

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



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**AUDIT OF UNDP COUNTRY OFFICE IN ZAMBIA**  
**Report No. 1990/Corr. 1**  
**Issue Date: 21 March 2019**

**Corrigendum**  
**Executive Summary, page i**

*Existing text*

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 \$144 million.

*Should read*

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 \$44 million.

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**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**ZAMBIA**

**Report No. 1990**  
**Issue Date: 16 August 2018**

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## Report on the Audit of UNDP Zambia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Zambia (the Office) from 21 May to 1 June 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 \$144 million. The last audit of the Office was conducted by OAI in 2014.

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/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 inefficient project implementation, incorrect implementation of cost recovery, incorrect recording and accounting of prepayments, poor vendor management, and inaccurate reporting of common services balances in year-end common services certification.

**Key recommendations:** Total = 6, high priority = 5

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	4	High
	6	High
Effectiveness and efficiency of operations	2, 5	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3	High
	1	Medium

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:

Inefficient project implementation (Issue 2)

The following exceptions were noted from the performance audit of one project with two outputs (with start dates of 1 January 2012 and 1 January 2018, respectively). (a) Poor planning and lack of timeliness in project implementation. Project implementation was planned with an end date of 31 December 2014, but it was noted that the project ended on 31 December 2017, three years later than the initial end date; (b) Inefficient financial management. The project budget amounted to \$640,000 while the project expenditure as at 31 December 2017 was \$1.9 million, almost three times higher than the initially foreseen amount; and (c) Issues and risks affecting the project performance were not escalated to and discussed by senior levels in a timely manner, e.g. the Project Steering Committee.

Recommendation: The Office should ensure that adequate project management is carried out by: (a) undertaking evaluations in case of a need for major changes on a project; (b) signing annual work plans on time; and (c) ensuring that challenges and risks faced during implementation are followed up on by the Project Steering Committee / Office management and discussed and documented in the minutes of the Steering Committee meeting and that an action plan is developed by Office management for follow up.

Cost recovery incorrectly implemented (Issue 3)

The following exceptions were noted from the review of the implementation of cost recovery: (a) the stand-alone project created by the Office for cost recovery had not been reconciled and expenses were not charged against the respective development projects. A total of \$351,489 was charged to this project in 2017 and \$63,188 as of May 2018; (b) no workload study was completed to establish the attributable costs that qualified for cost recovery; (c) account codes used to allocate costs in the stand-alone project did not adhere to guidelines issued by the Office of Financial Resources Management; (d) the stand-alone project was incorrectly classified as a development project and not as a development effectiveness project; and (e) there was no indication that the implementation of direct project costs (DPC) had been discussed with the national counterpart or respective donors.

Recommendation: The Office should improve cost recovery as a matter of priority by: (a) consulting with the Office of Financial Resources Management on the status of the Office's stand-alone project with a view of reconciling it to zero and ensuring that going forward the stand-alone project is reconciled to zero regularly with costing being charged against the respective project; (b) completing a workload study to show the correct cost recovery and the attributable projects that these costs would relate to and amend the stand-alone project to only include the two prescribed accounts and change its classification to development effectiveness to facilitate correct recording and accounting for DPC; and (c) discussing the implementation of DPC with the donors and national counterpart, request budget revisions and ensure that project budgets include the respective DPC when being prepared and submitted to the national counterpart for approval.

Incorrect recording and accounting of prepayments (Issue 4)

From the review of 29 vouchers paid out to three construction companies totalling \$4.4 million (representing 92 percent of the selected voucher sample), the following was noted: (a) all three companies were given advances regardless of whether there was a request or not; (b) the sample contract that had been

provided to suppliers during the procurement phase included a milestone for site possession of 5 percent that was no longer included in the signed contract; (c) advances given of 15 percent instead of 10 percent in the contract were treated as a separate milestone instead of being factored into the contract milestone; (d) the purchase order created in Atlas (enterprise resource planning system of UNDP) had different milestone amounts from what was stated in the contract and therefore, the amounts paid per milestone could not be reconciled to the milestone that had been certified as completed; and (e) the Office was creating a separate voucher to reduce the advance paid to contractors – this voucher had no corresponding documentation, nor did it adhere to the organizational rules that the deduction must be equal to the percentage that was given as an advance.

**Recommendation:** For new and future contracts, the Office should improve accounting and recording of prepayments by: (a) adjusting the payment to correctly reflect the milestones that include a portion of the advance, as well as the milestones to include the 5 percent site possession rate; (b) clearly documenting any revisions and/or amendments to contract terms agreed with the contractor; and (c) adhering to the accounting principles stipulated in 'UNDP Programme and Operations Policies and Procedures'.

Poor vendor management (Issue 5)

Analysis of the relevant Atlas query showed that 127 bank accounts had two or more different vendor identification numbers using the same bank account. Out of which, 96 bank accounts had similar vendor names which could be an indication of duplicate vendor records. For the remaining 31 bank accounts, each account was linked to two different vendor names.

From a review of a sample of 15 vendor profiles, it was noted that 5 had missing supporting documents. The Office had no systematic method or standard operating procedure in place to check for possible duplicate vendor profiles or to clean up the business unit's vendor database periodically. Six disbursements for three vendors were returned by the bank due to wrong bank details.

**Recommendation:** The Office should strengthen the management of the vendor database by: (a) preventing the creation of more duplicate profiles by agreeing on a standard naming convention to enter vendor details in the business unit and ensuring vendor creators and approvers check existence in Atlas before adding a new vendor; (b) confirming the vendor's banking details directly with the vendor's bank to ensure they are accurate before approving the vendor; and (c) performing regular periodic data clean-up exercise of the vendor database (quarterly) and investigating possible duplicate vendor profiles and deactivating and archiving vendor profiles that are no longer needed.

Inaccurate reporting of common services balances in year-end common services certification (Issue 6)

The Office did not report accurate year-end common services balances in the certification report for financial year 2017 that supported the financial assertion on common services. At the time of the audit, the Office was not able to provide the participating UN agencies a reliable status of common services. As of end 2017, the participating UN agencies stopped advancing their share of common services because they were under the impression that there were unspent balances carried over from past years. However, the Office had ongoing contractual obligations to meet and it was forced to pre-fund common services

expenses. The value of common services expenses pre-funded by UNDP from 1 January 2015 to 31 March 2018 amounted to \$5.4 million. At the time of the audit, the Office had yet to adjust the figures to reflect a true fund status for each agency, including the share of UNDP.

Recommendation: The Office should strengthen accounting and reporting of common services by: (a) reconciling and verifying the common services revenue and expenses per fund and donor, cumulative since 1 January 2015, to confirm reliable closing balances as of 31 December 2017, and processing journals to correct the 2018 common services funds opening balances carried forward; (b) submitting a transparent account of expenses pre-financed by UNDP from 2015 to date to all contributing UN agencies and consulting with them to reach a formal agreement on balances due to and due from each agency as of end 2017; and (c) obtaining technical guidance from UNDP Headquarters to ensure the correct accounting method is implemented going forward to record and account for UNDP's own contribution and expenses relating to common services.

#### Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided 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  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Lusaka, Zambia (the Country) was comprised of 38 staff members (29 local and 9 international) at the time of the audit. The Office was implementing a total of 30 projects, 29 of which were nationally implemented. The Office was operating on the basis of the Country Programme Document covering the period 2016 to 2021. The programme activities focused on the following three areas: governance; poverty reduction and climate change; and disaster recovery.

## II. Audit results

Satisfactory performance was noted in the following areas and sub-areas:

- (a) Governance/Corporate direction. Support to the Resident Coordinator Office was adequate and UN Development Operations Coordination Office (DOCO) funds were used for the purposes intended.
- (b) Operations/Human resources management. Controls over human resources management were adequate.
- (c) General administration/Information and communication technology. The Information Technology Unit was adequately staffed. The Business Continuity Plan and Disaster Recovery Plan were updated and tested during 2017. Another test was planned for 2018.
- (d) General administration/Asset management. Asset management was generally effective and complied with UNDP policies and procedures. A sample of recorded assets were physically verified for existence.
- (e) Staff and premises security. The Office was compliant with safety and security guidelines. The Office was in the process of upgrading the common shared premises' physical security measures, as recommended by the United Nations Department of Safety and Security. The security risk in the Country was considered low.

OAI made five 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.

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 recommendations**, arranged according to significance:

- (a) Improve cost recovery (Recommendation 3).
- (b) Improve accounting and recording of prepayments (Recommendation 4).
- (c) Strengthen the management of the vendor database (Recommendation 5).
- (d) Ensure that adequate project management is carried out (Recommendation 2).
- (e) Strengthen accounting and reporting of common services (Recommendation 6).

**Medium priority recommendation:**

- (a) Improve project management and oversight (Recommendation 1).

The detailed assessment is presented below, per audit area:



## A. Programme

### 1. Programme/Project Design and Implementation

#### Issue 1 Weaknesses in project management and oversight

The 'UNDP Programme and Operations Policies and Procedures' require offices to enforce project management procedures for the implementation of projects. This includes signing Letters of Agreement with implementing partners, ensuring regular progress and financial reporting from implementing partners. Financial reporting should be undertaken by implementing partners through Funding Authorization and Certificate of Expenditure (FACE) forms.

The audit team reviewed six development projects and noted the following weaknesses in project management and oversight:

- For five out of six projects reviewed, the Office did not have signed Letters of Agreement. As a result, corporately mandated legal and financial safeguards were not in place.
- Reporting was inconsistent across the projects or across the different reporting periods. For three out of six projects reviewed, annual reports were incomplete or not produced. Quarterly reports were produced irregularly for three out of six projects. Without consistent reporting of both narrative and financial information, monitoring of project performance may not be properly carried out and followed up on.
- Implementing partners that received advances did not use corporately mandated FACE forms for reporting on the use of funds and requests for funds. The Office explained that they were using requests for funds received from the implementing partners as a basis for advancing funds to them. Financial reports from the implementing partners were used to record the expenditure. The financial reports, however, did not provide information in line with the UNDP account codes and thus financial reporting did not adhere to UNDP guidelines. Further, the FACE form provides for UNDP approval by the project managers as part of their monitoring of project expenses and budgets, which is not included in the financial reports used by the implementing partners.

Without signed Letters of Agreement, legal and financial safeguards for the implementation of projects may not be in place.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve project management and oversight by ensuring that	
(a) Letters of Agreement are signed with the implementing partners for all eligible projects before the release of funds;	
(b) project reporting is consistent across all projects so that project reports include both narrative and financial information and that all required reports are submitted on a timely basis; and	
(c) FACE forms are used by all implementing partners that receive advances to account for funds advanced to them and to request for additional funding.	

**Management action plan:**

- (a) The Office will ensure that moving forward, Letters of Agreement will be signed before the release of funds and this will be communicated with implementing partners.
- (b) To ensure that project reporting is consistent across all projects, the Office will enforce the use of the standard template for reporting, which has been recirculated to all implementing partners.
- (c) The use of FACE forms has now been rolled out and enforced for all projects. In order to build capacity in this area, a refresher training session was conducted for all the implementing partners on 26 June 2018.

**Estimated completion date:** December 2018

**Issue 2**      Inefficient project implementation

Project documents define results, implementation timelines and budgets, which have been agreed to with governments for the implementation of projects. The 'UNDP Programme and Operations Policies and Procedures' allow for extensions in terms of timelines, but these should be reasonable in comparison to the implementation period that was initially planned. Project expenditure should be in line with the planned project budget. Throughout the project cycle, the Project Steering Committee should meet to review progress on the project and provide guidance on issues escalated to mitigate the risks of the project not meeting its planned targets and timeframes. According to the 'UNDP Handbook on Planning, Monitoring and Evaluation for Development Results', mid-term evaluations are to be undertaken to determine if mid-course adjustments of programmes are to be undertaken. The 'UNDP Programme and Operations Policies and Procedures' also state that annual work plans should be produced and approved in the last quarter of the preceding year.

The audit team carried out a performance audit of one project with two outputs (with start dates of 1 January 2012 and 1 January 2018, respectively). The purpose of the project was to develop the capacities (institutional, financial, human, research) required for articulation of a low carbon, climate resilient development pathway. The initial project budget of the first output as per the project document amounted to \$642,000 and the budget of the second output was \$804,550. The project was funded by multiple donors (UNDP, Germany, Australia and the European Commission) and was implemented by the relevant government ministries. The audit reviewed economy, efficiency and effectiveness of the project and noted the following:

1. Poor planning and lack of timeliness in project implementation

Implementation for the first output was not efficient and timeliness was poor. According to the project document, implementation for the project was planned with a start date of 1 January 2012 and end date of 31 December 2014. It was noted that the project ended on 31 December 2017, three years later than the initial end date. Over this period, the implementing partner requested four project extensions, as well as financial support from UNDP to cover staff salaries during the extended implementation period, which initially had not been planned.

The Office's management provided a number of explanations for the delay in the completion of the project, such as climate change was a new area of operation for the Office, and there were challenges in recruiting consultants with expertise on the topic. The audit team could not establish why the Office did not tap into available resources on climate change offered by Headquarters. Management also stated that the planned project implementation period of three years was too short to produce the desired outputs. The Office, upon realizing that the project would not achieve its results within the planned timeframe, did not undertake an evaluation of

the project to determine how much time would be required to achieve the project results and if a change in the course of implementation was needed. Instead, project extensions were granted on four different occasions.

It was also noted that there were delays in the approval of annual work plans. Annual work plans were approved on average three months late, further slowing implementation and delivery. For the second output, the multi-year work plan covering 2017 to 2019 was signed on 22 November 2017. The expenditure incurred in 2017 was allocated to the first output, and its start date changed to 1 January 2018. Delays in the approval of annual work plans may be an indication of poor planning.

## 2. Inefficient financial management

Due to the prolonged implementation period, efficiency in the use of resources was poor. The resources used in the implementation of the project were higher than initially planned as the project implementation period that was initially planned for three years was exceeded by an additional three years. The project budget for achieving the results as per the project document amounted to \$640,000 while the project expenditure as at 31 December 2017 was \$1.9 million, almost three times higher than the initially foreseen amount.

The Office's management explained that the over-expenditure on the project was caused by the longer implementation period compared to the planned period. There were also additional expenditures that were not originally planned, including: (i) hiring of international consultants to review the calculations of the Green House Gas emissions; (ii) extension of contracts for local consultants to collect additional information and calculate the Green House Gas emissions based on the revised methodology; (iii) the inclusion of the Transport Nationally Appropriate Mitigation Actions, which was not included in the original plan; and (iv) additional training on the new methodology, which was not initially envisaged.

## 3. Inadequate mitigation of risks to project implementation

Issues and risks affecting performance on the project were not escalated to and discussed by senior levels in a timely manner. The Project Steering Committee met only once a year, yet it was specified in the project document that the Project Steering Committee should meet semi-annually. However, Project Steering Committee meetings should be held on a quarterly basis so that issues and risks affecting implementation can be noted and adequate action can be taken thereon. Furthermore, no data or documentation was provided to the audit team to show that project management had sought guidance from the Office's management on how to mitigate the delays and overspending on the project.

There was also a delayed start on phase II, which commenced in January 2018. At the time of the audit mission (May 2018), the inception workshop had not yet been carried out and was instead planned for June 2018 (six months after the project start date). During the period of the delay, project staff were being paid. No data was provided to the audit team to show that project management had taken steps to mitigate the impact of these delays on phase II of the project.

The weak management of the project resulted in a loss of resources due to inefficiencies caused by the prolonged implementation period.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
<p>The Office should ensure that adequate project management is carried out by:</p> <ul style="list-style-type: none"> <li>(a) undertaking evaluations in case of a need for major changes on a project;</li> <li>(b) signing and implementing annual work plans on time; and</li> <li>(c) ensuring that challenges and risks faced during implementation are followed up on by the Project Steering Committee / Office management and discussed and documented in the minutes of the Steering Committee meeting and that an action plan is developed by project management for follow up.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office will ensure that adequate project management is carried out to address any delays and/or risks faced during implementation.</p> <p>With the new streamlined 'UNDP Programme and Operations Policies and Procedures', the Office has used this as an opportunity to have internal refresher training on project/programme management and recommitment of staff to strengthen project management and oversight in collaboration with implementing partners. In recent UNDP supported trainings/workshops with implementing partners, the Office has been including project management, quality assurance, and working modalities as agenda items.</p>	
<b>Estimated completion date:</b> October 2018	

## B. Operations

### 1. Financial Resources Management

#### Issue 3 Cost recovery incorrectly implemented

The main principle of creating a stand-alone project for direct project costs (DPC) is that it requires pre-funding, periodic reconciliation, and reversals of expenditure between the stand-alone project and the development projects. Expenses recorded under the DPC project must be fully apportioned to attributable projects at year-end to ensure that projects reflect the correct costs of implementation and to clear the stand-alone account to a zero balance. To determine the costs that are attributable for DPC, offices are required to complete a workload study that will show the portion of office costs that can be charged to projects. Attributable costs must be discussed and approved by respective donors and the national counterpart before being included in the project budget. Guidelines state that DPC should be allocated against two accounts – staff costs and general operating expenditure. This is to facilitate monitoring of cost recovery by the Office of Financial Resources Management. When offices opt to create a stand-alone project for cost recovery, the project must be classified as a management project so as not to distort programme delivery.

The audit team observed the following:

- The stand-alone project created by the Office for cost recovery had not been reconciled and expenses were not charged against the respective development projects. In 2017, a total of \$351,489 was charged to this project and in May 2018, \$63,188 was charged. In both years, the stand-alone project was not cleared to a zero balance. The Office had used regular programme funds (TRAC resources) to pre-fund cost recovery.
- No workload study was completed to establish the attributable costs that qualify for cost recovery.
- Account codes used to allocate costs in the stand-alone project did not adhere to guidelines issued by the Office of Financial Resources Management. This indicated that the cost recovery of the Office was not being monitored.
- The stand-alone project was incorrectly classified as a development project and not as a development effectiveness project. This had an impact on the delivery of the Office.
- There was no indication that the implementation of DPC had been discussed with the national counterpart or respective donors or that project budgets included direct project costs.

In not reversing the income and related expenditure to respective projects, project expenditure had not been accurately accounted for. In using account codes other than those prescribed by Headquarters, the full costs of DPC had not been monitored. There is a risk that donors and the national counterpart may not agree to these costs being attributed to projects. This can have a negative impact on the Office's financial sustainability.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
The Office should improve cost recovery as a matter of priority by:	
<ul style="list-style-type: none"> <li>(a) consulting with the Office of Financial Resources Management on the status of the Office's stand-alone project with a view of reconciling it to zero and ensuring that going forward the stand-alone project is reconciled to zero regularly with costing being charged against the respective project;</li> <li>(b) completing a workload study to show the correct cost recovery and the attributable projects that these costs would relate to and amending the stand-alone project to only include the two prescribed accounts and change its classification to development effectiveness to facilitate correct recording and accounting for DPC; and</li> <li>(c) discussing the implementation of DPC with the donors and national counterpart and request budget revisions and ensure that project budgets include the respective DPC when being prepared and submitted to the national counterpart for approval.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>▪ The Office will consult with the Office of Financial Resources Management on reconciling prior year DPC to zero. The 2018 quarters 1 and 2 costs in the DPC will be reversed to the projects in the first week of August 2018.</li> <li>▪ The Office has since embarked on the establishment of a comprehensive workload analysis to ascertain the percentages of staff costs to be charged to the DPC project. The Office notes the recommendation to use the two DPC account codes (64397 for staff costs and 74596 for general operating expenses relating to the relevant staff) and will ensure that this is implemented.</li> <li>▪ The DPC project classification was already changed to development effectiveness.</li> </ul>	

- Discussions with donors regarding DPC is ongoing for all new projects as can be seen from the setting up of the Green Climate Fund project, which has already factored in a negotiated amount for DPC.
- The Office commits to ensuring that for all future programmes/projects, DPC is included and agreed with the national counterparts and donors.

**Estimated completion date:** January 2019

#### **Issue 4**      Incorrect recording and accounting of prepayments

The 'UNDP Programme and Operations Policies and Procedures' state that to recover advance payments (prepayments), progress payments and the final payment shall be subject to a percentage deduction equal to the percentage that the advance payment represents over the total price of the contract.

Based on the contracts signed with building companies/contractors for the design and construction of medical warehouses (directly implemented project), the companies had an option to request an advance payment of up to 10 percent of the total contract price. The advance was to be deducted off the milestone payments made during the contract upon presentation and certification of services provided. The Office was required to deduct 10 percent of the certified payment to reduce the advance given.

From a review of 29 vouchers paid out to three construction companies totalling \$4.4 million (representing 92 percent of the selected voucher sample), the following was noted:

- All three companies were given advances regardless of whether the companies had requested an advance or not. When the percentage of advance given was calculated it was found to be 15 percent of the contract price and not 10 percent as stipulated in the contract conditions.
- Review of the sample contract that had been given to companies during the procurement phase showed a milestone for site possession of 5 percent that was no longer included in the signed contract. The advance given was treated as a separate milestone. As a result, should there be delays in the completion of the activities contracted, the Office would have no problems in calculating delays.
- The value of the advance was not factored into the payments due for the remaining milestones under the contract.
- The purchase order created in Atlas (enterprise resource planning system of UNDP) had different milestone amounts from what was stated in the contract and what was being certified by the Project Manager. It could therefore not be matched to the certification given or to the voucher paid.
- The Office was creating a separate voucher to reduce the advance paid to contractors. This voucher had no corresponding documentation. It also did not adhere to the organizational policies that the deduction must be equal to the percentage that was given as an advance. The vouchers were not being created consistently to reduce the advance payment and this resulted in long outstanding prepayments that the Office later cleared.
- Submission of the procurement cases by the Office to the Advisory Committee on Procurement (ACP) for this procurement process did not include payment milestones. This omission was noted by the ACP and the Office was requested to have a meeting with bidders to negotiate payment milestones. The ACP, however, proceeded to approve the contracting process for these contracts without requesting or reviewing the negotiated payment milestones.

The project finance team explained that the revision of the percentage of advance to be given was discussed in a pre-contract negotiation meeting with each contractor. Minutes of the pre-contract meetings did not detail any discussions but had a reviewed payment schedule that showed the revised prepayment at 15 percent. Contracts were then prepared and signed off based on the agreed revised payment schedule. The exclusion of the first milestone and the inclusion of an advance payment as a milestone was not queried either by procurement or the acting Country Director who signed the contracts.

At the time of the audit fieldwork, the contracts reviewed were 90 percent complete. In May 2018, the Office signed a new contract for the second phase of planned works for \$4 million. A review of this contract showed the Office assumed that the company would require an advance and included the advance as a milestone.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
For new and future contracts, the Office should improve accounting and recording of prepayments by:	
<ul style="list-style-type: none"> <li>(a) adjusting the payment to correctly reflect the milestones that include a portion of the advance, as well as the milestones to include the 5 percent site possession rate;</li> <li>(b) clearly documenting any revisions and/or amendments to contract terms agreed with the contractor; and</li> <li>(c) adhering to the accounting principles stipulated in 'UNDP Programme and Operations Policies and Procedures' specifically regarding the correct revision/amendments to contract terms and the treatment of prepayments.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>▪ The Office will ensure that future contracts will correctly reflect the agreed milestones, and payment schedules on the purchase orders.</li> <li>▪ The Office will ensure that future contracts include the 5 percent milestone for site possession and stipulate the timeframe for the milestone to be met.</li> <li>▪ The Office notes the recommendations regarding the use of advances in future contracts and will ensure that where advances are given, two-line vouchers are created to reflect this fact.</li> <li>▪ The Office will ensure that revision/amendments to contract terms will be agreed upon with the contractor and documented.</li> <li>▪ The treatment of prepayment will be as prescribed in the 'UNDP Programme and Operations Policies and Procedures'.</li> </ul>	
<b>Estimated completion date:</b> September 2019	

## 2. Procurement

### Issue 5 Poor vendor management

The UNDP internal framework requires that the vendor approver must ensure that the vendor is authentic before being added to the vendor database. According to the 'UNDP Programme and Operations Policies and Procedures', the buyer is supposed to check whether the vendor exists in Atlas prior to approval, to avoid creating a duplicate entry. It is vital to gather complete and reliable supporting documentation that indicates a

bona fide business relationship between UNDP and the vendor. Key supporting documents include: originals or certified copies showing the complete name, address and banking details of the vendor duly signed by an authorized official. It is best practice that the vendor’s banking details be provided by the bank on the bank’s letterhead and to confirm the vendor’s bank details independently with the vendors bank to reduce the risk of error when making Electronic Fund Transfer (EFT) payments.

Analysis of the relevant Atlas query showed that 127 bank accounts had two or more different vendor identification numbers using the same bank account. Out of which, 96 bank accounts had similar vendor names which could be an indication of duplicate vendor records. For the remaining 31 bank accounts, each account was linked to two different vendor names.

The audit team reviewed a sample of 15 vendor profiles and their related supporting documents and noted that 5 had missing supporting documents. The Office had no systematic method or standard operating procedure in place to check for possible duplicate vendor profiles or to clean up the business unit’s vendor database periodically. Six disbursements for 3 vendors were returned by the bank due to wrong bank details.

The Office did not perform periodic data clean-up of their vendor database. There was inadequate verification of supporting documents and buyers did not enter the names/surnames and supplier names in a systematic way. Thus, not all duplicates were detected before the creation of a new vendor. The Office also explained that most duplicate vendors were because of separate procurement units (i.e., Country Office located at the UN House and Global Fund Programme Management Unit located at the UN Annex) creating vendor profiles in parallel.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
The Office should strengthen the management of the vendor database by:	
<ul style="list-style-type: none"> <li>(a) preventing the creation of more duplicate profiles by agreeing on a standard naming convention to enter vendor details in the business unit and ensuring vendor creators and approvers check existence in Atlas before adding a new vendor;</li> <li>(b) confirming the vendor’s banking details directly with the vendor’s bank to ensure they are accurate before approving the vendor; and</li> <li>(c) performing regular periodic data clean-up exercise of the vendor database (quarterly) and investigating possible duplicate vendor profiles and deactivating and archiving vendor profiles that are no longer needed.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office has streamlined its vendor management processes. Firstly, vendor profiles will only be created by two selected buyers. Other buyers are not authorized to create vendor profiles. Secondly, the vendor approval process has been reviewed and only one officer will approve vendors in the system after a thorough review of the documentation and confirmation that the vendor is eligible to be created in the system. An alternate approver has also been selected for cases where the approver may not be available. The team has agreed on a standard naming convention, to avoid duplicate vendors in the system.</li> <li>(b) Furthermore, it has been made clear to all staff to ensure that vendor forms are supported with bank confirmation details. As such, each vendor’s bank details uploaded in the system will be adequately supported with documentation from the banks.</li> </ul>	



(c) The Office has additionally developed standard operating procedures, to guide among other things, vendor management. All staff are expected to comply with the vendor management procedures. Clean-up of the vendors will be done on a quarterly basis to ensure retention of accurate and up to date vendor information.

**Estimated completion date:** July 2018

#### OAI Response

OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

### 3. General Administrative Management

#### Issue 6 Inaccurate reporting of common services balances in year-end common services certification

The 'UNDP Programme and Operations Policies and Procedures' state that offices should collect fees from all parties contributing to common services in advance. These should be collected at least on a quarterly basis so that UNDP offices do not end up advancing funds to cover the total cost of common services.

The Office did not report accurate year-end common services balances in the certification report for financial year 2017 that supported the financial assertion on common services. This was due to the following:

- (1) Late implementation of the new common services fund codes for other participating agencies (non-UNDP). The new fund codes came into effect on 1 January 2015, but the Office adopted them in the last quarter of 2016.
- (2) During the transition period, common services expenses charged to UNDP were posted inconsistently.

This resulted in the non-UNDP contributing agencies ending the year with overstated closing balances while the UNDP line, which bore most of the expenditure, had an understated closing balance. As of end 2017, the participating UN agencies stopped advancing their common services contributions because they were under the impression that there were unspent balances carried over from past years. At the time of the audit, the Office was not able to provide all participating agencies a reliable account of common services contributions, expenses and net balances as of 31 December 2017. The Office had yet to adjust the figures by rightly allocating pre-funded common services financed by UNDP to the respective agencies Chart of Accounts, to reflect a true fund status for each agency, including UNDP.

As a result of the aforementioned, no common services contributions had been received for 2018, while the Office had ongoing contractual obligations to meet. This situation forced UNDP to pre-fund common services expenses. The value of common services expenses pre-funded by UNDP from 1 January 2015 to 31 March 2018 amounted to \$5.4 million.

The Office explained that when the new accounting methodology and common services fund codes were introduced, instructions were not clear and the new process was not well understood by the Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
<p>The Office should strengthen accounting and reporting of common services by:</p> <ul style="list-style-type: none"> <li>(a) reconciling and verifying the common services revenue and expenses per fund and donor, cumulative since 1 January 2015, to confirm reliable closing balances as of 31 December 2017, and processing journals to correct the 2018 common services funds opening balances carried forward;</li> <li>(b) submitting a transparent account of expenses pre-financed by UNDP from 2015 to date to all contributing agencies and consulting with contributing UN agencies concerned to reach a formal agreement on balances due to and due from each agency as of end 2017; and</li> <li>(c) obtaining technical guidance from UNDP Headquarters to ensure the correct accounting method is implemented going forward to record and account for UNDP's own contribution and expenses relating to common services.</li> </ul>	
<b>Management action plan:</b>	
<p>The common services accounts have been reconciled and balances verified in Atlas. Additionally, the common services revenue and expenditure per fund and donor code cumulative from 2015 to 2017 has been updated and recorded in the system accordingly.</p> <p>The balance brought forward was presented and accepted by the contribution agencies in the July 2018 Common Premises Management Team Meeting and the associated bills shared accordingly with members already starting to make contributions.</p> <p>The Office has since streamlined the accounting method adopted for recording its own contributions and expenses as they relate to common services.</p>	
<b>Estimated completion date:</b> July 2018	
<b>OAI Response</b>	
<p>OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.</p>	

## 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.