

GUIDELINES

on

DIRECT EXECUTION

by

UNDP

JUNE 2001

## C O N T E N T S

|          |   |    |
|----------|---|----|
| I.       | Introduction .....  | 3  |
| 1.       | How to use the guidelines .....   | 3  |
| 2.       | When does UNDP use Direct Execution?.....                                       | 3  |
| 3.       | Key issues.....   | 3  |
| 3-II.    | Roles of the partners .....   | 5  |
| 1.       | Changed relationships .....   | 5  |
| 2.       | Government .....  | 5  |
| 3.       | Civil society organizations.....  | 5  |
| 4.       | Organizations of the United Nations system .....                                | 6  |
| 5.       | UNDP headquarters.....  | 6  |
| III.     | Country office structure for DEX.....   | 8  |
| 1.       | Introduction.....   | 8  |
| 2.       | Project management .....  | 8  |
| 3.       | Cost recovery .....   | 10 |
| 4.       | Operational systems and administrative procedures .....                         | 11 |
| IV.      | Management of inputs .....  | 12 |
| 1.       | Recruitment and management of project personnel .....                           | 12 |
| 2.       | Procurement .....   | 12 |
| 3.       | Maintenance and disposal of equipment.....                                      | 14 |
| V.       | Monitoring and accountability systems .....                                     | 15 |
| 1.       | Steering committee .....  | 15 |
| 2.       | Project approval .....  | 15 |
| 3.       | Monitoring and evaluation mechanisms.....                                       | 16 |
| 4.       | Evaluation .....  | 17 |
| 5.       | Audit .....   | 18 |
| VI.      | Financial management .....  | 19 |
| 1.       | Financial reporting .....   | 19 |
| 2.       | Accounting systems.....   | 20 |
| 3.       | Mechanism for expenditure control .....   | 20 |
| 4.       | Outstanding obligations and recording systems .....                             | 23 |
| 5.       | Monitoring of payments and performance of contractors .....                     | 23 |
| ANNEXES: |   |    |
| (A)      | Model of Organizational Chart for UNDP country office as executing agency ..... | 21 |
| (B)      | Local recruitment flowchart .....   | 22 |
| (C)      | Local procurement and contracting flowchart .....                               | 23 |

# I INTRODUCTION

## 1 How to use these guidelines

In carrying out its human development mission, UNDP provides a range of support services to project implementation. In specific circumstances (see Executive Board Decision 98/2 on the use of Direct Execution) UNDP may take on the role of executing agent. These guidelines complement the provisions of the UNDP Programming Manual, but do not in any way replace or alter them. They are designed to ensure that direct execution is carried out in an effective, efficient and transparent manner. UNDP direct execution is limited to countries in special development situations and is used only when necessary to safeguard the responsibility of the Administrator for effective programme and project delivery. The authority to approve UNDP direct execution has been delegated to the Directors of the Regional Bureaux. Authority to approve direct execution for use of TRAC 1.1.3 Category II resources (Sudden Crisis and Immediate Response) for up to \$100,000 for any given emergency has been delegated to Resident Representatives.

The users of these guidelines will be the staff of country offices and headquarters involved in project management and in providing support services.

## 2 When does UNDP use Direct Execution

Direct execution can be approved only for countries in special development situations (CSDS) as designated by the Crisis Committee.

UNDP may consider using direct execution under the following circumstances:<sup>1</sup>

- a) There is a situation which calls for speed of delivery and decision-making where UNDP management is necessary for mobilizing resources
- b) National authorities lack the capacity to carry out the project

---

<sup>1</sup> Programming Manual 6.2.5.

- c) The project could not be carried out by another United Nations agency
- d) The UNDP country office has adequate capacity to manage, report and achieve the expected results of the project.

### 3 Key issues

As executing agent UNDP assumes overall management responsibility and accountability for project implementation, while as a funding agency UNDP is accountable to the Executive Board for all aspects of its operations. How can UNDP play all these roles at the same time, while remaining effective, efficient and transparent?

The main issues that arise under direct execution are:

- a. The need to identify partners and define their roles and responsibilities in the project, ensuring broad participation by stakeholders ([See Chapter II](#)).
- b. The need to adapt the country office structure and assign the technical, managerial and administrative tasks to carry out DEX projects ([See Chapter III](#)).
- c. The need to establish administrative procedures and operational systems to ensure the management of project inputs in an effective, efficient and transparent manner ([See Chapter IV](#)).
- d. The need to establish a project monitoring system to protect UNDP accountability ([See Chapter V](#)).
- e. The need to conduct an annual audit of each DEX project to assess the arrangements in place for financial, administrative and substantive management in order to protect UNDP accountability ([See Chapter V](#)).
- f. The need to establish a project financial management system to support the accountability for the use funds ([See Chapter VI](#)).

## II

### ROLES OF THE PARTNERS IN DEX

#### 1 Changed relationships

A key feature of DEX is the change in relationships among the parties (the government, executing agencies and UNDP) as compared to national or agency execution. The introduction of DEX may result in the confusion of the traditional roles and responsibilities. Where the government is unable to play its normal role in execution, monitoring or oversight, DEX may also threaten transparency and accountability

Under DEX, the role of other partners changes. Whereas in national execution the management of the project is carried out by an eligible government entity, in direct execution the responsibility for the project management lies with UNDP. Other agencies, such as United Nations specialized agencies, can support the oversight function, while beneficiaries can be more intensively involved in monitoring and evaluation.

## 2 Government

Within government, UNDP's main partner is the coordinating authority, which approves all development cooperation projects and oversees their progress. The second partner is the technical counterpart institution that benefits directly from the assistance and is involved in the activities of a project. To the extent possible, government institutions at the central or local levels should be involved in DEX projects.

## 3 Civil society organizations

CSOs are sources of experience, expertise and information about participatory development. They can provide support and services, especially in promoting the participation of target groups or beneficiaries. Their inclusion as partners in a DEX project can bring the commitment and ownership that is required to ensure the sustainability of project results. In addition, some NGOs have experience in crisis situations and can contribute where an immediate response is needed.

## 4 The organizations of the United Nations system may act as implementing agents and as partners in DEX projects.

- a. As implementing agents, organizations of the United Nations system can provide technical services and advice on the quality of project outputs. They may also provide support with implementation, such as with international contracting. As with NEX and agency executed projects, in this modality UNDP signs a letter of agreement with a UN agency, as implementing agency, assigning them responsibility for carrying out specific activities and for ensuring that outputs are produced as planned.

In addition, country offices can obtain technical services from eligible UN agencies through the STS facility<sup>2</sup>.

- b. As development partners, organizations of the United Nations system may collaborate through parallel or joint programming.<sup>3</sup> In this case there is no contractual relationship.

---

<sup>2</sup> Refer to the Programming Manual Sections 3.5 and 3.6.

- c. In countries in special development situations, the UN system will normally have established a United Nations disaster management team (UNDMT). Other organizations of the United Nations system, particularly UNHCR, WFP and UNICEF, WFP and WHO may be providing financial resources and making logistic arrangements to address emergency needs. The DMT helps to ensure the necessary coordination, coherence and complementarity among the United Nations system's inputs.
- 5 UNDP Headquarters: Various levels of "management" within UNDP are involved in DEX:
- a. The Directors of the Regional Bureaux approve the use of UNDP direct execution. Bureau Directors may authorise a Resident Representative either (i) to approve UNDP as the executing agency for a specific project, or (ii) to exercise DEX approval authority for a specified period of time, not to exceed one year.
  - b. Before authorising direct execution, the Regional Bureau must be satisfied that the country office has the requisite capacity. The bureau ensures that a local PAC has been held which has explicitly addressed the justification for direct execution and country office capacity.
  - c. The regional bureaux have specific additional responsibilities in the context of DEX projects. This includes monitoring the use of DEX authority by country offices, ensuring country offices receive any needed support from headquarters, and reporting quarterly to the Associate Administrator on the use of DEX in the region.
  - d. BOM is responsible for reporting annually to the Executive Board on all DEX projects. BOM also provides advice on the capacity of a country office to handle DEX, on cost recovery and on legal implications of DEX.
  - e. BCPR acts as the secretariat for the UNDP Crisis Committee and ensures that lessons learned and best practices in CSDS are shared among country offices. BCPR also provides technical, human and material support for CSDS jointly with Regional Bureaux, BOM and BDP.

---

<sup>3</sup> The parameters for UN system collaboration at the country level may be set out in a United Nations Development Assistance Framework (UNDAF) See PM 2.3.





## COUNTRY OFFICE STRUCTURE FOR DEX

### 1 Introduction

Under direct execution the country office has to play many roles: to formulate, appraise, approve, execute, implement, monitor and evaluate and oversee its own performance. Therefore in order for a country office to be authorized to use this execution modality, its capacity to perform these functions should be assessed when seeking the approval from the Regional Bureau.

The country office should carefully plan how it will organize itself to play all these roles. In particular, the country office needs to define responsibilities for a) planning and supervising project activities and taking decisions; b) technical and operational implementation of activities; c) monitoring progress and d) evaluation and audit. In addition to these functions, administrative support services are required, as well as other items such as additional office space, supplies and equipment.

### 2 Project Management

Project management responsibilities may be distributed according to the following division of work:

- a. Supervisory function: A senior UNDP official (RR, DRR) who deals with policy issues and has the overall responsibility for the achievement of results performs the supervisory function. This official ensures that adequate mechanisms are in place to guarantee the transparency and accountability as well as the efficiency of project operations. This official is also responsible for assessing performance, ensuring regular reporting to headquarters, approving budget revisions and signing contracts for recruitment and procurement of services. This official also supervises the project manager (see para b. below).

The Resident Representative may delegate certain administrative, technical or financial responsibilities to other UNDP officials. This must be done in writing (See Finance Manual, Chapter 4, Section 4.1 Commitment of Resources).

- b. Day-to-day project operations are delegated to a project manager (or programme officer). The project manager is responsible, among other things, for preparing and revising workplans; planning and organising project review meetings; providing technical feedback to senior management; ensuring that project activities are carried out within the financial limitations of the budget; supervising the technical and administrative support personnel and coordinating project activities with stakeholders.

Depending on the size or complexity of the project, the function of project manager may be entrusted to someone in the country office or to a person recruited externally by UNDP. If a country office staff member is designated project manager, another more senior official within the country office (the Deputy Resident Representative or the Assistant Resident Representative) should perform the monitoring function (see para c. below). In the other case, where a project manager is recruited externally, a programme officer may perform the monitoring function.

The main advantages of delegating managerial responsibilities to a country office staff member are in the lower cost and in the efficiency of having as project manager someone who already knows UNDP rules, regulations, policies and procedures. The disadvantages are that country office staff may not be sufficiently active in managing the project, because the management function is additional to his/her regular functions, and they may not be able to provide adequate technical backstopping. Project managers should always be hired externally for large-scale or complex projects, or where project sites are not co-located with the country office.

- c. The monitoring function includes following up on management actions, keeping track of progress benchmarks, visiting project sites to contact beneficiaries and contractors, interpreting progress and technical reports, processing budget revisions, and making arrangements for evaluation and audit.

The monitoring and implementing functions are complementary but different in nature. To ensure transparency and objectivity, the same person cannot perform both roles; that is: a) to take charge of day-to-day project operations and b) to monitor the project's progress. As mentioned above, a programme officer performs the monitoring function if a project manager is hired from outside. If the programme officer manages the project, another senior official within the country office should perform the monitoring function.

- d. Administrative support services are provided by the different administrative sections of the country office. The project manager does not have direct supervision over country office administrative staff in order to avoid the

creation of parallel structures. The project manager coordinates project support activities with the heads of the administrative, finance and programme support sections. Since UNDP regulations and rules are followed with DEX, experienced UNDP staff should train and supervise any additional administrative and financial support personnel who may need to be hired. The new personnel carry out their duties within the country office's administrative and financial sections if the project site is located within the country office.

If the project site is located outside the country office, a different organizational structure may be required. The Resident Representative still has the overall responsibility for the achievement of project results. He/she may delegate to the project manager all technical and operational supervisory responsibilities. In this case, the project manager supervises the project's technical and administrative support personnel. The duties and responsibilities of these personnel are directly related to project activities. The duties are not mixed with regular functions of UNDP country office staff. If necessary, the resident representative may also authorize the project manager to administer funds, as petty cash or through an imprest account. (See Finance Manual, Chapter 5, Section 5.2.1.9 on Use of Petty Cash)

### 3 Cost recovery

The country office budget covers the costs related to its regular (core) programme activities only<sup>4</sup>. If the country office manages projects itself, the additional workload will entail new administrative costs (administrative support services, utilities, communications, etc.). The country office should calculate the costs attributable to executing a DEX project at the formulation stage and include all such costs in the project budget. The nature and amount of additional administrative support and costs must be described in an annex to the project document.

There are two ways of meeting costs related to DEX administrative support services and they depend upon the source of funding. Costs arising from TRAC funded projects should be reflected in the appropriate line of the project budget (for example line 13 for the recruitment of additional administrative staff to work within the country office and line 53 for sundries).

Additional costs arising on trust funds or cost-shared projects are also charged to the appropriate budget line. With trust fund and cost-shared projects, the additional costs may also be met, partially or wholly, from the country office

---

<sup>4</sup> The country office's budget also covers certain costs related to support for the United Nations system's operational activities.

administration line (formerly line 158) for budgets with a cost-sharing component, and from the UNDP administrative cost for trust fund budgets. When the project has a combination of funding sources (i.e. TRAC and cost sharing) the amount to be calculated as country office administration line should be based on the proportion of funds received as the cost sharing contribution.

It is recommended that a minimum of three per cent of direct programme inputs be allocated to cover additional country office costs, with a higher allocation subject to determination of actual costs.

#### 4 Operational systems and administrative procedures

In assessing its capacity to manage projects the country office should also consider project management functions. For instance, in procuring equipment and emergency supplies, some agreements may need to be reached with the authorities to ensure rapid customs clearance.

The main corporate systems, the Financial Information Management System (FIM) and the Field Office Accounting System (WINFOAS) must be used to manage programme information, budgets and expenditures. Regardless of execution modality, country offices and Headquarters' units are required to use the standard operational systems and tools developed by UNDP to manage income, budgets and expenditures.

In addition, other software may be needed to manage administrative and financial tasks such as completing purchase orders and monitoring of personnel data. Some country offices have developed such software.

# IV

## MANAGEMENT OF INPUTS

To ensure the proper administration of project inputs under DEX, this section provides some key considerations on how to proceed with the delivery of the main types of project inputs: personnel, contracts and equipment. Under DEX, the country office follows UNDP policies and procedures to obtain and manage inputs<sup>5</sup>. The Country Office may draw, as required, on the experience and expertise of other United Nations organisations. STS funds can be used for this purpose.

---

<sup>5</sup> See Programming Manual 6.4 for the applicable policies and procedures

Annexes [B](#) and [C](#) are flow-charts that illustrate good practices in the process of recruiting personnel and entering into contracts.

## 1 Recruitment and management of project personnel

Project personnel can be recruited internationally or locally. For international recruitment, the country office may use UNDP headquarters or a UN Agency since they have access to rosters and their recruitment conditions are more likely to attract qualified international project staff. Such conditions include pension schemes and travel and life insurance that may not be available locally. However, the CO can also recruit international project personnel. In this case it is the Resident Representative who signs the contract locally.

For local recruitment of national professionals and consultants and administrative support personnel, the country office uses its internal mechanisms including rosters and follows the procedures set out in the Personnel and Programming Manuals and handbooks. Since project personnel under DEX hold UNDP contracts, the resident representative is legally liable for such contracts; therefore, local labour laws, the Convention on Privileges and Immunities and the Standard Basic Assistance Agreement should be taken into account.

See Annex [B](#) for an illustration of good practices in recruitment.

The country office should maintain an up-to-date database of all project personnel, whether or not the resident representative has delegated any recruitment responsibilities to a project manager.

## 2 Procurement

The procurement of goods and services can be a challenging task in large-scale DEX projects. Professional experience and judgement are needed to ensure transparency in procurement, while complying with regulations and rules. It is important to ensure that the procurement process reflects the following principles:

- Fairness, integrity and transparency through competition
- Economy and effectiveness
- Best value for money

Country offices may procure directly or through United Nations agencies.

- a. Direct procurement: To protect UNDP's accountability, the procurement process should be entrusted to qualified and trained staff who should be monitored by internal oversight mechanisms such as the Local Contracts Committee. The process should also be participatory, involving programme and administrative officers, the project manager, counterpart officials and representatives of stakeholders. As far as practical, they should be involved in the main steps of the process, including the preparation of procurement plans, preparing the specifications for the bid, the definition of evaluation criteria and the evaluation of offers.

Transparency is favoured by competitive procurement; however, a competitive process involves many steps that can be time-consuming (See Annex C - Procurement flowchart). To face this problem the country office should carefully plan the procurement and contracting activities. With planning, competitive processes can be carried out more smoothly, and bottlenecks in the administrative unit of the office or elsewhere, can be avoided. All contracts exceeding \$100,000 should be advertised in IAPSO's web site and/or published in the UN publication entitled "Development Business". IAPSO coordinates advertisement in "Development Business" and these services are free of cost. To protect the interests of UNDP, all contracts are subject to the general conditions of UNDP. For these general conditions and other procurement tools such as standard bidding documents, please refer to the BOM intranet web site:

<http://intra.undp.org/bom/maintopics/divisions/olpsmain.html>.

The general conditions indicate, for example, that there should be a public opening of bids for all contracts exceeding \$100,000.

- b. Procurement through UN agencies: In cases where the procurement of goods and services involve complex or technical issues and the UNDP country office does not have staff trained in procurement, the office should request the relevant United Nations agencies or Inter-Agency Procurement Service Office (IAPSO) to undertake procurement on a cost reimbursement basis. If required, IAPSO could be requested to provide the following services on an ad hoc basis.
  - Temporary assignment of IAPSO procurement staff to DEX project sites
  - Provision of external procurement experts
  - Provision of quotations for comparison
  - Provision of potential supply sources
  - Assistance in developing the generic specifications

- Undertaking the evaluation of bids/proposals
- Training the procurement staff

In addition to procuring equipment, IAPSO can arrange the temporary assignment of procurement staff to the country office or designate an individual at its headquarters office to support a DEX project. To obtain IAPSO's services, the resident representative simply sends a letter of request.

Country offices are encouraged to entrust international procurement to a United Nations system organization such as UNOPS. This can be done through the signature of an implementing agency agreement<sup>6</sup>.

### 3 Maintenance and disposal of equipment

Country offices must keep separate records for DEX project equipment and vehicles, consisting of inventory records, insurance records, etc<sup>7</sup>. These records, including those for the use, maintenance and storage of transportation equipment, can constitute a heavy workload for country offices and project management when projects have large equipment components. Therefore, other alternatives should be studied when deciding on the project management arrangements; for example, rental of equipment may be a good way to avoid the burden of handling equipment and deciding on its disposal. Each DEX project must, on an annual basis, prepare a certified inventory of all non-expendable equipment. This should be submitted to the UNDP Resident Representative and a copy kept on file for audit and record purposes. Procedures on insurance of project vehicles can be found in section 4.3.2 of the Manual of Operations Management (MOM) which is also on the intranet at <http://intra.undp.org/bom>.

In DEX projects, the disposal of project equipment may become a problem since crisis situations may not make it feasible to sell equipment or transfer it to the government. The easiest disposal option would be to transfer the equipment to another project financed by UNDP or another United Nations organization; such transfers may be made with or without a corresponding budget adjustment. See the Programming Manual section 6.4.5 for procedures on disposal of equipment.

---

<sup>6</sup> See PM chapter 6 Annex 6B

<sup>7</sup> See forms in <http://intra.undp.org/bom>.

# V

## MONITORING AND ACCOUNTABILITY SYSTEMS

### 1 The Steering Committee

To ensure transparency and efficiency in executing DEX projects, UNDP country offices should make full use of existing mechanisms for project monitoring and accountability<sup>8</sup>. The establishment of coordination and consultation mechanisms, for example a Steering Committee, with the participation of stakeholders, is a vital aid to transparent decision-making. Even though the establishment of mechanisms such as a Steering Committee is not mandatory in UNDP programmes and projects, in the case of DEX it is highly recommended to establish one in order to support project monitoring. All DEX projects with a budget exceeding \$500,000 should have a Steering Committee.

The Steering Committee may have the following responsibilities:

- a. Participate in all stages of project process (design and formulation, LPAC and appraisal, implementation, evaluation, etc.);
- b. Build consensus around the project's strategies and planned results;
- c. Provide advice when substantive changes are needed in the project's planned results, strategies or implementation arrangements; and
- d. Monitor progress, participate in field visits to project sites, consult with beneficiaries, and ensure that potential opportunities and risks, including lessons learned from experience, are taken into account by the project management.

The project Steering Committee may include representatives of the government, NGOs, donors, UN Agencies, project beneficiaries and UNDP. The Steering Committee should meet regularly, at least every three months, and extraordinarily whenever circumstances require. The proceedings of meetings are recorded. The project manager

---

<sup>8</sup> See PM Chapter 7 Monitoring, Reporting and Evaluation.

should act as secretariat of the Steering Committee with the responsibility to call meetings, distribute information and follow up on their recommendations.

## 2 Project Approval

In DEX projects the UNDP country office may have the major responsibility for the formulation as well as the approval of the Project Document. If the other parties have only limited involvement, there is a danger that the problem to be addressed by the project is perceived essentially by a single party, which can result in poor project design. To avoid this risk, the country office should ensure wide consultations with stakeholders in formulating the project document, and the full involvement of the local PAC in its appraisal and approval. The LPAC should include representatives of the stakeholders, technical experts, UN agencies, donors and other persons that were not involved in the formulation stage. DEX projects are signed by the government and UNDP.

Budget Revisions: The programme officer should ensure that revisions are prepared regularly by the project manager, to reflect up to date financial information and work plans. Of course, where a programme officer manages the day-to-day operations of a DEX project, he or she will be responsible for initiating and finalising budget revisions.

## 3 Monitoring and evaluation mechanisms

To achieve both effectiveness and accountability, country offices should distribute monitoring and evaluation responsibilities among its staff. [See chapter III, section 2](#) above.

### Project Reports and Review Meetings

- a. Field Visits, Annual Programme/Project Report and Tripartite Review Meeting. The project manager ensures the preparation of the Annual Programme/Project Report (APR), in consultation with the stakeholders. The country office sends a copy of the APR to UNDP headquarters (RBx, BOM, EO, BCPR) as an input for the Administrator's Report on DEX projects to the Executive Board. Special attention should be given to APR's section B.3 "management arrangements of the project" in order to provide examples of best practices or recommendations regarding problems encountered. The APR serves as an input to the annual Tripartite Review

(TPR), project evaluations, the preparation of annual and country reviews, and the Results Oriented Annual Report (ROAR).

Country offices should ensure that, while serving the purposes of monitoring performance, progress reports on DEX projects cover lessons from experience to help in assessing this execution modality, including its implications in terms of capacity building and ownership.

- b. Interim reports. In addition, the project managers should also prepare interim reports for the Steering Committee (see section 1 above), accompanied by the quarterly financial reports (See Annex D for a sample format of an Interim Progress Report). The interim progress report may consist of a brief summary of progress in relation to the work plan and an update on the financial situation. This summary can also be used for feedback to the Resident Representative for making decisions and introducing corrective actions. The Regional Bureau should obtain and use the information contained in these reports for data collection on experience with DEX and for discharging their monitoring responsibility. The project manager follows up on the corrective actions recommended by UNDP, the Steering Committee and other recipients of the reports.
- c. Terminal Reports. In DEX projects the terminal report is drafted by the project manager and approved by the Resident Representative. The terminal report on a DEX project should also include lessons from the experience with using DEX to assess the relevance and effectiveness of this execution modality. The experiences so gathered will facilitate decisions on follow-up activities or new projects under DEX.
- d. Review Meetings. In DEX projects, review meetings may need to take place more frequently. Interim Progress Reports may need to be assessed in review meetings with the members of the Steering Committee. The project manager or programme officer is responsible for organizing these meetings and for following up on the recommendations and decisions taken in the meetings. In DEX projects the project manager should promptly prepare a brief action-oriented report on the review meeting, in coordination with the programme officer, and send it to participants in the meetings for their approval or comments. The country office should submit these reports to the Regional Bureau for information and comments.

## 5 Evaluation

Evaluation is an important tool in the learning process, in the decision-making process and as a means of protecting UNDP's accountability. As in all UNDP projects, the schedule and type of evaluation (mid term, final or ex-post, internal or external) is decided at the formulation stage and the costs are included in the project budget<sup>9</sup>. UNDP policies and requirements for evaluations apply equally to DEX projects.

The country office coordinates with the Regional Bureau in organizing evaluations in view of the Regional Bureau's role in monitoring DEX projects. In particular, the Terms of Reference, normally drafted by the programme officer, are finalized only after consultation with stakeholders and the Regional Bureau. In this step, the support of the Evaluation Office can be sought in obtaining good examples of TORs and in identifying members of the evaluation team.

The regional bureau, in consultation with the country office, nominates the Team Leader. Team members with relevant experience drawn from other donors should be invited to participate directly in the evaluation.

## 6 Audit

All DEX projects are subject to an annual audit<sup>10</sup>. Since DEX projects require a good knowledge of UNDP's regulations, rules, policies and procedures, the first option should be to have the audit carried out by the UNDP internal auditors. The Resident Representative arranges with the Office of Audit and Performance Review (OAPR) if the internal auditors of UNDP will conduct the audit. Alternatively, external auditors have to be hired directly by country office. In either case, there must be an annual audit and OAPR and the regional bureau must be informed about the audit plan. Funds to finance the audit must be included in the project budget.

---

<sup>9</sup> See the Programming Manual 7.4.4.

<sup>10</sup> See Programming Manual 6.8.2 paragraph 5

# VI

## FINANCIAL MANAGEMENT

Project financial management is an essential function that supports accountability for the use of UNDP resources. The major challenge for the country office is to adapt its structure and functions in order to manage the project's resources to achieve expected results and to plan financial disbursements in accordance with the work plan and PSD or project document; to define the levels of the project's financial authority; to assume the responsibility and accountability over project's funds; and to establish a system for the project's financial and accounting records and reporting.

The key issues in financial management of DEX projects are:

1. A special format for financial reporting to headquarters is not available for DEX; all expenditures are registered in the Combined Delivery Report (CDR) only (see VI.1).
2. A project accounting system to keep track of the current financial status at all times is essential (see VI.2)
3. Mechanisms for expenditure control and segregation of duties are essential (see VI.3).
4. A system for handling outstanding obligations is essential (see VI.4).
5. Procedures for making payments and monitoring the performance of contractors are essential (see VI.5).
6. The UNDP Financial Rules and Regulations are fully applicable to DEX projects
7. Project approval and budgetary procedures for DEX are the same as for other projects. The executing agency code for DEX projects is "34".
8. DEX activities and projects can be supported through use of the STS facility.

### 1 Financial Reporting

Country offices should maintain records locally to reflect accumulated expenditures per budget line, budget balances and outstanding obligations. These records serve to monitor the project financial situation and to share financial information with other stakeholders. Under direct execution, project budgets and expenditures should be managed

using FIM,<sup>11</sup> just like other UNDP projects. The country office should use FIM to keep track of the financial status of the project at all times, to control expenditure, to handle outstanding obligations, to make payments and to monitor the performance of contractors. FIM provides information on the availability of funds, electronically transfers authorised payment requests to WINFOAS that generates the proper payment instructions, and produces the Combined Delivery Report (CDR).

The country office prepares combined delivery reports (CDR) using FIM on the basis of payments directly by the country office, UNDP headquarters and other country offices, as well as expenditures reported by UN agencies on the Project Delivery Report (PDR). All CDRs are sent to headquarters electronically for direct uploading to IMIS.<sup>12</sup>

There is no required format for a DEX Financial Report. However, existing UNDP forms and formats for financial reporting and use at the country office level may be adapted to DEX projects or similar reports may be created. The report should, at a minimum, provide quarterly information on expenditures made by budget line against approved budgets and allotments and it should also show available balances.

The project manager should coordinate the preparation of financial reports with the finance section of the country office since this section administers the main sources of information, such as the monthly IOVs/DVs and the obligation records.

In DEX projects the resident representative is responsible for certifying the CDRs before returning them to UNDP headquarters. Please note that the only financial report required to be sent to UNDP headquarters is the CDR.

The status of total expenditures for the month of December will constitute the official record of expenditure for the past year and will be subject to audit together with the certified CDR. The project manager and programme officer also use this record for the preparation of mandatory budget revisions and final revisions.

## 2 Accounting systems

Country Offices do not have their own accounting system to control accounts such as debit, credit, debts, balance, obligations, assets, etc. All the accounting in UNDP is done at headquarters through a system that manages income and expenditures; assets and liabilities, reserves and fund balances, statements of cash flows, status of allocations for

---

<sup>11</sup> See Programming Manual 6.5.5 as well as Annex 6G

<sup>12</sup> The key steps for processing a CDR are enumerated in the Programming Manual 6.5.6

programme activities and status of appropriations for country office budgets. In the context of DEX, FIM provides the management information system to ensure accuracy and transparency of financial information.

### 3 Mechanisms for expenditure control

Under other executing modalities expenditure controls for country office spending include authorizations received from headquarters or from the designated institution for the project (from UN Agencies through an MOD, from an NGO or Government institutions through a request for Direct Payment or a request for advance of funds). In the case of DEX, country offices do not receive authorizations to incur expenditures for specific budget lines or amounts. Therefore, country offices have to set up their own internal control mechanisms to make sure that budgets are not over or under spent and that expenditures are made properly, meaning that they correspond with the activities and the work plan. Detailed work plans should be kept updated so that staff members can perform the management and monitoring responsibilities assigned in DEX projects, and ensure an appropriate flow of expenditures.

UNDP expenditure control policy segregates authority between commitment of funds and verification of payments, and between verification of payments and disbursements. The control process covers three different actions:

The authority to commit, verify and disburse project funds is linked to the responsibility and the accountability for project results. In managing DEX projects, the country office needs to establish an internal procedure that distributes these actions among different managerial levels of the country office and within the project. To verify that sufficient funds are available prior to making payments, and to ensure the validity, consistency and integrity of financial data processed through FIM and WINFOAS, the staff who record and authorise payments through FIM must be different from the staff who operate WINFOAS.

- Ø the commitment of funds is the action that creates obligations against UNDP managed resources (for example a contract, a travel authorization or a memorandum of understanding). In DEX projects the commitment document is prepared by the project manager in coordination with the administrative sections responsible for travel, procurement, and recruitment of personnel. The commitment is recorded in FIM when issuing the corresponding Travel Authorizations, Purchase Orders and Personnel Contracts;
- Ø the verification of a payment is an authorization/request to disburse funds in compensation for services and/or goods, or to advance funds against expected services or goods. Under DEX, the programme officer ensures that the

payment is justified and the information is accurate, and sends the disbursement request for processing of the payment through WINFOAS; and

Ø the disbursement of funds or the “actual payment” or outflow of UNDP managed funds (by check or bank transfer) through WINFOAS. Under DEX the finance section initiates disbursement with the preparation of disbursement vouchers.

Disbursement vouchers should be committed (certified) and verified (approved) by the designated officers in accordance with UNDP’s Financial Rules and Regulations. The functions of the committing (certifying) and verifying (approving) officers are outlined in UNDP Financial Rules and Regulations, Sec. 4.1 as follows:

The functions of the committing (certifying) officers are to ensure, ahead of the commitment, that :

- i. The activities to be financed are within UNDP's mandate and policies, and consistent with the project framework and workplans;
- ii. The level of the commitment is within allotted funds in the approved project budget. It is therefore linked to a fund allotment/allocation;
- iii. The commitment decision provides best value for money to the organization.

Personal responsibility of committing (certifying) officers

In the exercise of their authority, committing (certifying) officers are expected to show the highest level of ethics and integrity. In addition, committing (certifying) officers are responsible for ensuring that the commitments of funds are properly documented (MOD, TA, contracts, other substantive documents, etc.), in accordance with the procedures on recording established by the Comptroller.

As stated in UNDP Financial Rules, all personnel of UNDP are responsible to the Administrator for the regularity of actions taken by them in the course of their official duties. Any personnel who takes any action contrary to these Financial Rules, or to the instructions which may be issued in connection therewith, may be held personally responsible and financially liable for the consequences of such action.

The functions of a verifying (approving) officer are to:

- i. Ensure that the payment is made against a recorded commitment entered into by an appropriate committing (certifying) officer;
- ii. Ascertain that all the goods or services for which payment is claimed have been delivered, according to the terms outlined in the commitment documents;
- iii. Avoid duplicate payments for the said goods and services;
- iv. Refuse the payment if there is any reason that he/she knows that should bar the payment.

Personal responsibility of verifying (approving) officers

Verifying (approving) officers should not verify payments to themselves unless it is on record in the country office that there are no other verifying (approving) officers available at the time the payment is required.

The Resident Representative should assign the above roles in writing to the staff members (through, for example, an interoffice memorandum).

If project operations are decentralized, taking place outside the capital or entrusted to contractors like NGOs, the resident representative may have to issue authorizations to advance funds to local levels and establish systems to follow up and monitor expenditures. He/she may request authorization from BOM/Treasury to open a bank account for petty cash or imprest funds.

#### 4 Outstanding obligations recording systems

Since UNDP headquarters cannot issue obligation documents (MODs) the country office should establish a system to follow up and monitor outstanding obligations. Obligations in DEX originate when a contract is signed with a contractor or provider of goods or services, or a person is recruited to work in a project. An obligation also originates when purchase orders are placed and when travel advances are made. All obligations should be recorded since they

will become expenditures in the short term. A format to record obligations could be a spreadsheet containing columns to reflect the total amount of the obligation, the payments and the balance.

The project manager should coordinate with the administrative units of the country office on the follow up of disbursements against obligations and the maintenance of an up-dated system for recording outstanding obligations. Country office administrative units or sections that are managing recruitment, contracting and procurement for DEX projects may follow up and update outstanding obligations records.

## 5 Monitoring of payments and performance of contractors

General accounting principles establish that contracts should be paid after work is satisfactorily completed and, in the case of procurement, once the goods are received in the specified place and condition. Payment of outstanding obligations against large contracts should be made in installments and subject to compliance with the requirements. These requirements are, for example, payments linked to performance and advance of works or other quality control criteria that the country office establishes and includes in the respective contracts. In the case of project consultants the payment of their honorariums may, for example, be linked to the submission of progress reports and the acceptance of their final report to ensure the quality of the product.

The project manager (or official in the country office looking after day-to-day operations if there is no project manager) should monitor contracts signed with UN Agencies, NGOs and the private sector from both substantive and financial perspectives. Substantive monitoring in DEX consists of a technical assessment of the quality and relevance of the output. Since this requires expertise and sound judgement, the assistance of other stakeholders or United Nations agencies should be sought to better perform this function. For instance the draft final report prepared by a contractor or consultant can be sent to stakeholders for comments before making the final payment. Financial monitoring and substantive monitoring should be linked to ensure efficiency.

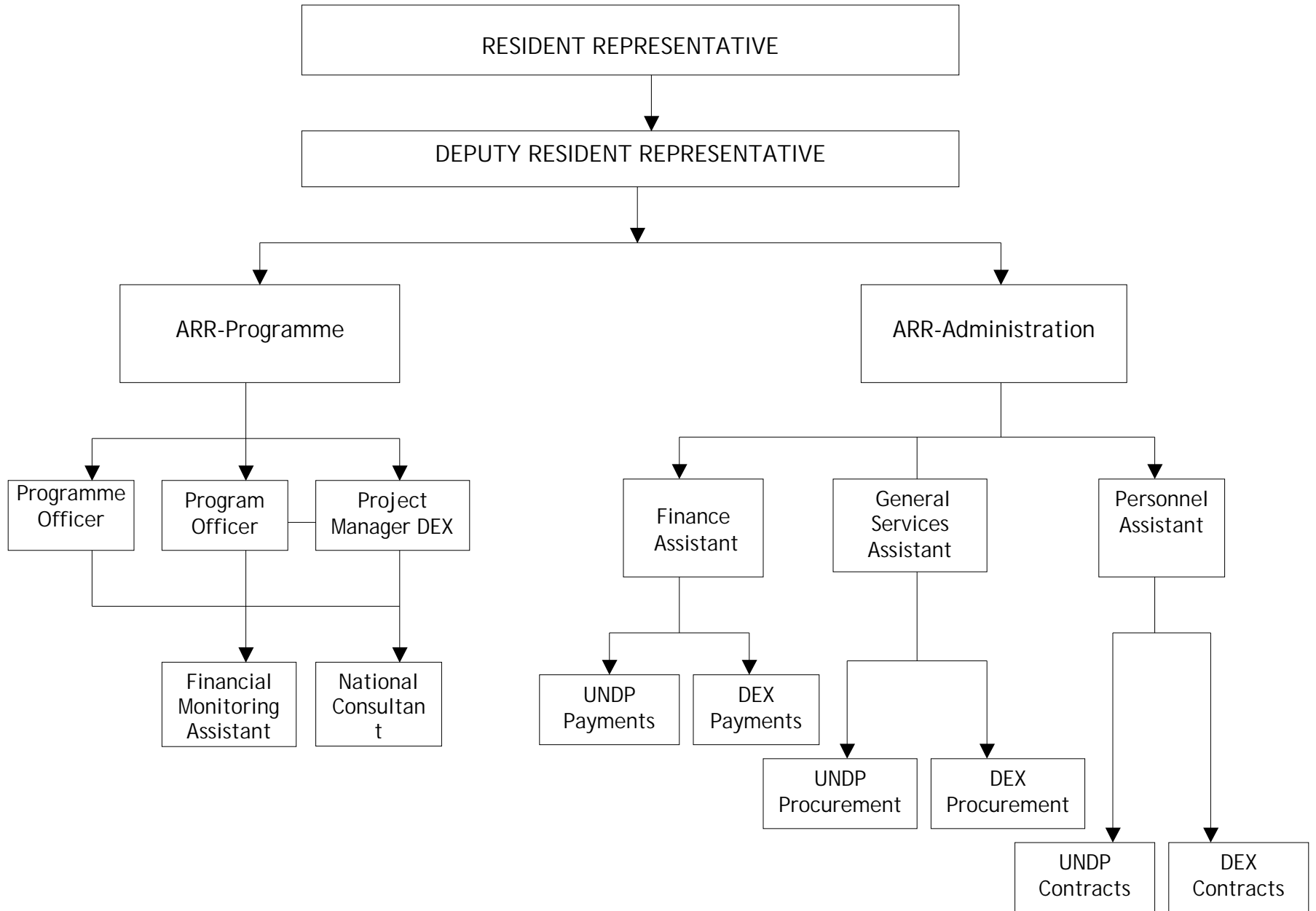
The substantive follow up of contracts is done according to the contract. The following are examples of how to include substantive monitoring in contracts:

Ø In contracts with NGOs or private companies, the Terms of Reference or Description of Services should include performance indicators such as deadlines, quantity and quality of outputs, major benchmarks in progress, etc. The

project manager confirms compliance with the indicators in forwarding the request of payment. The final payment should be made upon receipt of the final report or satisfactory final delivery of the agreed goods or services.

Ø UN Agencies are paid by headquarters through their statements of expenditures. Country offices should review those statements to verify that amounts reported as expenditures correspond to the description of services included in the Letter of Agreement. The advance of works and the quality of the outputs should correspond to the amount spent for the reporting period.

The Administrative Unit, through the review of the contractor's accounting records, requests and reports should do the financial follow up. In the case of UN Agencies the project manager reviews their statements of expenditures.



# Local Recruitment Flowchart

# Annex B

