UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

MOZAMBIQUE

Report No. 1449

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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 13 to 27 April 2015. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, and general administration).

The audit covered the activities of the Office from 1 January 2014 to 28 February 2015. The Office recorded programme and management expenditures totalling $24.6 million. The last audit of the Office was conducted by OAI in 2011.

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** which means, "Internal controls, governance and risk management 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." This rating was mainly due to inadequate financial sustainability planning and incorrect recording of operational costs, and delays in the financial closure of operationally closed projects.

Key recommendations: Total = **4**, high priority = **2**

The four recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendations 2 & 4); and (c) effectiveness and efficiency of operations (Recommendation 3).

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:

Inadequate financial sustainability planning and incorrect recording of operational costs (Issue 1)	The Office implemented its Financial Sustainability and Effectiveness Plan in 2013, which provided for a shift in funding for some staff posts and a shift in operational costs from the administrative budget to the programme budget. The workload study that was completed for this plan did not yield the required 10 percent reduction in operational costs and this led the Office to find alternate

methods to reduce costs and maintain financial sustainability. The Office charged a total of approximately $892,800 for salaries and general operating costs against programme resources. The cost recovery process applied for charging these costs to particular development projects was not clearly justified nor could it be linked to the relevant workload study. Operational expenditure funded from extrabudgetary resources was understated by a total of $106,897 due to an incorrect allocation of Value Added Tax (VAT) refunds, as well as unidentified deposits and contributions received from other agencies.

Recommendation: Improve financial sustainability planning and recording of operational costs by: (a) revising the previous workload study to accurately reflect the allocation of project support costs; (b) discussing the apportionment of project support costs with donors and the national counterpart; (c) reversing 2015 expenditures incorrectly allocated to projects; and (d) adhering to the organizational procedures for accounting and reporting for VAT and contributions received from other agencies, and where possible crediting VAT refunds back to the correct projects.

Delays in the financial closure of operationally closed projects (Issue 2)

There was no evidence of proper follow-up on operationally closed projects to ensure that the necessary steps were taken to financially close them. The audit disclosed that 85 operationally closed projects between 2004 and 2012 had yet to be financially closed. A $3.2 million funding deficit was linked to these projects, and the Office management was in the process of analysing and reconciling this amount.

Recommendation: Strengthen project closure activities by: (a) liaising with the Accounts and Client Services Division in the Office of Financial Resources Management to review the number of projects that have been operationally closed and requesting guidance and assistance on how to resolve the funding deficits and financially close the projects concerned; (b) developing and implementing effective controls that will ensure that projects are financially closed within 12 months after operational closure; and (c) improving the monitoring of project expenditure to avoid future funding deficits.

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 had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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