UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

TANZANIA

Report No. 991
Issue Date: 20 December 2012

LIST OF ACRONYMS

CCPD	Common Country Programme Document
DMS	Document Management System
IPSAS	International Public Sector Accounting Standards
MOSS	Minimum Operating Security Standards
POPP	Programme and Operations Policies and Procedures
UNDAP	United Nations Development Assistance Plan

Table of Contents

United Nations Development Programme
Office of Audit and Investigations

Report on the audit of UNDP Tanzania
Executive Summary

From 4 to 19 July 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of UNDP Country Office in Tanzania (the Office).The audit covered the activities of the Office during the period from 1 January 2011 to 30 April 2012**.** In view of the joint audit of 'Delivering as One' that was conducted in February 2012, the audit did not cover the areas relating to United Nations system coordination. During the period reviewed, the Office recorded programme and management expenditures totaling $35 million. The last audit of the Office was conducted by OAI in 2008.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit rating

OAI assessed the Office as **satisfactory***,* which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
2. United Nations system coordination				
2.1 Development activities	Not assessed			
2.2 Resident Coordinator Office	Not assessed			
2.3 Role of UNDP – "One UN"	Not assessed			
2.4 Harmonized Approach to Cash Transfers	Not assessed			
3. Programme activities				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Satisfactory			
3.3 Project management	Satisfactory			
4. Operations				
4.1 Human resources	Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 Asset management & general administration	Partially Satisfactory			
4.6 Safety and Security	Satisfactory			

Key issues and recommendations

There were five recommendations, all ranked medium (important) priority, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." Medium (important) priority recommendations include actions to address delays in project formulation and implementation, leave records not administered through Atlas and weaknesses in procurement processes, contract management and fuel management.

Management's comments

The Resident Representative accepted all the five recommendations and is in the process of implementing them.

Egbert C. Kaltenbach
Director
Office of Audit and Investigations

I. Introduction

From 4 to19 July 2012, OAI conducted an audit of UNDP Tanzania. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plans and performs the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit scope and objectives

OAI's audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes.

Specifically, this audit reviewed the following areas of the Office -- governance and strategic management, programme activities, and operations. The audit covered relevant activities during the period from 1 January 2011 to 30 April 2012. In view of the joint audit of 'Delivering as One' that was completed in February 2012 (audit report # 886), the audit did not cover the areas relating to United Nations system coordination. During the period reviewed, the Office recorded programme and management expenditures totaling $35 million. The last audit of the Office was conducted by OAI in 2008.

II. About the Office

Tanzania (the Country) is one of the eight pilot countries participating in the 'Delivering as One' initiative, which started in 2008. The Office, which is located in Dar es Salaam, moved to a temporary location after floods in December 2011, which resulted in the loss of documentation and damage to office assets. At the time of the audit, negotiations were still continuing with the Government to identify new office premises. The Office was also in the process of requesting copies of project documents from the national counterpart and implementing partners in an effort to rebuild a document trail. With a total of 64 staff members, the Office is responsible for 36 ongoing projects with total expenditures of $29.6 million. The average programme delivery rate was 61 percent for the period under review. Developmental focus is on poverty reduction, energy and environment, HIV/AIDS, democratic governance, and crisis prevention and recovery. Major donors include Canada, Japan, the Netherlands, Norway, Sweden, and the United Kingdom. Funding is channelled through the One Fund, Multi Partner Trust Fund for the harmonized programme under the 'Delivering as One' initiative.

The Country's economy is driven by services and agriculture, which account for 44 per cent and 24 percent of the gross domestic product, respectively. The extraction of natural resources is on the rise and the discovery of natural gas in February 2012 will contribute to the Country's economy.

III. Detailed assessment

1. Governance and strategic management	Satisfactory

The Office's management structure consists of the Resident Representative, who is also the United Nations Resident Coordinator, the Country Director, and two Deputy Country Directors (for operations and programme). The day-to-day management of the Office was delegated to the Country Director. The Office started a reorganization exercise in 2011, which was completed in May 2012 and resulted in a new office structure. OAI's review of governance and strategic management focused on compliance with policies and procedures relating to the submission of integrated work plans, implementation of the reorganisation exercise, delegation of authority, and user profiles in the Atlas system. At the time of the audit, OAI found that some 54 persons who had long separated from the Office still had active Atlas user profiles under the Office's business unit; as this was subsequently addressed, no issue is raised.

2. United Nations system coordination	Not Assessed

The areas under this section were not included in the audit scope, in view of the joint audit of the 'Delivering as One' programme, which was conducted in February 2012 by the Internal Audit Services of UNDP, UNESCO, UNFPA, UNICEF, UNIDO, FAO, and WFP.

2.1 Development activities	Not Assessed

A total of 20 agencies, funds, and programmes were participating in the 'Delivering as One' initiative. They included FAO, IFAD, ILO, IMF, UNAIDS, UNCDF, UNEP, UNESCO, UNFPA, UN HABITAT, UNHCR, UNICEF, ICTR (International Criminal Tribunal for Rwanda), UNIDO, UN WOMEN, WFP, and WHO. The 'Delivering as One' initiative has five pillars: One Programme, One Leader, One Fund, One Office, and One Voice. The current programme cycle (2011–2015) has been developed under an integrated development plan referred to as the United Nations Development Assistance Plan (UNDAP) and has five areas of development focus. These are economic growth, environment, education, health and nutrition, and HIV/AIDS.

2.2 Resident Coordinator Office	Not Assessed

The Resident Coordinator Office had a total of six staff members responsible for providing substantive and administrative support to the coordination function.

2.3 Role of UNDP - "One UN"	Not Assessed

The Office is the Administrative Agent for the One Fund and is responsible for consolidating reports received from the participating agencies and reporting annually to donors.

2.4 Harmonized Approach to Cash Transfers (HACT)	Not Assessed

The macro-assessment was completed in February 2012 and was conducted by an internal team which relied on the assessment of the Country's public financial management system that was completed in December 2011. The United Nations Country Management Team was arranging for micro-assessments of implementing partners. At the time of the audit, a HACT audit plan for 2011 had been finalized.

3. Programme activities — Satisfactory

3.1 Programme management — Satisfactory

The Common Country Programme Document (CCPD) for 2011–2015 is a collaborative effort between the four Executive Committee agencies (UNDP, UNFPA, UNICEF, and WFP). It is fully aligned with the UNDAP and focuses on five development themes: poverty reduction through the achievement of the MDGs, energy and environment, HIV/AIDS, democratic governance, and crisis prevention and recovery.

Issue 1 <u>Delays in project formulation and implementation</u>

Offices are expected to complete the formulation of projects at the beginning of the programme cycle to ensure that the development results are met within the stipulated timeframes. The current programme cycle started in June 2011, but at the time of the audit mission in July 2012 the Office had not yet formulated all the UNDP projects planned to meet the programme results described in the CCPD. OAI noted that, of the 18 projects (with a total estimated budget of $55 million), seven were still in the initiation phase, while 11 were not yet formulated. Management explained that this process was delayed by the need to develop the UNDAP (which required lead agencies to be identified for each development theme) and by the coordinating mechanism. Nevertheless, a management decision had been taken to have all project formulation activities completed by the end of 2012. Given that offices typically require a six to eight month lead time to start project implementation, there is added pressure on the Office to complete some parts of a four-year programme cycle in just over two years.

Management commented that the Office faced challenges implementing a completely new programme under the current UNDAP, as the UN Country Management Team decided to discontinue all joint programmes from the previous programme cycle.

Delays in formulating projects pose a risk that activities required to achieve targeted outcomes may not be completed by the end of the programme cycle, which can negatively affect both donor and government confidence in the Office's ability to deliver results.

Priority	Medium (Important)
Recommendation 1: The Office should prioritize the formulation of projects under the current programme cycle.	
Management Comments and Action Plan: _✓__Agreed _ __Disagreed Management informed that, subsequent to the audit mission, the Office formulated and was implementing 24 out of 36 planned projects, with eight projects at the initiation phase. The remaining four projects are in the formulation stage and consultations with the Government are ongoing.	

3.2 Partnerships and resource mobilization — Satisfactory

According to the 2011–2015 UNDAP participating agencies may mobilize resources for development activities that are agency-specific. The Office has developed a resource mobilization action plan that shows linkages between the targeted donors, respective projects and developmental practice areas, and pipeline initiatives. In addition to uploading donor agreements into the Document Management System (DMS), the Office also maintained an agreement tracking table to monitor and follow-up pipeline initiatives. A resource mobilization associate responsible for recording and tracking resources and agreements has been recruited. The resource mobilization target for the current programme cycle is $189 million ($64.8 million from regular resources and $124.2 million from other resources). At the time of the audit in July 2012, the Office had mobilized a total of $82.6 million ($19 million from regular resources and $63.6 million from other resources), representing 44 percent of targeted resources. No reportable issues were identified.

3.3 Project management — Satisfactory

The Office had 36 projects in its portfolio (35 nationally implemented and one directly implemented) with total programme expenditures of $29.6 million during the audit period. The project portfolio covered poverty reduction, energy and environment, HIV/AIDS, democratic governance, and crisis prevention and recovery. OAI sampled eight projects to assess their management. The projects selected were: Strengthening efforts to deepen democracy in Tanzania (project ID 45328), Pro-poor policy development and wealth creation (46676), Capacity strengthening for development management (49030), Transition from human assistance to sustainable development (50548), Election support programme (57788), Extending forest protected areas (58855), Mainstreaming national sectoral policies (58939), and Aid effectiveness and aid management (61972). These projects spent $13.9 million during the review period, which represents 47 percent of total programme expenditures. The review focused on project management activities, the management of funds advanced to implementing partners, and the monitoring of progress reports submitted by the implementing partners.

4. Operations — Partially Satisfactory

4.1 Human resources — Satisfactory

The Human Resources Unit had three staff members, all of whom had been recently recruited. The Office had hired a consultant to train all staff on business processes and on the Atlas system in connection with implementing the reorganization plan. OAI's review of human resources activities identified issues regarding implementation of the online leave monitoring system. As the issue has been immediately addressed (as noted below) and no other issues have been identified, this area is rated satisfactory.

Issue 2 Leave records not administered through Atlas

The administration of leave through the human resources module in Atlas became mandatory in November 2011.

OAI selected a sample of six staff members' leave records and noted that four (67 percent) were administered outside the Atlas system and were consequently not updated. Management shared with OAI the internal policy issued in April 2012 requiring the use of Atlas for leave administration. However, management was not monitoring adherence to this policy.

Management commented that at the time of the audit, measures were being taken to implement the corporate guideline for the administration of leave through Atlas. Incorrect leave balances may lead to misstatement of liabilities for staff benefits in the financial statements.

Priority	Medium (Important)

Recommendation 2: The Office should ensure that leave requests are approved and administered through the Atlas system.
Management Comments and Action Plan: __✓__Agreed ____Disagreed Management informed that all leave administration is now managed using e-services in Atlas.

4.2 Finance — Partially Satisfactory

The Finance Unit consisted of 10 staff members, six of whom were responsible for the Office's financial management. Three staff members were responsible for project financial management, while four staff members were in charge of consolidating financial information for the One Fund. The Office processed 8,510 payment vouchers with a total value of $29.9 million during the audit period. OAI reviewed controls over cash management, bank reconciliations, and the payments and disbursement processes. The review of payment vouchers was limited to 2012 financial records; as, according to the Office, all 2011 original financial records had been lost in the floods, OAI was not able to assess the adequacy of controls over disbursements processed in 2011. OAI's review of 40 payment vouchers, valued at $966,000 or 35 percent of the total value of payment vouchers processed between January 2012 and 30 April 2012, identified no reportable issues.

OAI selected eight projects, which totalled $13.9 million, for review and noted poor recording of project expenditures in Atlas for 17 percent of expenditures made by the sampled projects. OAI also noted that no reconciliations were completed between expenditure reports received from implementing partners and expenditure reports in Atlas. Management had noted the weakness in monitoring expenditure reports, which was addressed by the reorganization exercise with the recruitment of qualified staff for the Programme Finance Unit and the subsequent training of the newly recruited staff. No further issue was raised in this regard.

In view of an OAI investigation of cheque fraud, the auditors reviewed the custody and collection of cheques. The Office did not have a listing of authorized officers for the respective projects or from the various agencies and suppliers that formally identified which of their staff were authorized to collect cheques on the entities' behalf. OAI was therefore not able to ascertain whether the Office was verifying that requests for payments had been authorized by the appropriate project staff before disbursement was made, or if cheques were collected by authorized representatives. After the audit mission, the Office asked for details about authorizing officers from the respective projects, agencies, and suppliers and compiled a consolidated list. OAI takes note of the corrective action taken, but given the weaknesses in controls identified; this section is rated partially satisfactory.

4.3 Procurement — Partially Satisfactory

The Procurement Unit consisted of six staff members, four of whom had been recently recruited as part of the reorganization. The Office processed 1,301 purchase orders with a total value of $43.5 million during the audit period. The review of purchase orders was limited to 2012 procurement records; as, according to the Office, all the 2011 original documents supporting the procurement process had been destroyed in the December 2011 floods and as e-filing was not widely practiced, the audit trail of past transactions could not be entirely reconstituted; OAI was therefore not able to assess the adequacy of controls over purchases completed in 2011. OAI selected a sample of 12 purchase orders valued at $204,000, or 9 percent of the total value of purchase orders processed between 1 January and 30 April 2012, and reviewed the Office's compliance with procurement and contract management regulations.

Issue 3 Weaknesses in procurement processes

The UNDP Programme and Operations Policies and Procedures (POPP) require offices to conduct consolidated procurement planning to ensure value for money and a timely supply of goods and services.

However, the review identified the following issues:

(a) The Office did not have a consolidated procurement plan for 2012, because only three out of the four programme units had submitted their procurement plans.

(b) Of the sample of 12 purchase orders, five with a total value of $83,500 (or 41 percent of the value of selected sample) were direct payment requests from projects for which the Office had incorrectly created purchase orders instead of direct voucher payments. Management acknowledged that staff members were not fully conversant with procurement regulations relating to the processing of direct payment requests.

Without adequate procurement planning and strict compliance, the Office might not achieve value for money and staff may be overburdened with unnecessary additional transactions.

Priority	Medium (Important)
Recommendation 3: The Office should ensure that (a) all programme units prepare their respective procurement plans for inclusion into the consolidated office plan; and (b) procurement staff are trained so they are fully conversant with procurement policies and procedures.	
Management Comments and Action Plan: __✓__Agreed ____Disagreed Management commented that the main reason for the delay in completing the procurement plan was that the Government's fiscal year was different from the Office’s financial year. Management informed that appropriate measures had been taken to complete the procurement plan in August 2012 to serve the implementation of programmes for the fiscal year of July 2012 to June 2013.	

Issue 4 Weaknesses in contract management

Good office practice requires contracts to be monitored to ensure that services provided are evaluated regularly. Contract evaluation is also a POPP requirement. The International Public Sector Accounting Standards (IPSAS) require that all lease agreements and contracts be uploaded to the DMS.

OAI's review of contracts for services provided to the Office and other United Nations agencies that were housed in the same premises and of the office lease agreements identified the following weaknesses:

(a) The Office did not systematically seek feedback from the agencies receiving services before renewing contracts with service providers. The cleaning contract and security contracts covering the Office and the Zanzibar sub-office were renewed without prior evaluation of services.

(b) Under prevailing market conditions, the Office had no option but to enter into lease agreements that were not drawn in accordance with the standard UNDP contract. The contracts were also not submitted to the Legal Support Office (LSO) for review and clearance. At the time of the audit, the lease agreement for the temporary offices had not yet been signed.

(c) The Office had not uploaded contracts to the DMS as required by IPSAS. Management advised that it was aware of this requirement.

Priority	Medium (Important)
Recommendation 4 The Office should ensure that: (a) services provided by contractors are evaluated before contracts are renewed; (b) lease agreements that deviate from standard UNDP contract format are cleared by the Legal Support Office; and (c) all contracts are uploaded to the Document Management System.	
Management Comments and Action Plan: _✓___Agreed ____Disagreed Management commented that due to the urgency of securing temporary office space after the December 2011 floods, a lease agreement was entered into without submission to LSO. Management informed that appropriate action had been taken to ensure that service providers are evaluated before contracts are renewed and that new lease agreements would be cleared by LSO.	

4.4 Information and communication technology — Satisfactory

OAI's review focused on the Office's disaster recovery plan, back-up procedures, monitoring of information technology and communication equipment, and compliance with procedures for disposal of computer equipment. The Office had updated the existing disaster recovery plan and back-up procedures, drawing lessons from December 2011 flood events. The Office should also consider a more systematic and wider use of e-filing to be included in its business continuity plan to mitigate risks of documentation loss related to floods or fire. Management commented that initiatives were underway to implement e-filing and e-registry within the Office.

4.5 Asset management and general administration — Partially Satisfactory

The review of asset management, which focused on compliance with IPSAS reporting requirements, identified no reportable issues. The review of fuel management involved a follow-up of an ongoing OAI investigation's findings.

Issue 5 Inadequate controls over fuel management

Offices are required to establish and implement control procedures for the management of assets. The Office had a Long Term Agreement (LTA) with a local company for the supply of fuel. Purchases were made by credit card. OAI's review identified the following weaknesses:

(a) The Office's signatories listed in the LTA, who were authorized to instruct the supplier to issue fuel credit cards, included the names of staff members who had been on administrative leave or separated as a result of an investigation on fuel fraud in 2011.

(b) The LTA was not written on a standard UNDP contract template and the amendment to include bulk fuel purchase had not been reviewed and cleared by the LSO.

In August 2011, the Country experienced a shortage of diesel fuel, which led the United Nations Country Management Team to purchase 10,000 liters of fuel, worth $12,900, from a local supplier in anticipation of the expected fuel shortage. The fuel was received in the same month and was stored on the UNDP premises, but never used. In March 2012, Management asked the fuel supplier to perform quality tests of the fuel to ensure that the product had not been affected by the December 2011floods. Management subsequently discovered that all of the fuel purchased had been stolen despite a permanent security presence. OAI noted that there were no controls in place for managing fuel, and it could therefore not be determined when the fuel went missing. At the time of the audit in July 2012, the Office had not yet conducted a detailed investigation into the disappearance of the fuel, nor had this matter been reported to headquarters.

Priority	Medium (Important)
Recommendation 5: The Office should: (a) implement adequate controls and monitoring procedures to effectively manage fuel supply and avoid theft of fuel from its premises; (b) ensure that long term agreements are in a standard UNDP contract format unless cleared by the Legal Support Office; and (c) regularly review and revise the list of authorized personnel with authority to give instructions to the supplier to issue fuel credit cards.	
Management Comments and Action Plan: _✓___Agreed ____Disagreed Management informed that new procedures for fuel management were in the process of being implemented at the time of the audit mission and have subsequently been completed. Management further informed that the Office was reviewing the LTA format to align it with the UNDP standard contract format and to remove the names of staff members that are no longer authorized. According to the Office, it was yet to receive the theft report from the security company.	

4.6 Safety and Security — Satisfactory

The Country's security risk was rated as low. The Resident Representative is the United Nations Designated Official for security in the Country. At the time of the audit, the Office was located in temporary premises, which from the outset were found to be non-compliant with the Organization's Minimum Operating Security Standards. However, the United Nations Department of Safety and Security (UNDSS) granted provisional clearance for the temporary location for a period of five months. The Office was in the process of identifying alternative premises and UNDSS was finalizing a Minimum Operating Safety Standard assessment report regarding potential premises. No reportable issues were identified.

ANNEX I. Definitions of audit terms – Ratings and Priorities

A. AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the country office or audited HQ unit as a whole as well as the specific audit areas within the country office/HQ unit.

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*

- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*

- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B. PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

- **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 and may affect the organization at the global level.

- **Medium(Important)** Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.