UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MOZAMBIQUE

Report No. 2304
Issue Date: 30 November 2021

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Report on the Audit of UNDP Mozambique
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Mozambique (the Office) from 10 to 26 August 2021. 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
(b) Development activities
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed the following performance audit questions:

a) Development activities

   i. Is the Office achieving the results in its Country Programme Document and development projects?
   ii. Are results achieved in accordance with planned budget and timeframe?

b) Procurement

   i. Did procurement processes result in the contracting of required services and products at best value for money with fairness, transparency, and integrity?

c) Human resources

   i. Were UNDP staff and personnel hired timely?

The audit covered the activities of the Office from 1 January 2020 to 30 June 2021. The Office recorded programme and management expenses of approximately $37.9 million. The last audit of the Office was conducted by OAI in 2019.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
(d) A physical verification of assets was not performed.
(e) Safe content and petty cash were not verified.
(f) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **unsatisfactory**, which means "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." This rating was mainly due to an office structure that may not be sustainable, weak procurement management, and weak controls over the disbursement process.
Key recommendations: Total = **8**, high priority = **3**

The eight recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	High
	2	Medium
Effectiveness and efficiency of operations	7	Medium
Safeguarding of assets	8	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5	High
	3, 6	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:

Office structure may not be financially sustainable (Issue 1)	The Office was in the process of recruiting staff for the Pemba sub-office, based on a business case approved in May 2021. All 13 core positions (12 fixed-term appointments and 1 United Nations Volunteer) for the Pemba sub-office will be funded through Direct Project Costing from the Stabilisation and Recovery Project with a total project budget of $68 million. At the time of the audit mission, the project was at a conceptualisation stage with a draft project document that was yet to be signed off. The expected duration of the project was from 1 October 2021 to 30 September 2023 but no resources had been mobilized as per 1 October 2021. Discussions had commenced with potential donors that had shown interest; however, there was no commitment. Recommendation: The Office should as a matter of priority align the costs of the new posts with available funding and finalize the Stabilisation and Recovery Project document and commence mobilising resources for the project to ensure financial sustainability of the Pemba sub office. The Office should also embark on a comprehensive business mapping exercise that will allow management to optimize decisions on the structure of the Office and its various locations.
Weak procurement management (Issue 4)	Out of 19 purchase orders reviewed with a total value of $2.83 million (or 14.8 percent of total value of procurement processed from January 2020 to June 2021), the following was noted: • In two purchase orders issued with respect to one procurement case from one supplier and with total value of $443,182, the direct contracting modality was not properly used. Direct contracting can be used if there is an exigency and the same supplier was used to provide similar goods/services withing the past 18 must and price per unit remains the same. The price per unit for the current offer was 69

percent higher than the previous same supplier price in the last six months.

- In three purchase orders with a total value of $574,716.31, unclear evaluation criteria such as "earliest and shortest delivery period" was used to exclude offers that were technically responsive with lowest cost. Maximum lead times were not stipulated. In one of these purchase orders, valued at $490,212, the evaluation criteria were modified at the evaluation stage to include additional criteria such as delivery times. The Office explained that additional criteria was added due to exigency and the fact that the RFQ was issued in lots however the invitation was to provide a full quote. A decision was taken during the evaluation phase to break-up the quotes by Lots which disadvantaged other bidders. According to the Budget Summary and the request for quotation (RFQ), 750 modems were required but the two related purchase orders, Atlas receipts and vouchers indicated that 1,500 modems for $29,629 were procured, received in Atlas and paid for with no supporting documents for the additional 750 modems.

Recommendation: The Office should strengthen procurement processes by: (a) for complex urgent high value procurement cases, seeking guidance from the Procurement Support Unit (PSU) prior to initiating transactions; (b) verifying requests against supporting documents before placing procurement orders and processing payments (c) observing procurement thresholds for procurement above $200,000 that require invitations to bid/requests for proposal (ITB/RFP).

Weak controls over the disbursement process (Issue 5)

From a selected sample of 54 vouchers with a total amount of $2.76 million (representing 6.5 percent of total expenditure of $42.1 million), exceptions were noted on 36 of the vouchers with total expenditures of $1.69 million. Exceptions accounted for 60 percent of sampled expenditure. The following was noted:

(a) 6 payments with a total value of $572,751 (representing 21 percent of the selected sample) had inadequate proof that goods and services that were paid for were received.

(b) 6 payments with a total value of $382,660 (13.8 percent of the selected sample) were not in accordance with the signed contract. For example, two payments with a total value of $288,941 were paid as milestone payments for a civil works contract for building of a medical warehouse whereas the associated contract was a lump sum contract of $3.5 million with payment to be made upon the successful completion of the building.

(c) 21 payments with a total value of $446,930 (16 percent of the selected sample) were delayed. The delays on two payments with a total value of $256,894 were due to prolonged approval and certification of services, which were done close to a month after the invoices and request had been requested. The Office was requested to provide reasons for the delays in payments; however, these reasons were not provided. Delays ranged from 28 days to 142 days since date of invoice

(d) 2 payments with a total value of $148,957 (5.4 percent of the selected sample) for local salaries, conference costs and implementing activities were being paid in US dollars, without approval by Treasury. This goes against Treasury rules that state that local suppliers should be paid in local currency unless approval has been granted by Treasury.

(e) 1 payment of $24,480 (0.9 percent of the selected sample) was made to a company although the attached contract was for an individual contract. There was a handwritten note attached to the request for payment that stated that a payment should not be made as the contract had a different name from the payee; this was nonetheless not adhered to.

Recommendation: The Office should improve controls over the disbursement process by: (a)ensuring that SOPs for the disbursement process clearly articulate the workflow, responsible staff member and required documents that should be submitted to support the disbursement process – training should be conducted for all staff on the Office's SOP for the disbursement process and all staff should be made aware of their roles and responsibility in the disbursement process; (b) adhering to Treasury rules and discontinue paying for local services and suppliers in US dollars.

Implementation status of previous OAI audit recommendations: Report No. 2035, 15 May 2019
Total recommendations: 10
Implemented: 10

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 Osttveiten
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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Maputo, Mozambique (the Country). Its Country Programme initially covered the period 2017–2020 but was extended by one year until 2021 to facilitate alignment of the new United Nations Development Assistance Framework/United Nations Sustainable Development Cooperation framework (UNDAF/UNSDCF) to the national priorities and also to support the Government in preparing the next national development plan. The Country Programme had the following development priorities:

a) sustainable and inclusive economic transformation;
b) resilience and natural resources management; and
c) good governance, peace and social cohesion.

During the period from January 2020 to June 2021, the Office spent $39.7 million on development activities, an increase of 44.5 percent compared to the previous period (January 2018 to December 2019).

The largest development projects in terms of expenses during the period covered by the audit were:

Title	Expenditure Jan.-Dec. 2020 $million	Expenditure Jan.-Jun. 2021 $million
Mozambique Recovery Facility	12.68	1.42
GF Health System Strengthening	3.66	0.19
Access Justice, Human Rights, Gender and HIV	2.18	0.79
Electoral Transparency and Credibility	1.83	0.45
Total	**20.35**	**2.85**

The largest sources of funding of the Office's development activities for the period covered by the audit were:

Donor	Funding for the period $million
European Union	38.07
Mozambique Government	9.10
GEF	9.37
Finland	2.18
Total	**58.72**

Other critical information

Due to the COVID-19 pandemic, the Country went into lockdown and the Office staff had to work remotely, impacting the implementation of projects. Since December 2019, the Country experienced strong rains, winds and flooding, affecting various provinces. Houses were damaged and destroyed and lives were lost. In December 2020 and in late January 2021 Tropical Cyclone Eloise caused widespread damage and heavy flooding in the central part of the Country. During the audit period, there was also a security and humanitarian crisis in Cabo Delgado, the northern part of the Country, and the Office had to respond to it. In order to immediately respond to the crisis in Cabo Delgado the Office invested both human and financial resources in the setup of the sub-office in Pemba – the establishment of a fully working team in a very short amount of time and the design of a new project. Part of regular resources were also reprogrammed to Cabo Delgado. The audit noted however, that sustainable funding for this investment was still not secured.

II. Audit results

Satisfactory performance was noted in the area of administrative services – common services. The internal control procedures for the management of common services were found to be adequate.

The assessment of performance audit questions was as follows:

b) Development activities

i. Is the Office achieving the results in its Country Programme Document and development projects?

Although Office delivery has been increasing in absolute terms since 2019, the Office's delivery and mobilized resources has declined over the period from 2019 to date. A significant drop in delivery in the fourth year of the 5-year programme cycle (2017 to 2021) coupled with a 28 percent shortfall in resource mobilization could jeopardize the achievement of Country Programme Document results. Although the delivery against budget was high in 2019 (93.94 percent), it decreased in 2020 (78.79 percent) and in 2021, the programme expenditure was $24.6 million as of 16 November 2021 (61.67 percent of the budgeted expenditure). (Refer to Issue 2).

ii. Are results achieved in accordance with planned budget and timeframe?

The audit reviewed four projects (Project IDs 121665, 115478, 113673 and 114992) with a total expenditure of $20.35 million during the audit period and there was low performance noted under Output 117638 in project 121665 (Mozambique Recovery Facility). Delivery on the project was $954,394 since its inception in 2019 compared to the planned budget of $6 million for the project (16 percent of budget).

c) Procurement

i. Did procurement processes result in the contracting of required services and products at best value for money with fairness, transparency, and integrity?

Based on sample testing, the procurement process exhibited serious shortfalls in ensuring best value for money, fairness and transparency. The audit team sampled 19 purchase orders with a total value of approximately $2.83 million (or 14.8 percent of total value of procurement processed) from January 2020 to June 2021. In two purchase orders valued at $443,181.96, the use of the direct contracting modality was not in line with policy requirements; in three purchase orders with a total value of $574,716.31 there were unclear evaluation criteria; and there were two purchase orders that had over-procurement for an estimated value of $29,629 (Refer to Issue 5).

d) Human resources

i. Were UNDP staff and personnel hired timely?

The recruitment process was unduly slow. The audit team sampled 11 recruitments (4 fixed-term appointments and 7 service contract holders). For all seven service contracts sampled, only two requests for recruitments included a required start date. Of the two, one recruitment took over 1 year to complete and the second took 3 months. In the remaining five cases, the actual start date of the requested staff members was between 3 months and 20 months after the requested start date from the requesting unit (Refer to Issue 7).

OAI made three recommendations ranked high (critical) and five recommendations ranked medium (important) priority.

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

High priority recommendations, arranged according to significance:

(a) Align the costs of the new posts with available funding and finalize the Stabilisation and Recovery Project document and commence mobilising resources for the project to ensure financial sustainability of the Pemba sub office. Embark on a comprehensive business mapping exercise to better optimize the work processes, staff responsibilities and reporting lines of the Office (Recommendation 1).
(b) Strengthen procurement processes (Recommendation 4).
(c) Improve controls over the disbursement process (Recommendation 5).

Medium priority recommendations, arranged according to significance:

(a) Schedule a meeting with the host Government regarding the non-payment of GLOC (Recommendation 6).
(b) Speed up project implementation and improve Office delivery (Recommendation 2).
(c) Improve project management (Recommendation 3).
(d) Improve the recruitment process (Recommendation 7).
(e) Strengthen assets management (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Governance

1. Organization Chart and Overall Staffing

Issue 1 <u>Office structure may not be financially sustainable</u>

Management is responsible for ensuring that there is adequate capacity in the Office for effective and efficient operations and that the structure is financially sustainable and conducive to smooth operations.

The Office increased in size between 2020 and 2021, from a staff complement of 28 staff to 48 staff. This increase was in response to the two cyclones and the insurgency in the northern part of the Country. The Office is based in three locations: Maputo, which is the main office; Beira, where there is a project team of 13 staff headed by a Programme Coordinator; and the recently established Pemba sub-office, for which 13 staff were being recruited, as per approved plans.

The Office was in the process of recruiting staff for the Pemba sub-office, based on a business case approved in May 2021. All 13 core positions (12 fixed-term appointments and 1 United Nations Volunteer) will be funded through Direct Project Costing from the Stabilisation and Recovery Project. A total of $4.48 million was required for staff and office running costs for the next three years.

For 2021, the Office received a total of $1.27 million through SURGE (the rapid deployment mechanism used by UNDP to deliver immediate recovery assistance to affected governments and populations), the Regional Bureau for Africa and the Bureau for Management Services with the understanding that the Office would generate the additional resources through project delivery for the remaining $3.2 million needed for staffing costs. The assumption was based on a Direct Project Costing rate of 6.5 percent, which means the Office needed to generate delivery of $50.5 million over the three years to be able to maintain the Pemba sub-office.

The sub-office funding relied on the Stabilisation and Recovery Project with a total budget of $68 million. At the time of the audit mission, the project was at a conceptualisation stage with a draft project document that was yet to be signed off. The expected duration of the project was from 1 October 2021 to 30 September 2023. The Office was yet to start mobilizing resources for this project. Discussions had commenced with potential donors that had shown interest; however, there was no hard commitment.

Despite increased resource mobilization in the period 2019–2021, there is a risk of insufficient funding for sub-office operational costs. As a result, the current Office structure may not be sustainable.

Priority	High (Critical)

Recommendation 1:

The Office should as a matter of priority align the costs of the new posts with available funding and finalize the Stabilisation and Recovery Project document and commence mobilising resources for the project to ensure financial sustainability of the Pemba sub office. The Office should also embark on a comprehensive business mapping exercise involving a workload survey that will allow management to optimize decisions on the structure of the Office and its various locations.

Management action plan:

The Office recognizes the need for business process mapping based on the following elements: delivery has grown close to fourfold between 2018 and 2020; two new office locations have been set up respectively in Beira in 2019 and in Pemba in 2021 and further analysis is required to ensure full coherence and integration across the Mozambique operation; and the staff retreat held in March 2021 had identified the need for a workload analysis as one of its key recommendations.

On this basis, the Office will resume its search for proper human resource/management analysis support following its initial search in April and May 2021, in consultation with the Regional Bureau for Africa. It will identify and contract adequate profiles to undertake a full workload analysis and business process mapping, and it will implement recommendations to ensure proper coherence and sustainability of its office structure.

The Office has already taken action on Deputy Resident Representative reports. 1 Chief Technical Advisor has been brought on, under Resident Representative supervision. Further changes will be made, based on a further analysis of HR options.

Estimated completion date: June 2022

B. Development Activities

1. Country Programme

Issue 2 Declining Country Office delivery compared to budgeted resources

Country Offices are expected to deliver on the goals and objectives that have been agreed with governments and defined in the Country Programme Documents. Office performance may be measured by how much of the office's resources the office is able to utilize, and this delivery is expected to be in line with the implementation rate of the activities. Delivery against budget is measured by comparing the budget for the year/period against the expenditure for the same year/period.

Although delivery in absolute terms for the Office has seen an increase in the period since 2019, the Office's performance in terms of delivery as a percentage of what it planned to deliver annually has decreased. In 2019, a comparison of expenditure of $19.6 million against a budget of $20.9 million led to a high delivery rate of 93.94 percent. This reduced in 2020 when expenditure was $34 million compared to a budget of $43.2 million, leading to a delivery rate of 78.79 percent and in 2021, the programme expenditure was $24.6 million as of 16 November 2021 (61.67 percent of the budgeted expenditure). The decline in delivery compared to the budget from 2019-2021, may also indicate the need to consider more realistic budgeting for the coming years.

The Office's management clarified that although programme delivery remained low compared to budget, they were expecting it to increase by the end of the year in order to meet targets agreed with the Regional Bureau for Africa. The Programme Management Support Unit (PMSU), under the supervision and oversight of senior management, had been working very closely with programme colleagues to monitor and accelerate the delivery. In June 2021, focused delivery meetings were held with programme/project colleagues and PMSU put together an accelerator delivery plan; this plan was also shared with colleagues at headquarters.

Office management explained that delivery was impacted by the global COVID-19 pandemic and the situation in the north of the Country. The Office's management commented that since April 2020, delivery was affected by the following constraints: the Office had been working almost exclusively remotely, with some staff affected by the pandemic; the Government adopted remote and rotational working modalities, restricting official engagement, which affected project implementation, and; the Office also had difficulties in obtaining visas for incoming personnel and consultants, which affected delivery. Delivery was also affected by late finalization of the project annual work plans, consistency in budgeting and financial management of projects and limited follow-up by the PMSU on the delivery.

The Office may not be able to implement all its planned activities for the year and thus may not be able to achieve its planned programme objectives due to the low programme delivery.

Priority	Medium (Important)
Recommendation 2: The Office should speed up the implementation of projects by utilizing resources entrusted to it for development results and improve on the Office's delivery and develop realistic budgets for the coming years.	

Management action plan:

As Office delivery has increased between 2018 and 2021, the Office will ensure to update its systems on programme management as follows:

- Finalizing annual work plans under projects before the end of the previous year.
- Ensure proper alignment of approved budgets to agreed Integrated Work Plan annual delivery targets and available resources for improved programme financial planning and implementation.
- Ensure multi-year budgeting for all project and programme resources in the system so as to provide greater visibility and consistency in financial management.
- The Office has developed a pipeline management system outside corporate systems and will ensure pipeline is uploaded and managed in the system so as to enable strategic management of resources mobilization efforts.
- Reinforce the role of PMSU in supporting and ensuring Office compliance and implementation of the above plan. A memo will be issued in this regard so newly established programme management platforms can deliver on the expected results.

Estimated completion date: February 2022

2. Projects Administration

Issue 3 Weakness noted in projects administration

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project board meetings need to be held at a minimum on an annual basis and that quarterly reports need to be issued for all projects. According to the 'UNDP Programme and Operations Policies and Procedures', as part of the Quality Assurance and Risk Management, the Social and Environmental Screening Procedures (SESP) must be completed to identify potential social and environmental risks and determine the appropriate type and level of social and environmental assessment and management required. Annual work plans need to be finalized and approved during the last quarter of the preceding year.

A review of four projects (Project IDs 121665, 115478, 113673 and 114992) with a total expenditure of $20.35 million during the audit period was carried out and the following exceptions were noted:

- As part of the Quality Assurance for projects, SESP is expected to be carried out at different phases of project (design, implementation and closure). The SESP was not completed at the design and appraisal quality assurance phase for Project 121665 (Mozambique Recovery Facility). The decision on the design and appraisal quality assurance done in 2019 was "Disapprove" and there was a comment that the "The Social and Environmental Screening Procedure (SESP) must be completed for all projects worth over $500,000."
- Low performance under the Mozambique Recovery Facility - Output 117638 (under Project 121665). Delivery on the project was $954,394 since its inception in 2019 compared to the planned budget of $6 million for the project (16 percent of Budget).
- Late signing of annual work plans by four months (Project IDs 115478, 113673), which affect Office delivery.
- No quarterly reports for Projects IDs 121665, 113673 and 114992.

The Office may not be able to meet the objectives of its Country Programme document if there are weaknesses in the implementation of the projects.

Priority Medium (Important)

Recommendation 3:

The Office should improve project management by ensuring that:

(a) the Social and Environmental screening Procedure for the Mozambique Recovery Facility project is done;
(b) performance of the Output 117638 is improved during the remaining implementation period;
(c) annual work plans are finalized during the last quarter of the preceding year; and
(d) quarterly reports are prepared for all projects.

Management action plan:

The Office agrees with this recommendation and will implement the following:

(i) A review of the Local Project Appraisal Committee checklist and functioning to include in the check-list the social and environment standards. The office will issue a memo in this regard to clarify Project Management Support Unit oversight.

(ii) Delivery under the output 117638 for 2021 has increased to 45.74 percent and is expected to scale up further to reach 100 percent by end year 2021.

(iii) A new process for planning of annual work plans was introduced in 2021. Annual work plan definition and discussions with partners has already started since the completion of the audit. All projects continuing beyond 2021 (2022 marks the start of a new Country Programme Document) are expected to have finalized and approved their annual work plans before the end of the year so implementation can start in January 2022 as per standards. This process is ongoing and to be completed by 31 December 2021.

(iv) The Project Management Support Unit is already in the process of mobilizing quarterly reports for review with a deadline of 5 November for quarter 3. The Office will also issue a memo to clarify the process, expectations, and ensure the Project Management Support Unit can implement it on a continuous basis.

Estimated completion date: 31 December 2021

C. Operations

1. Procurement/Goods and Services

Issue 4 Weak procurement management

A request for quotation (RFQ) is mandatory for contract values ranging from $5,000 ($10,000 if approved by the Bureau) to $200,000. Beyond this amount, requests for proposals (RFP) or invitations to bid (ITB) must be used. A RFQ requires a written request to be sent to a vendor, soliciting a written price quotation and does not require advertising. It applies limited/closed competition, which requires previous knowledge of suppliers and is best used with existing rosters and referrals of vendors from reputable sources. Offices are permitted to piggyback on rosters of other UN agencies and Long Term Agreements (LTAs). Direct contracting is permitted under Financial Rule 121.05, where procurement is of identical good/services previously procured competitively from the same supplier within the past 18 months and conditions remain the same and there is genuine exigency subject to prescribed conditions. For complex urgent high value procurement cases, offices are encouraged in POPP to seek guidance from the Procurement Support Unit (PSU) prior to initiating transactions. Evaluation criteria set at RFQ/RFP/ITB stages cannot be changed at the evaluation stage, and the number of items procured be identical to the number of items received by the Office.

The audit team reviewed 19 purchase orders with a total value of approximately $2.83 million (or 14.8 percent of total value of procurement processed from January 2020 to June 2021) and noted that fairness and value for money were not demonstrated by the procurement process in the following cases:

- In two purchase orders issued with respect to two procurement cases from one supplier within a period of six months and with total value of $443,182, the direct contracting modality was not properly used. Direct contracting can be used if there is an exigency and the same supplier was used to provide similar goods/services withing the past 18 must and price per unit remains the same. The price per unit for the current offer was 69 percent higher than the previous same supplier price in the last six months.
- In three purchase orders with a total value of $574,716.31, unclear evaluation criteria such as “earliest and shortest delivery period” was used to exclude offers that were technically responsive with lowest cost. Maximum lead times were not stipulated. In one of these purchase orders, valued at $490,212, the evaluation criteria were modified at the evaluation stage to include additional criteria such as delivery times. The Office explained that additional criteria was added due to exigency and the fact that the RFQ was issued in lots however, the invitation was to provide a full quote. A decision was taken during the evaluation phase to break-up the quotes by lots which disadvantaged other bidders.
- According to the Budget Summary and the RFQ, 750 modems were required but the two related purchase orders, Atlas (enterprise resource planning system of UNDP) receipts and vouchers indicated that 1500 modems for $29,629 were procured, received in Atlas and paid for with no supporting documents for the additional 750 modems.

Additionally, in 11 purchase orders of the 19 sampled with a total value of $1,069,369, the Office used RFQs. In two of these purchase orders with a total value of $857,297, the individual value of procurement was more than the maximum threshold of $200,000 and required use of ITB/RFP or use of an existing global LTA for a quicker procurement turnaround time and value for money.

The weaknesses identified exposed the Office to the risk that value for money in procurement may not be achieved in all cases and that non-transparent and unfair procurement practices may go unnoticed. Weak controls over procurement may result in unethical and fraudulent practices not being detected.

Priority	High (Critical)
Recommendation 4: The Office should strengthen procurement processes by: (a) for complex urgent high value procurement cases, seeking guidance from the Procurement Support Unit (PSU) prior to initiating transactions;	

(b) verifying requests against supporting documents before placing orders for procurement and processing payments; and
(c) adhering to the thresholds for procurement above $200,000 that require ITB/RFP.

Management action plan:

The Office has started implementing the following:

A meeting led by the Resident Representative was held with all procurement personnel to agree on concrete actions in performance improvement took place on 29 September, with specific actions initiated accordingly including: (i) complete a review and assessment of existing UNDP LTAs + Operations Management Team (OMT) UN LTAs; (ii) consolidate and circulate all LTA information within procurement and all users for quicker activation; (iii) review of potential needs for LTAs based on procurement plan 2022 and issuance of Expression of Interest with local supplier market for regular local categories to set rosters/sourcing list; (iv) conduct additional hands-on trainings, in addition to those already delivered in finance and procurement processes for the Office as part of the learning plan for 2021.

In addition, a memo was already issued on 4 November requiring a number of mechanisms to be effective immediately for monthly oversight and verification of processes in procurement, administration and finances.

The Office is in constant interaction with PSU and will continue to engage regarding procurement solutions, for example, corporate LTAs, and consultation on urgent high value procurement actions.

While the Office is in agreement with the issues raised regarding cases in reference for purchase orders MZ019_21, MZ038, MZ161, processed in a context of a level 2 emergency, it does wish to highlight that all cases were submitted, clarified and approved by the Regional Advisory Committee on Procurement following exchanges and clarifications provided by the Office.

Estimated completion date: 15 December 2021

2. Finance/Payments

Issue 5 Weak controls over the disbursement process

The 'UNDP Programme and Operations Policies and Procedures' stipulate that payments be made on the basis of supporting documents that prove that services or goods have been received and that payments have not been previously made. Vouchers will be approved when:

- it has been determined that payment has not been previously made; and
- vouchers are supported by documents that indicate that goods and services for which payment is claimed have been received and rendered in accordance with the terms of the contract and the related commitment.

From a selected sample of 54 vouchers with a total amount of $2.76 million (representing 6.5 percent of total expenditure of $42.1 million), exceptions were noted on 36 of the vouchers with total expenditures of $1.69 million (or 60 percent of sampled expenditure). The following was noted:

(a) 6 payments with a total value of $572,751 (representing 21 percent of the selected sample) had inadequate proof that goods and services that were paid for were received.

(b) 6 payments with a total value of $382,660 (13.8 percent of the selected sample) were not in accordance with the terms of the signed contract. For example, two payments with a total value of $288,941 were paid as milestone payments for a civil works contract for building of a medical warehouse whereas the associated contract was a lump sum contract of $3.5 million with payment to be made upon the successful completion of the building.

(c) 21 payments with a total value of $446,930 (16 percent of the selected sample) were delayed. The delays on two payments with a total value of $256,894 were due to prolonged approval and certification of services, which were done close to a month after the invoices and request for payment had been submitted. The Office was requested to provide reasons for the delays in payments; however, these reasons were not provided to auditors. The delays ranged from 28 days to 142 days since date of invoice.

(d) 2 payments with a total value of $148,957 (5.4 percent of the selected sample) for local salaries, conference costs and implementing activities were paid in US dollars without Treasury approval. This goes against Treasury guidelines that state that local suppliers should be paid in local currency unless approval has been granted by Treasury.

(e) 1 payment of $24,480 (0.9 percent of the selected sample) was made to a company although the attached contract was for an individual contract. There was a handwritten note attached to the request for payment that stated that the payment should not be made as the contract had a different name from the payee; this was nonetheless not adhered to.

Although the Office stated that there is an established standard operating procedure (SOP) for disbursements, this was not shared with the audit team and there was no evidence that staff were aware of the procedures that apply to the disbursement process. The Office was only retaining documents that were required by Global Shared Service Centre (GSSC) in order to process payments.

There is a risk that payments are being made for goods and services that have not been received. Furthermore, weak control procedures can be manipulated and used to make fraudulent payments that will go undetected.

Priority High (Critical)
Recommendation 5: The Office should improve controls over the disbursement process by: (a) ensuring that SOPs for the disbursement process clearly articulate the workflow, responsible staff member and required documents that should be submitted to support the disbursement process – training should be conducted for all staff on the Office's SOP and all staff should be made aware of their roles and responsibilities in the disbursement process; and (b) adhering to Treasury rules and discontinue paying for local services and suppliers in US dollars.
Management action plan: The Office agrees with the recommendation and would like to highlight the following: ▪ Payment/disbursement related goals and indicators are already incorporated within the 2021 Performance management and Development (PMD) of the finance staff.

- In addition, the Office already has SOPs on the payment process, dated May 2020, which the Office revised to align with the transition to GSSC.
- A responsibility matrix was developed by the Finance Unit, with training and awareness to users delivered during the first semester of 2021 as part of the learning plan for 2021.
- Regarding apparent long-delayed payment processes listed, attention is drawn to the fact that delays were incurred due to erroneous vendor information having been provided and payments having to be put on hold and reprocessed.

Notwithstanding the above, the Office will reinforce proper oversight of processes including with the set-up of regular reporting to the Resident Representative through the Operations Manager and Deputy Resident Representative. A memo was issued by the Resident Representative in this regard on 4 November effective immediately.

The Office will discontinue the practice of having Funding Authorization and Certification of Expenditures (FACE) forms signed by the Deputy Resident Representative to adjust to a joint project manager and head of unit certification, as per standards. The Resident Representative/Deputy Resident Representative will approve submissions to GSSC as per standards. Clear SOPs will be issued to ensure implementation.

Existing SOPs will be revised to ensure proper systemic processing and oversight.

Estimated completion date: 15 February 2022

Issue 6 Long outstanding Government Contributions to Local Office Costs (GLOC)

In accordance with the provisions of the Standard Basic Assistance Agreement (SBAA) that governs UNDP operations in programme countries, host governments are expected to contribute towards the local cost of Country Offices. The governments shall also contribute towards the expenses of maintaining the UNDP mission in the country by paying annually to UNDP a lump sum mutually agreed between the parties to assist in covering operational expenditures. The governments shall have the option of providing, in-kind, the facilities referred to in the SBAA.

The total amount of GLOC that was outstanding is $3.15 million. This dated back to 2004. The Office continued to send letters of request to the Government; however, the Office had yet to receive a response on the long outstanding amount.

Management explained that the Office discussed the issue with government authorities in November 2020. However, due to the COVID-19 pandemic and conflict within the north of the country, current Office management had yet to schedule a meeting to discuss the issue with the government focal point in the relevant government ministry and ascertain why there was a reluctance on the Government's part to pay GLOC as this part of the SBAA.

The non-collection of GLOC will have a negative effect on the Office's operations.

Priority	Medium (Important)
Recommendation 6:	

The Resident Representative should schedule a meeting with the host Government regarding the non-payment of GLOC with the aim of solving the issues and obtaining an agreement on the payment of GLOC.
Management action plan: The Office agrees with the recommendation and will ensure a meeting is held and documented with the relevant authorities regarding outstanding GLOC payments. **Estimated completion date:** 30 November 2021

3. Human Resources/Recruitment of Staff

Issue 7 Prolonged recruitment processes

Good office practice is to ensure that recruitment for vacant posts and contracts is done in a timely manner so as not to affect the Office's operational capacity.

From a selected sample of 11 recruitments (4 fixed-term appointments and 7 service contracts) out of 16 fixed-term appointments and 18 service contract holders that were recruited during the audit period, the audit team noted the following:

- From the seven service contracts sampled, only two requests for recruitments included a required start date. Of the two, one recruitment took over one year to complete. The required start date was 5 February 2020 and the actual start date was 1 June 2021. In the second case, the required start date was August 2020 and the actual start date was 23 November 2020 (approximately three months later).
- For the remaining five recruitments for service contract holders, the requested recruitment process was to be "immediate" or "as soon as possible". Analysis of these five cases showed that recruitment on average took over nine months.
- For four of the seven selected service contracts the vacancy had to be re-advertised due to a lack of qualifying candidates. This was due to the fact that the Office advertises online and does not place vacancy advertisements in local newspapers.

The Office stated that there was a SOP for the recruitment process; however, this was not shared with the audit team. The Office further indicated that it advertises vacancies online and does not place advertisements in local printed newspapers.

Prolonged recruitment processes have a negative impact on the operational efficiency of the Office.

Priority	Medium (Important)
Recommendation 7: The Office should improve the recruitment process by: (a) ensuring that the SOP for the recruitment process includes the work and document flow for the process and the associated timelines – the SOPs should be communicated to all units to facilitate better planning for requesting units; and (b) reconsidering the method of advertising to capture a wider target market and advertisements should state eligibility criteria when advertising.	

Management action plan:

The Office agrees with the recommendation and highlights the below:

Reference is made to the existing SOP on recruitment processes as well as the matrix of responsibilities for each member of the HR Unit, both developed for 2021. SOPs are being further updated in light of the GSSC transition, which is being dealt with as per item below.

Delays in recruitment processes over 2021 were partially linked to the vacancy of the Head of Human Resources position, which had been vacant since January 2021. (Recruitment of the Head of Human Resources was completed on 7 June 2021).

The Office is currently under an operational transition process of the recruitment function to the GSSC effective 6 October. The Office is taking, along with GSSC, related compliance action further to the transition process (roles and responsibilities, workflow, etc.). An initial transition meeting with GSSC took place on 6 October. A scaled down meeting and training with the Office on new recruitment procedures is scheduled for 5 November.

The Office has introduced monitoring and reporting on recruitment activities since December 2020 via weekly notifications, with the status of requests to all respective hiring managers. It will improve on the existing system as part of the revision of the SOPs, taking into account the transition to GSSC.

Estimated completion date: 15 February 2022

4. Administrative Services – Assets Management

Issue 8 Weaknesses in assets management

Due to COVID-19 restrictions in 2020, the Office of Financial Management issued an instruction to offices to finalize and file physical asset verification and certification reports by 1 December 2020. Otherwise, it was mandatory for offices to submit assets year-end certification reports no later than 31 January of the following year.

There were undue delays to submit asset certification reports. The 2019 year-end certification was submitted in April 2020 and had a delay of four months. In 2020, the year-end certification was submitted in February 2021 and had a delay of two months.

There were also undue delays to remove ineligible assets from the assets in-service report (ISR) report in Atlas.

- There were six equipment items with a total cost of $155,148.21 that had been physically disposed, some as far back as 2017, but were still listed in the ISR in Atlas.
- There were six other assets with a total cost of $140,853.24 that had asset IDs that differed from the tag numbers and were development project assets that were wrongly classified as Office assets and capitalized in 2018 and 2019 and had yet to be removed from ISR.
- There were non-capital asset items that had an individual purchase values below $5,000 with a total cost of $10,453.61 that were erroneously capitalized as one asset in May 2020 and were yet to be removed from the ISR in August 2021.
- There were four computer equipment items with a total cost of $40,385.01 that were recorded in the ISR but had serial numbers and locations that were not recorded.

The weaknesses noted above occurred due to poor oversight and inadequate knowledge by staff responsible for asset management. Delays and errors in reporting assets may lead to misstatements in the financial reports.

Priority	Medium (Important)
Recommendation 8: The Office should strengthen assets management by: (a) ensuring the timely submission of asset year-end certification reports, no later than 31 January each year or as instructed, and follow up on cases submitted to GSSC for assets that have been physically disposed but are still in the ISR; (b) providing necessary training to inform staff responsible for asset management and ensure proper filing of purchase invoices and receipts with respect to office assets; and (c) ensuring that asset locations and serial numbers are always recorded in the ISR for identification and tracking.	
Management action plan: The Office agrees with the recommendation and highlights the following: The Office acknowledges the challenges in asset management and has taken action on most of open inconsistencies from the ISR since completion of the audit, including removal of ineligible items, retirement transactions, correct location, and correct capitalization in Atlas, as per documentation provided for review. Although staffing had been a constraint, with the recruitment of personnel in the administration unit completed in August 2021 for the position Administration Assistant, related PMD goals and indicators are already included in the PMD of respective staff. In addition, a memo was issued by the Resident Representative to reinforce proper oversight over administration and asset management processes, ensuring monthly reporting to senior management of the ISR and due diligence and accountability to execute year-end certification (including the asset location and serial numbers recorded). The Office will liaise with the corporate asset team to ensure needed refresher training in asset management is provided to the teams based on the latest non-compliance items from the Office. **Estimated completion date:** 15 February 2022	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.

- **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.