone project where direct project costs are to be charged throughout the year. At the end of the year, direct project costs are to be attributed to their respective projects, such that the balance in the stand-alone project is equal to zero.

The Office followed a prefunding model for the implementation of Direct Project Costing. In 2016, it created an output in Atlas (enterprise resource planning system of UNDP) linked to a development project and transferred funds to this output/project from programme regular resources to prefund the direct project costs. The office did not budget for direct project costs in the eligible projects and did not create a stand-alone management project to charge the costs. Direct project costs were not attributed to their respective projects from the end of 2016 to the end of the first quarter of 2018.

There was inadequate knowledge of the direct project costs accounting process.

The incorrect implementation of Direct Project Costing resulted in individual development projects' cost understatements in 2016, 2017 and the end of the first quarter 2018 by approximately $456,100, $905,900 and $288,000, respectively. There was no impact on the overall financial reporting of the Office.

Priority Medium (Important)

Recommendation 2:

The Office should improve direct project cost implementation by:

(a) revising the budget for eligible projects to include the budget for direct project costs;
(b) creating a stand-alone project to prefund direct project costs and at the end of the year attributing those costs to their respective projects so that the closing balance in the stand-alone project is zero; and
(c) using journal entries to correct direct project costs not properly implemented in 2018, and to the extent possible, addressing prior year adjustments.

Management action plan:

The Office will implement the recommendation and improve on the management of Direct Project Costing resources in the Country Office and ensure proper accounting guidelines are adhered to.

Planned actions:
(a) Do a budget revision for eligible projects to include the budget for direct project costs.
(b) Create a separate Direct Project Costing project and ensure that it is zeroed out at the end of the year.
(c) Ensure that prior year adjustments for 2016 and 2017 are done as much as possible with support and guidance from Office of Financial Resources Management.

Estimated completion date: December 2018

C. United Nations Leadership and Coordination

Issue 3 Weaknesses in HACT implementation

According to the 'UNDP Programme and Operations Policies and Procedures', full compliance with Harmonized Approach to Cash Transfers (HACT) is achieved when the following components are complete: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan that details the spot checks for each implementing partner, based on the results of the micro-assessment. If partners are not included in the micro-assessment and the need arises to select them as implementing partners, they may be subjected under certain conditions to a desk review conducted by the Office's staff.

Total advances recorded in the advance account amounted to approximately $911,000 from 1 January 2017 to 31 March 2018.

The Office did not regularly undertake micro-assessments before honoring requests for direct payments and advances from potential implementing partners (refer to issue 1).

The HACT assurance plan was not comprehensive in that it only covered government entities and excluded non-governmental organizations.

Failure to regularly conduct micro-assessments prior to honouring direct requests for payment from implementing partners under HACT implementation may lead to the loss of funds.

Priority Medium (Important)

Recommendation 3:

The Office should ensure micro-assessments are undertaken prior to the engagement of and payment of funds to implementing partners and responsible parties, and that assurance plans include all potential implementing partners.

Management action plan:

To avoid omissions, the Project Management Support Unit clearance for all implementing partner payments and FACE forms have been set up as a new Office procedure.

Planned actions:

- Introduce a payment checklist including a tick box on desk reviews/micro-assessments to ensure that all eligible implementing partners and non-governmental organizations are micro-assessed or desk-reviewed prior to engagement and payment of funds.
- Develop an implementing partner payment checklist to ensure payment compliance with the 'UNDP Programme and Operations Policies and Procedures'.

Estimated completion date: September 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 <u>not included in this report</u>.