UNITED NATIONS

("UN")

MICRO-ASSESSMENT OF THE FORESTRY DEPARTMENT IN THE MINISTRY OF TOURISM, ENVIRONMENT AND NATURAL RESOURCES ("MTENR")

FINAL REPORT

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ISSUED BY

EMM CORPORATE PARTNERS

CPAAI CPA ASSOCIATES INTERNATIONAL A MEMBER OF CPAAI ASSOCIATES

TABLE OF CONTENTS……………………………………………………………………………….PAGE

TABLE OF CONTENTS……………………………………………………………………………..PAGE

ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AWP	Annual Work Plan
BBA	Bachelor of Arts Degree in Business Administration
BCC	Budget Call Circular
BoZ	Bank of Zambia
CB	Capacity Building
CCFU	Climate Change Facilitation Unit
CDR	Combined Delivery Report
CIMA	Chartered Institute of Management Accountants
CP	Cooperating Partner
CT	Cash Transfers
DHRA	Department of Human Resources and Administration
DT	Department of Tourism
EMM	EMM Corporate Partners
ENRMD	Environment and Natural Resources Management Department
ENRMMP	Environment and Natural Resources Management & Mainstreaming Programme
FAO	Food and Agriculture Organisation
FD	Forestry Department
FMS	Financial Management System
FNPP	FAO-Netherlands Partnership Programme
FR	Financial Regulations
GEF	Global Environmental Facility
GRZ	Government of the Republic of Zambia
HACT	Harmonised Approach to Cash Transfers
IASB	International Accounting Standards Board
IFMIS	Integrated Financial Management Information System
IFRSs	International Financial Reporting Standards
IIA	Institute of Internal Auditors
ILUA	Integrated Land Use Assessment ("ILUA")
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAs	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISCA	Information Systems and Control Association
LPO	Local Purchase Order
MDTF	Multi-Donor Trust Fund
MoFNP	Ministry of Finance and National Planning
MOU	Memorandum of Understanding
MTENR	Ministry of Tourism, Environment and Natural Resources
NATECH	National Accounting Technician Qualification
NJP	National Joint Programme
OAG	Office of the Auditor General
PFMA	Public Finance Management Act
PID	Planning and Information Department
PPA	Public Procurement Act
PS	Permanent Secretary
PV	Payment Voucher
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UN-REDD	UN Collaborative Programme on Reducing Emissions from Deforestation and Degradation in Developing Countries
ZAWA	Zambia Wildlife Authority
ZICA	Zambia Institute of Chartered Accountants
ZPPA	Zambia Public Procurement Authority

1 EXECUTIVE SUMMARY

1.1 Introduction

Forestry Department ("FD") in the Ministry of Tourism, Environment and Natural Resources ("MTENR") is implementing the UN-REDD Programme. This is being funded by UNDP, UNEP and FAO, who, along with other UN Agencies have adopted a common operational framework for transferring cash to government and non-government Implementing Partners ("IPs"), the Harmonised Approach to Cash Transfers ("HACT") System, under which, whenever an IP receives cash transfers from more than one UN Agency, the Agencies should use the same cash transfer procedures and the IP should use the same standard format for requesting cash transfers and reporting on their use. This approach significantly reduces transaction costs and lessens the burden that the multiplicity of UN procedures and rules creates for IPs.

Because the adoption of a harmonised approach is, however, contingent upon completion of a financial management capacity assessment of an IP, prior to which the participating UN Agencies should follow the 'direct payments' modality, the Resident Coordinator appointed EMM Corporate Partners ("EMM") to undertake a focused micro-assessment of the financial management capacity of the FD, including an analysis of the current cash transfer rules and regulations, and practices of the three participating UN Agencies with a view to recommending the cash transfer modality to be used for the FD on the UN-REDD Programme.

This executive summary is intended to provide outcomes of the assessment, and highlight on a summarised basis, the significant conclusions and recommendations discussed throughout the body of the detailed report. Care should be exercised in reaching conclusions solely based on a review or reading of this summary. It is necessary to read the specific detailed Chapters 6 – 9 or the report in its entirety to obtain the breadth of the background, ramifications, and recommendations relating to each finding and conclusion.

1.2 Review Objectives

The objectives of the assessment were:

1. Assessment of the financial management capacity of the FD, with particular regard to the capacity needed to efficiently and effectively manage financial resources for implementation of the UN-REDD Programme;

2. Assessment of the current practices and the rules and regulations of the three Agencies regarding cash transfers, including analysis of possible barriers for moving to the harmonised approach;

3. Recommendations on a cash transfer modality to be employed by the UN-REDD Programme in Zambia; and

4. Recommendation of the necessary capacity strengthening, safeguards and implementing partner systems to be put in place to employ the proposed cash transfer modality.

1.3 Findings and Conclusions

1.3.1 Financial Management Capacity of Forestry Department

The summary of risks related to the financial management capacity assessment of the FD is presented below:

Section	Rating	Comments
Implementing Partner	M	The overall risk with respect to the Implementing Partner has been classified as **Moderate** as the FD is a department under the MTENR, which is an established Ministry under the Laws of Zambia. It has a well defined structure headed by a

Section	Rating	Comments
		Permanent Secretary, and departments headed by directors.
Funds Flow	S	Overall risk with respect to Funds Flow has been classified as **Significant** due to difficulties encountered in monitoring and tracking of counterpart funds, inadequate capacity to monitor implementation expenditures against work plans, and non-existence of policy or procedures to manage exposure to foreign currency exchange rate risks.
Staffing	S	Overall risk assessment for Staffing is regarded as **Significant** due to vacancies in the staff structure, inadequate qualifications of accounting staff, and limited exposure to UN procedures for FD accounting staff.
Accounting Policies and Procedures	H	Risk assessment on Accounting Policies and Procedures has been classified as **High**. This is in view of the weaknesses noted on fund accounting, inadequacy of cash and bank procedures, findings on asset safeguarding procedures, and weaknesses in payment processes and controls. Further, the accounting and reporting systems do not generate useful management information. Additionally, the weak accounting and reporting systems increase the risk of fraud going undetected, and being further obscured by systemic weaknesses.
Internal Audit	H	The overall risk assessment with regard to Internal Audit has been classified as **High**, due to the fact that none of the MTENR internal audit staff are fully qualified, their work is not performed in accordance with relevant internal audit standards, and there are instances where the Internal Audit Unit is circumvented and the Unit does not audit all projects-related transactions.
External Audit	M	The risk assessment with regard to External Audit has been classified as **Moderate**, as the FD has no major accountability issues arising from its external audits.
Reporting and Monitoring	S	The risk assessment with respect to Reporting and Monitoring has been classified as **Significant**, due to the shortcomings of the Financial Management System used in the FD/MTENR.
Information Systems	S	The risk assessment with respect to Information Systems has been classified as **Significant**, primarily because the information systems do not produce the necessary financial reports and staff is not fully trained on various aspects of the information systems.
Overall Risk Assessment	**S**	The overall risk assessment for the Financial Management Capacity of the Forestry Department is **Significant**. The weak financial management system creates a high fiduciary risk.

Key
H – High **S – Significant** **M – Moderate** **L –Low**

1.3.2 Assessment of Current Practices of Participating Agencies

Barriers to the preferred cash transfer modalities by each UN Agencies are presented below.

Agency	Preferred Method	Barriers and Risks
FAO	Reimbursement (per MOU)	✓ Because of funding problems, FD may not have the liquidity to meet programme obligations, affecting overall implementation. ✓ FD has history of failed linkages between expenditures and AWPs, rendering expenditure validity checks more difficult.
	Direct Payment (per interview findings)	Because of risks alluded to below in direct cash transfers, and given that FD might not have funds for the reimbursement system, referred to above, FAO officers interviewed during this study suggest the actual preferred method for FAO funding would be direct payments as under ILUA I and II and not the reimbursement method referred to in the UN REDD MOU.
UNDP	Direct Cash Transfer	✓ This has a high risk that monies will not be spent for the purpose intended (regardless of the perceived legitimacy of the ultimate use). ✓ Unless special project bank accounts opened, funds may be commingled with GRZ or other funds and accountability for the project funds may be problematic.
	Direct Payments	However, this is deemed bureaucratic due to delays arising from control activities performed prior to processing of requests for direct payments and transfer of advances.
	Reimbursement	As per reimbursement method under FAO.
UNEP	Direct Cash Transfer	As per Direct Cash Transfer method under UNDP.

Possible solutions to the barriers on each method as applying to FD are given below:

Modality	Preferred By	Fiduciary Risk Grading	Possible Solutions under HACT
Direct Cash Transfer	UNDP UNEP	**High**	✓ Create projectised structure for UN-REDD Programme, separate from functional structures of the FD ✓ Recruit qualified and experienced accounting and internal audit staff for the programme ✓ Train recruited programme staff in UN financial management procedures, especially *direct cash transfer* system ✓ Acquire computerised accounting package for UN-REDD ✓ Open special bank account exclusively for

Modality	Preferred By	Fiduciary Risk Grading	Possible Solutions under HACT
			UN-REDD ✓ Train accounting staff on linking budget to AWPs ✓ Train programme's accounting staff on HACT Approach and use of the FACE form ✓ Undertake periodic spot checks on FD
Direct Payment	FAO UNDP	**Low**	✓ Train FD accounting staff in UN Financial Management Procedures, especially *direct payments* system ✓ Train FD accounting staff on HACT Approach and use of FACE form
Reimbursement	FAO UNDP	**Relatively Low**	✓ Train FD accounting staff in UN Financial Management Procedures, especially *reimbursement* system ✓ Acquire automated accounting package for FD accounting for UN-REDD ✓ Train FD staff on HACT Approach and use of FACE forms

1.4 Recommendations

1.4.1 Recommendation on Cash Transfer Modality

Based on the overall **Significant** risk rating of the FD, and the fiduciary risk profile for each modality, we recommend the **Direct Payments Modality**, after which, should the financial management capacity of the FD be built up, there should be a move to **Direct Cash Transfer Modality**, failure to which no change should occur.

1.4.2 Recommendations on Capacity Strengthening

Capacity building ("CB") for UN-REDD Programme staff and/or the accounting section of the FD will be central to effective and efficient functioning of the UN REDD Programme. This CB will need to be continuous and customised to the needs of the Programme. To that end, CB recommendations have been placed into two sets each of which is discussed below:

1. Recommendations on set up of the financial management framework for the UN-REDD Programme in Zambia; and

2. Recommendations on CB for the Programme, post establishment.

Each set is discussed in turn below:

1. <u>Recommendations on Financial Management Framework</u>

Component	Recommendation	Timeframe
Programme Organisation	1. To minimise fiduciary risks arising from financial management weaknesses noted in FD, a fully projectised structure separate from the	Immediate

Component	Recommendation	Timeframe
	functional systems and processes of the FD should be set up for UN-REDD Programme. However, this can be, as proposed by FAO, managed by officers recruited for other programmes in FD, say, ILUA II. 2. In the Inception Phase, and whilst building capacity of the programme, the UN Agencies should use the Direct Payments Modality. To minimise risk of implementation delays, the UN Agencies should approve the initial Work plan as early as possible in 2011. FD should submit a request to UN that they pay for initial expenditures planned for first quarter of 2011. The requests should detail both the activities to be carried out by FD, and the associated budgets to be funded by each Agency as detailed in the Work Plan.	
Accounting Functions	As it may take weeks or months before the accounts section is in operation, a manual cashbook should be used for recording expenses until the automated system is in place. When the computerised system is in place all transactions from the beginning of the Programme should be recorded in the system.	Immediate
Establishment of the Accounting Unit	The stakeholders should, at an early stage, prepare a plan for the detailed organisation of the accounts function and the establishment of the accounts system for the Programme. The main issues will be organisation and staffing of the function, including training needs for programme staff.	3 Months
Accounting system	The main issues to be resolved by programme management will be: ✓ Choice of technology ✓ Chart of accounts ✓ Installation of the system	3 Months
Accounting Manual	The Programme should develop an accounting manual customised for the Programme. The manual should serve as a reference guide for programme management and staff, auditors, and UN representatives.	3 Month
Fixed Assets and Assets Register	The Programme should maintain a register of fixed assets. The register should refer to specific accounts in the Programme's books, so that it is possible to reconcile the accounts with the assets register.	3 Months
Rates of Exchange	The Programme should develop procedures for management of foreign currency exchange risks. These procedures should be enshrined in the accounting manual.	3 Months

Component	Recommendation	Timeframe
Internal Audit	Depending on the degree of administrative complexity, the Programme may have to establish an internal audit function. The role and procedures of the function should be agreed between FD and the UN Agencies and described in the manual. The goal will be to ensure that, unlike is presently the case where internal audit in MTENR does not perform audits of projects, there is scope for internal audit review of the activities and operations of the Programme.	6 Months
Monitoring System	When designing the chart of accounts the management must consider how it is going to monitor programme achievement in relation to plans and in relation to funds spent. The interface between the accounts system and the monitoring system should be described as should be the relationship to the quarterly progress reports.	6 Months

2. Recommendations on Ongoing CB

Contents of the proposed ongoing CB are presented below, with recommendations on possible initiatives:

Capacity Issue	Content	Initiative
Capacity Building of Accounts and Audit Staff	✓ Staffing and qualifications of Accounts and Internal Audit ✓ Staff structure in accounts and internal audit ✓ Applicable framework for conduct of work	Engagement of independent consultant to generate capacity building materials
Funds Flow Arrangements	✓ Funds flow from UN Agencies ✓ HACT Procedures and FACE Forms ✓ Opening of bank accounts ✓ Exchange Rate Risk Management	Training/Workshop facilitated by UNDP resource persons
Budgeting	✓ Preparation of annual work plan and budget ✓ Progress reviews and reports ✓ Review of AWPs	Training/Workshop facilitated by UN resource persons
Accounting System	✓ Programme Chart of Accounts ✓ Accounting Manual ✓ Accounting package	Engagement of independent consultant to establish accounting system
Accounting Procedures	✓ IPSAs, IFRSs and other applicable standards ✓ Maintenance of general and subsidiary ledgers ✓ Maintenance of asset registers ✓ Maintenance of cash books ✓ Bank reconciliation statements	Training facilitated by public accounting firm

Capacity Issue	Content	Initiative
Financial Reporting	✓ Requirements of the 3 UN Agencies ✓ Preparation of quarterly CDRs/financial reports ✓ Quarterly progress statements ✓ Annual Financial Reports	Training/Workshop facilitated by UNDP resource persons
Internal Control	✓ Segregation of duties ✓ Safeguards on assets ✓ Expenditure controls ✓ Controls on amounts/norms of staff advances	Training facilitated by public accounting firm
Monitoring	✓ Financial review and monitoring by UN	Training/Workshop facilitated by UNDP resource persons
Internal Audit	✓ Arrangement for internal audit ✓ Scope and coverage of internal audit ✓ Standards and Framework ✓ Reports/Follow up action on audit observations	Training facilitated by public accounting firm
External Audits	Role of UN Agencies in: ✓ Selection of audit firms ✓ Scope of audit ✓ Audit calendar ✓ Submissions of audit reports to UN Agencies	Training/Workshop facilitated by UNDP resource persons
Procurement Procedure	✓ Levels of procurement ✓ Preparation of procurement plan ✓ Procurement procedures	Training/Workshop facilitated by selected resource persons
Information Systems	✓ Backing up ✓ Technical Support	Engagement of independent consultant for procedures for information systems.

1.5 Conclusion

The ability of the FD to effectively implement the UN-REDD programme is dependent on what type of structure is adopted. Detailed analysis of each of the past experiences of FD working with the UN showed that in instances where full project mode was applied by the FD, financial management controls were found to be materially effective and that these projects were able to adequately manage allocated cash transfers. This was, probably, because of the project having a dedicated staff complement, supported by properly designed and customised accounting systems for financial monitoring and reporting. Hence, a fully projectised structure separate from the organisational systems and processes of the FD would be most effective for the UN-REDD Programme in Zambia. This should be the overarching goals of the CB initiatives in the FD in moving the department from direct payments modality to direct cash transfers.

2 BACKGROUND

2.1 Introduction

UNDP, FAO and UNEP are commencing to support the Government of Republic of Zambia ("GRZ") through the UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries ("UN-REDD"). The programme aims to prepare Zambian institutions and stakeholders for effective nationwide implementation of the REDD+ mechanism, expected to provide financial incentives for developing countries that reduce greenhouse gas emissions from deforestation and forest degradation. The budget for the 3-year readiness phase "UN-REDD Programme - Zambia Quick Start Initiative" is US$4.49million. The Programme is funded by the UN-REDD Multi-Donor Trust Fund ("MDTF") through a pass-through modality, with UNDP, UNEP and FAO in charge of their own share of the budget and the respective activities. The primary implementing partner of the programme is the Forestry Department ("FD") of the Ministry of Tourism, Environment and Natural Resources ("MTENR").

Given that UN-REDD programme involves three (3) distinct UN organisations with somewhat different financial and other systems, there may be an inherent tendency for implementation to diverge into three separate and distinct distribution streams. This imposes a high transaction burden on the partners who spend valuable time and resources negotiating and responding to the different agency requirements. UN-REDD is committed to avoiding this by being at the forefront of UN Agency joint programming methods and delivering truly coordinated and harmonised national programmes that limit transaction costs for recipient countries and maximise delivery benefits.

The Harmonised Approach to Cash Transfers ("HACT") is an important step towards accomplishing this, and one which increases national ownership by using national systems and institutions wherever possible. HACT is based on a risk management approach which recognises that there is always some degree of risk involved with cash transfers. Agencies need to adjust their cash transfer methods and associated assurance measures depending on the level of assessed risk. All participating UN Organisations aim to agree on the same cash transfer modality.

To facilitate this process UNDP appointed EMM Corporate Partners ("EMM") to undertake a focused micro-assessment of the financial management capacity of the Forestry Department, including an analysis of the current cash transfer rules and regulations, and practices of the three involved UN Agencies.

2.2 Expected Outcomes

The expected outcomes of the micro-assessment were:

1. Assessment of the financial management capacity of the Forestry Department, with particular regard to the capacity needed to efficiently and effectively manage financial resources for implementation of the UN-REDD Programme;

2. Assessment of the current practices and the rules and regulations of the three Agencies regarding cash transfers, including analysis of possible barriers for moving to the harmonised approach;

3. Recommendation of a cash transfer modality to be employed by the UN-REDD Programme in Zambia; and

4. Recommendations for the necessary capacity strengthening, safeguards and implementing partner systems to be put in place to employ the proposed cash transfer modality. These recommendations were to take into account the ongoing capacity building and reform programmes at MTENR, including the capacity to be built by the UN-REDD Programme.

2.3 Approach

The consultancy was a primarily desk-based study, with meetings and interviews conducted in Lusaka, and comprising:

1. Desk review of the relevant documentation, including:

   (a). Zambia UN-REDD Programme Document;

   (b). Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009;

   (c). Assessment of the Ministry of Tourism Environment and Natural Resources, UNDP/Deloitte, May 2009;

   (d). Reports of the Auditor General;

   (e). Environment and Natural Resource Management and Mainstreaming Programme Document – Draft Financial and Technical Progress Reporting, Walis Chartered Accountants, October 2010;

   (f). Evaluations and audits for UNDP funded projects implemented by the Forestry Department including:

      (i). 2009 Audit Report on the Sustainable Utilisation of Environmental Assets: Support to Forestry Department Combined Delivery Report;

   (g). Evaluations and audits for UNDP funded projects implemented by other MTENR departments including:

      (i). 2009 Audit Report on the Climate Change Facilitation Unit Combined Delivery Report

      (ii). 2009 Audit Report on the Reclassification and Effective Management of the National Protected Areas System Project Combined Delivery Report;

      (iii). 2009 Audit Report on the Lake Tanganyika Integrated Management Programme Combined Delivery Report;

2. Interviews with the representatives of the Ministry of Tourism, Environment and Natural Resources ("MTENR") and the Forestry Department ("FD"), including the relevant accounts personnel and programme officers including:

Name	Position
Lawrence Mulama	Chief Accountant
Frank Shingwe	Senior Accountant
Stephen Tembo	Internal Auditor
Brian Mwamba	Accounts Assistant-Forestry
Deuteronomy Kasaro	Programme Officer

3. Interviews with the Cooperating Partners that have worked with Forestry Department, including:

Name	CP
Marja Ojanen	Finnish Embassy
Henry Kabinga	Danish Embassy
Løvdal Trond	Norwegian Embassy

4. Interviews with UN Agencies staff members including:

Name	UN Agency
Christian Chomba	FAO
Rachel Chenge Kaluba	FAO
Celestina Lwatula	FAO
Dorothy Jere	FAO
Winnie Musonda	UNDP
Katri Kallio-Koski	UNDP
Michael Kaira	UNDP
Stephen Kaunda	UNDP
Laura Sinyama	UNDP
Massimiliano Zandomeneghi	UNEP
Florence Kahiro	UNEP

2.4 Tools of the Analysis

A brief description of the analysis tools used in the review is given below.

2.4.1 Understanding of the UNREDD Programme

On commencement, we obtained an understanding of the goals, objectives and methods of UN-REDD Programme; the planned core activities of the programme; the proposed structure and layout of its operations. This was materially based on information contained in the UN-REDD National Joint Programme ("NJP") Document, MDTF MOU between UNDP, UNEP and FAO and other UN-REDD related documents obtained from the UNDP. The goal was to determine how the needs of the project would have a bearing on the nature of programme structures, systems and procedures, and ultimately the ideal cash transfer systems to be used on the programme.

2.4.2 Understanding of the Forestry Department

Secondly, an overarching assessment was performed on the Forestry Department ("FD") in the MTENR. This was mostly from desk and literature review of pointed out documents and reports. The goal was to determine critical issues that have been identified in these reports. Naturally, the review aimed at identifying current governance and procedural structures, systems, processes, indentified and potential weaknesses, critical success factors, and other issues identified or proposed for consideration in each of the reports covered by the review. However, the deductions garnered were then assessed for practicality in the proposed context of the UN-REDD programme.

2.4.3 Financial Management Capacity Assessment of the Forestry Department

Thirdly, we performed a financial management capacity of the FD, covering:

1. Overall risks of the proposed new cash transfer modalities;
2. Overall risk associated with funds flow;
3. Adequacy of current staffing levels and related mix of skills;
4. Adequacy of accounting policies and procedures;
5. Adequacy of internal audit functions, if any;
6. Use of external audit services;
7. Adequacy of procedures for financial accountability, monitoring and reporting performance;
8. Adequacy of information systems and controls in place to address financial management information system risks; and
9. Adequacy of the implementation arrangement and staff positions proposed in the UN-REDD Programme document.

2.4.4 Review of 3 UN Agencies Cash Transfer Modalities

Finally, we reviewed the current institutional arrangements governing financing programmes by each UN Agency to obtain an understanding of how management of the UN-REDD Multi-Donor Trust Fund ("MDTF") could be designed, taking into account the specific needs of each agency and the need to harmonise these procedures under the HACT Approach.

2.5 Outputs and Key Deliverables

The assignment was for an initial fifteen (15) working days from 13th December 2010. Fieldwork commenced on 15th December 2010. Its last day was to be 23rd December 2010. However, due to delays in completion arising from absence of key respondents due to the festive holidays, the assignment completion was extended to 28th January 2011.

This report summarises the findings of our assessment, structured in line with the expected outcomes stated in section 2.2 of this report.

3 STATEMENT OF LIMITATIONS

1. The assessment was a desk study of selected documents pointed out to us. We did not carry out an audit, nor did we seek to obtain any evidence, other than corroborative data, wherever relevant.
2. A number of documents recommended for the desk review were still at draft report stage. Nonetheless, findings in all such reports were taken as is. We were unable to state exactly the impact this would have on the final conclusions of our assessment.
3. The review was aimed at assessing the financial management capacity of the Forestry Department ("FD") in the MTENR. However, as the financial management capacity of the FD employed the standard UN Financial Management Questionnaire B, some of the matters in the terms of reference could not be directed at the FD without reference to the overall ministerial systems and structures in MTENR. Inevitably, a significant focus of the review discussed relevant procedures and systems in the MTENR as a basis of establishing the capacity of the FD to manage the UN-REDD Programme.

4. The following documents listed as part of our desk review were not availed:

   (a). CCFU Draft Review Report

   (b). The documentation on the capacity needs assessment and capacity building activities

5. All the material included in this report is based on data and information gathered from the above-listed various reports, including information directly supplied by UNDP and MTENR and that which was independently obtained from other sources. Although due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information.

4 DISCLAIMER

The procedures we performed in this financial review were limited in nature as set out in Chapter 2 and as such, this report may not necessarily disclose all significant matters about the FD in the MTENR. Unless otherwise indicated, our enquiries were directed at the information required to establish the financial management capacity of the FD, and the requirements of the three UN Agencies involved on the project, with a view to recommending a cash transfer modality to be employed by the UN-REDD Programme in Zambia and identification of any recommendations for the necessary capacity strengthening, safeguards and implementing partner systems to be put in place to employ the proposed cash transfer modality.

This assignment was conducted in accordance with generally accepted standards for review engagements, and included examination, on a review basis wherever relevant, of evidence supporting our terms of reference, and other procedures considered necessary to achieve our objective. EMM does not assume any liability for any financial or other loss resulting from this document in consequence of acting on its contents.

5 THE UN-REDD PROGRAMME

5.1 Background

Reducing Emissions from Deforestation and Forest Degradation (REDD) is a new environmental finance concept with the primary objective of providing financial incentives to reduce greenhouse gas emissions (predominantly CO^2) from forest lands in developing countries. In addition, well- designed REDD frameworks can have a positive effect on the conservation of associated biological diversity and ecosystem services, and the livelihoods of forest-dependent communities (including greater income and improved forest governance) through a better management of forests. At the 2009 Climate Change Conference in Copenhagen (COP 15), these concepts were explicitly included in the definition of REDD, which was renamed REDD+. REDD+ differs from REDD as it includes "the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries" in addition to avoiding deforestation and forest degradation.

Since the 2007 Climate Change Conference in Bali (UNFCCC COP13-CMP3), a number of initiatives have started to support countries preparing for a possible REDD mechanism as part of a post-Kyoto international climate change regime. The UN-REDD programme has been developed as a collaborative partnership between FAO, UNDP and UNEP. Zambia has been selected as one of nine pilot countries to receive initial support ('quick start') to establish a national REDD+ Readiness process, through a National Joint Programme ("NJP"). The aim of UN-REDD is to assess whether carefully structured payment structures and capacity support can create the incentives to ensure lasting, achievable, reliable and measurable emission reductions while maintaining and improving other ecosystem services that forests provide. The UN-REDD Programme can therefore be seen as a decision support tool for the Government of the Republic of Zambia ("GRZ") to determine whether it will commit to the shifts in forest-resource use in order to participate in a future REDD+ mechanism under the UNFCCC. This is termed "REDD+ Readiness". Key concepts within the REDD+ mechanism include: (i) REDD+ is based on performance-based payments i.e. if the abatement potential is not realised, no REDD+ payments will be forthcoming; and (ii) addressing deforestation and forest degradation is inherently cross-sectoral and will need to be part of a new approach to development across the country. This NJP consequently focuses on preparing Zambia for future REDD+ funding under the UNFCCC and encourages donor participation. This will include developing a National REDD+ Strategy to consequently ensure that Zambia is in a position to access and utilise future REDD+ funding streams. The NJP will comprise: (i) a multi-sectoral approach in order to reliably assess the drivers of deforestation and forest degradation; (ii) capacity development to produce and maintain reliable data; (iii) capacity development to access various REDD+ funding streams for implementation of National REDD+ activities; (iv) development of appropriate strategies to reduce deforestation and forest degradation in different regions; and (v) consolidation of available information on deforestation and forest degradation.

The 'quick start' UN-REDD national programme is not designed to meet the full costs of supporting Zambia through all the phases of Readiness. Beyond 'quick start' the Zambian government will be required to meet the following objectives: (i) sustainable development to reduce local communities' dependence on wood products; (ii) strengthening of institutional, policy and legislative frameworks; (iii) good governance that guarantees transparency in benefit-sharing; (iv) appropriate nationwide land use planning to facilitate REDD+; and (v) effective implementation of natural resource policies concerning forest use, and enforcement of legislation across Zambia. The latter point regarding a 'blanket approach' across Zambia is critical to ensuring that rates of deforestation and forest degradation are reduced at a national level. This is because the protection of only a few selected areas of forest will, in all likelihood, result in leakage (i.e. damage to forests outside of these protected areas).

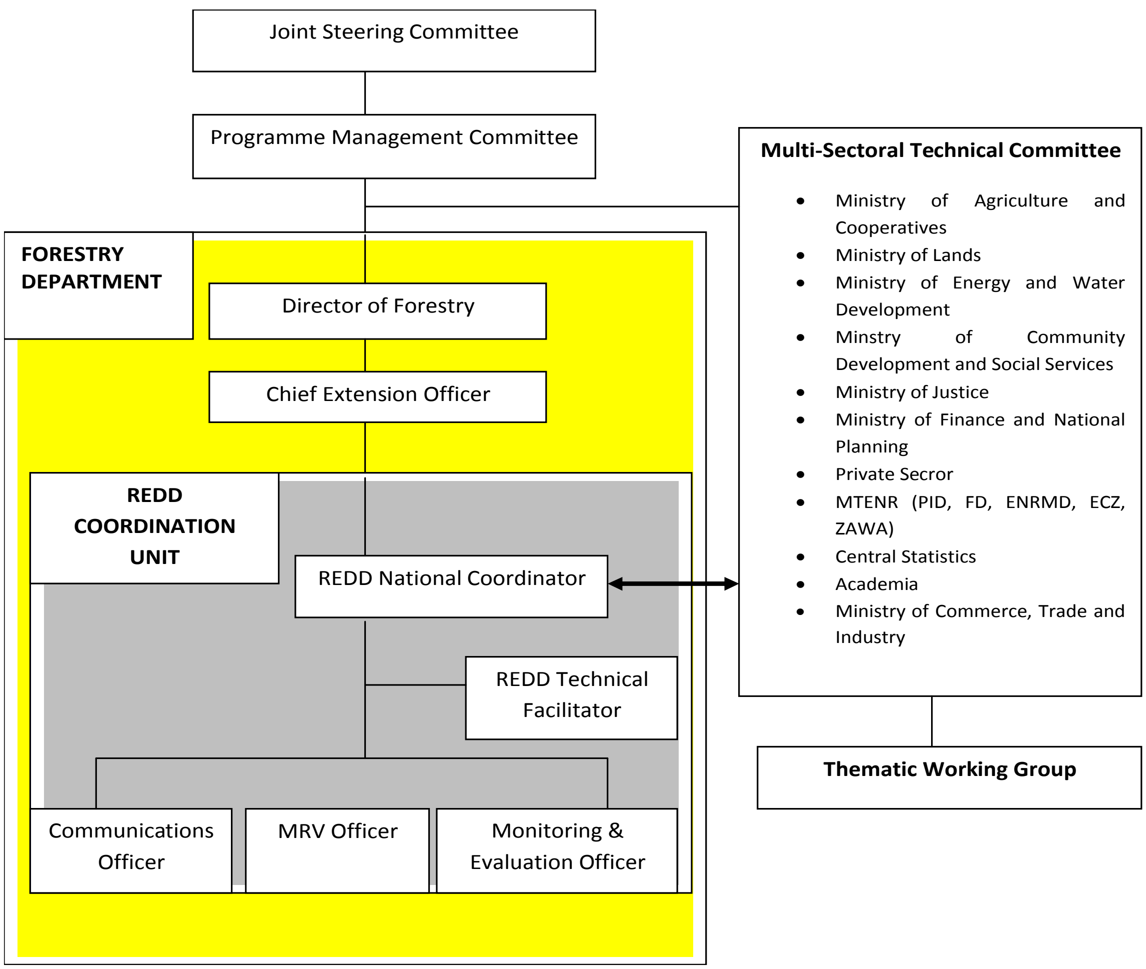
The National REDD+ Programme will include tangible learning-by-doing activities in communities and forests. The following are likely to be undertaken on a large-scale in the National REDD+ Programme: (i) development of alternative livelihoods (e.g. sustainable beekeeping in woodlots); (ii) employment of sustainable agricultural methods and land use practices; (iii) establishment and/or utilisation of alternative energy sources to reduce demand for charcoal and wood; and (iv) revision of appropriate policies, strategies and legislation.

Existing internal funding (the Environment and Natural Resource Management and Mainstreaming Programme ("ENRMMP")) and external funding (donor) sources will be sought by the NJP to finance such learning-by-doing activities during the 'quick start' phase 1 of UN-REDD. Many complex subjects will need to be examined in order to advise appropriate changes in the development pathway of Zambia and thereby implement National REDD+ effectively. These include: governance structures, land tenure systems and law enforcement, market and cultural values of forests, the rights of local communities, benefit-sharing mechanisms as well as poverty and food production policies.

5.2 Operations

The first phase in the UN-REDD Programme is the UN-REDD Quick Start Initiative, which is a National Joint Programme ("NJP"). The NJP will develop a national REDD+ strategy and thereby assist in attracting financing for National REDD+ implementation. It constitutes the first step toward the above-described preparation. Its goal is to prepare Zambian stakeholders and institutions for effective future nationwide implementation of REDD+. Objectives of the NJP include: (i) Building institutional and stakeholder capacity to implement REDD+; (ii) Developing an enabling policy environment for REDD+; (iii) Developing REDD+ benefit-sharing models; and (iv) Developing, monitoring, reporting and verification systems for REDD+. Figure 1 below depicts the proposed implementation institutional framework of the programme.

Figure 1: *Proposed UN-REDD Implementation Institutional Framework*



The NJP is facilitated by the FD situated within the MTENR, and is funded by a multi-donor trust fund ("MDTF") through a pass through mechanism, which distributes technical and financial responsibilities among the participating UN Agencies (UNDP, FAO and UNEP).

5.3 Funded Budget

The programme document was signed in 2009 with the following contributions:

Partner	US$
UN-REDD MDTF	4,490,000
GRZ	-
Total	**4,490,000**

5.4 Administrative Agent

Administration of the UN-REDD Programme MDTF is entrusted to the Multi-Donor Trust Fund ("MDTF") Office of UNDP, as the Administrative Agent ("AA") who serves as the administrative interface with donors.

UNDP's accountability as the Administrative Agent is set out in the policy "UNDP's Accountability when acting as Administrative Agent in MDTFs and/or UN Joint Programmes using the pass-through fund management modality". Participating UN organisations, in this case FAO, UNDP and UNEP, assume full programmatic and financial accountability for the funds received from the Administrative Agent.

5.5 Fund Management Arrangements

1. The UN-REDD Collaborative Programme utilises the 'pass-through' modality for fund management. Participating UN organisations, in this case FAO, UNDP and UNEP, assume full programmatic and financial accountability for the funds received from the Administrative Agent.

2. Each Participating UN Organisation decides on the execution process with its partners and counterparts following the organisation's own regulation and rules. Government can receive funding through a Participating UN Organisation and act as executing agencies. Participating UN Organisations are entitled to deduct their indirect costs on contributions received according to their own regulations and rules, taking into account the size and complexity of the particular programme

3. Each Participating UN Organisation will use the funds disbursed to it by the Administrative Agent from the UN-REDD Programme MDTF to carry out the activities for which it is responsible. The Participating UN Organisation will commence and continue to conduct operations for the UN-REDD Programme as set out in the UN-REDD MoU or as instructed by the UN-REDD Policy Board.

It is desirable that the Agencies agree on a preferred common modality for the FD, as the intention is to adopt the HACT approach once the micro-assessment on the FD has been completed.

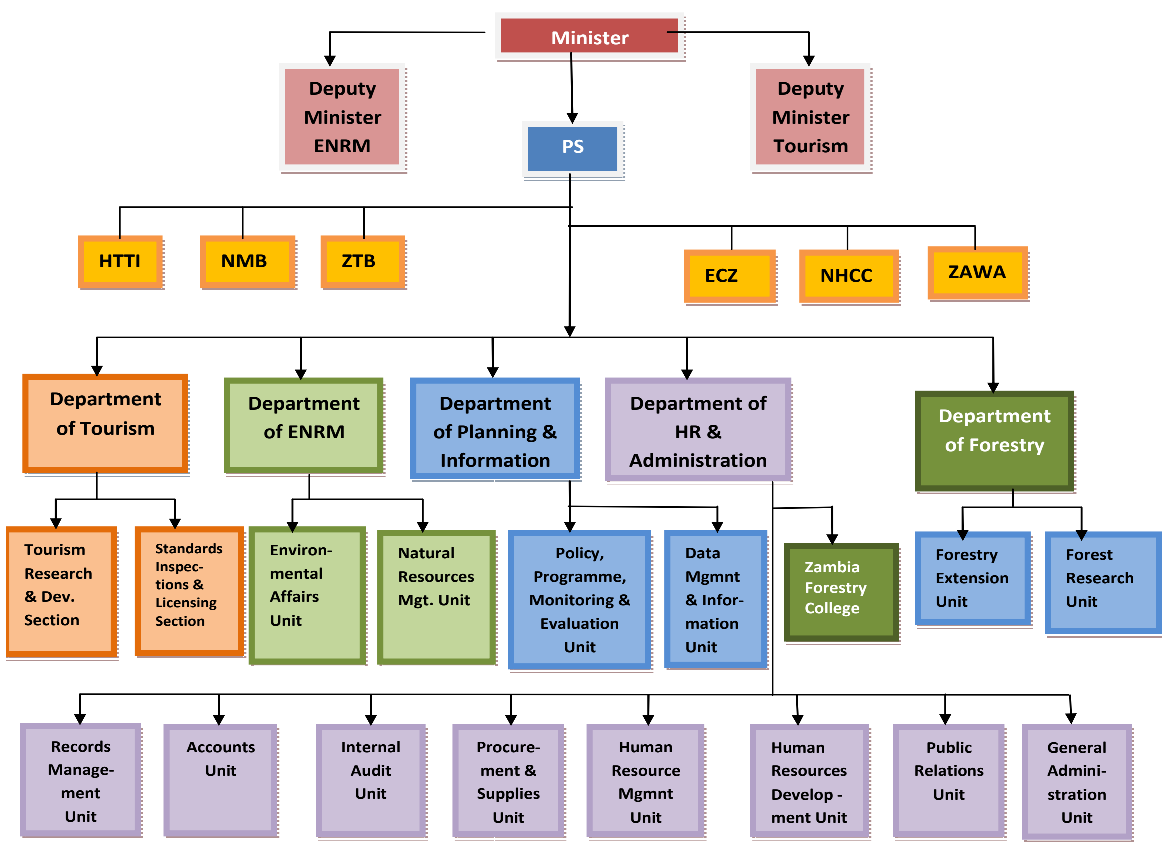
6 MICRO-ASSESSMENT OF FORESTRY DEPARTMENT

6.1 Implementing Partner

6.1.1 Overview of Forestry Department

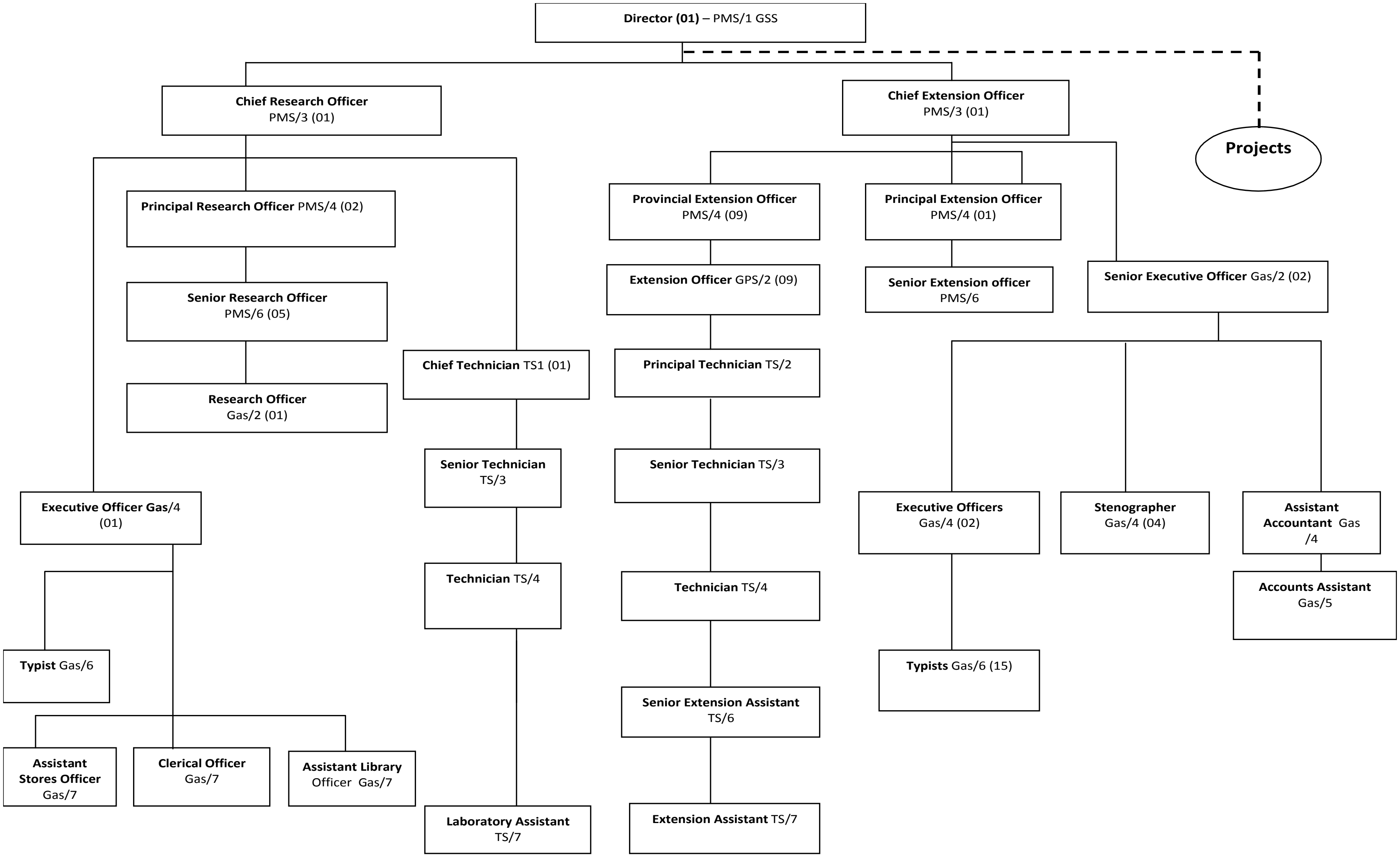
The Forestry Department ("FD") is one of five departments within the Ministry of Tourism, Environment and Natural Resources ("MTENR"); the others being the Department of Human Resources and Administration Department ("DHRA"), the Planning and Information Department ("PID"), the Department of Tourism ("DT"), and the Environment and Natural Resources Management Department ("ENRMD"). The MTENR was created in January 2002 by merging the two former Ministries of Tourism ("MOT") and that of Environment and Natural Resources ("ENR") arising from the need to integrate tourism, environment and natural resources considerations in Zambia's sectoral and socio-economic planning processes. The MTENR is charged with the responsibility of providing guidance in tourism, environment and natural resources sectors of the economy of Zambia. It has three (3) core functions i.e. tourism, environment and natural resources management and development where the main focus is to ensure the provision of an appropriate legislative and policy framework that guides the management and development of the three sectors by the Ministry and other partners. Figure 2 below provides a departmental structure for the MTENR.

Figure 2: Structure of the MTENR



The FD is responsible for management of forest resources in the country. Its functions include providing guidelines and supervision for the management, restoration or establishment of forests as well as facilitating and regulating forestry industries, providing extension services and undertaking research. The functional structure of the FD is shown in Figure 3 below:

Figure 3: Functional Structure of Forestry Department



6.1.2 Past Receipt of UN Funds

1. The MTENR has a long relationship in working with the UN. For example:

   (a). Between 2003 and 2006 the UN and the ministry have collaborated on the Environmental and Natural Resources Assessment Project (2003 – 2006);[1]

   (b). Since 2006, the MTENR, through ENRMD (and later ZAWA), has been working with UNDP and Global Environmental Facility ("GEF") on the Reclassification and Effective Management of the National Protected Areas System Project. The main purpose of the project is to strengthen the enabling frameworks and capacities for managing the National Protected Areas System;

   (c). Since 2008, the MTENR, through ENRMD (and later ZAWA), has been working with UNDP and GEF on the Lake Tanganyika Integrated Management Programme. The Programme is for the period 2008 - 2011 and focuses on sedimentation control, which is within the framework of priorities of the sub-regional Strategic Action Programme ("SAP");

   (d). Since 2008, the MTENR has been working with the UNDP and several cooperating partners ("CPs") including Denmark, Finland and Norway on the Environment and Natural Resources Management and Mainstreaming Programme ("ENRMMP"). The MTENR intends, as far as possible, to use the ENRMMP as the umbrella vehicle for all CP intervention in the tourism, environment and natural resource sector, and it is anticipated that other CPs seeking to participate in this sector may provide funding through this programme; and

   (e). Since 2009, the MTENR, through ENRMD, has also received funding on the Climate Change Facilitation Unit ("CCFU"). The overall goal of the CCFU is to reduce the impacts of climate change on development in Zambia.

2. Specific to the FD, MTENR has worked with the UN on the following programmes:

   (a). Between 2005 and 2008, the FD worked with the Food and Agriculture Organisation ("FAO") of the UN, the Government of the Republic of Finland and the FAO-Netherlands Partnership Programme ("FNPP") on the Integrated Land Use Assessment ("ILUA") Programme. The purpose of the ILUA was to assess forestry and other related resources and land use practices, to provide up-to-date qualitative and quantitative information on the state, use, management and trends of these resources.

   (b). In 2009, the FD worked with the UNDP on the Sustainable Utilisation of Environmental Assets and Climate Change Project: Support to Forestry Department, as part of the Country Programme. The Support to Forestry under Sustainable Utilisation of Environmental Assets and Climate Change Project had the following sub activities: Technical assistance for the review and revision of the forestry policy and legal framework; Study Tour on forest management options; Capacity building for REDD and development of the National Joint Programme ("NJP"); Capacity development for forest management Information System[2].

   (c). In 2010, ILUA II and the NJP implementation of the UN-REDD programme in Zambia were both launched. The UN-REDD programme will work towards developing Zambia's capacity to prepare for a future REDD+ mechanism, which will provide financial incentives to reduce greenhouse gas emissions originating from deforestation and forest degradation. The ILUA II programme aims to improve the utilisation and dissemination of ILUA-generated data and seeks to enhance methodological and human capacity in

[1] Assessment of the Ministry of Tourism Environment and Natural Resources, UNDP/Deloitte, May 2009

[2] 2009 Audit Report on Sustainable Utilisation of Environmental Assets And Climate Change Project: Support to Forestry Department Combined Delivery Report ("CDR")

collecting and analysing forest resource information for sustainable forest management, REDD monitoring and carbon inventory.

6.1.3 Statutory Reporting Requirements

As a department, the FD does not have any statutory reporting requirements. It is however required to comply with donor-based financial reporting requirements, issued pursuant to reporting obligations in executed financing agreements and Memoranda of Understanding.

The statutory reporting requirements that would apply to the FD, however, concern the MTENR in general. These legislative obligations, most of which have been recently issued or revised include:

1. The Public Finance Management Act of 2004 ("PFMA 2004");

2. The Financial Regulations of 2006 ("FR 2006"); and

3. The Public Procurement Act of 2008 ("PPA 2008").

6.1.4 Independence of Governing Body

As depicted in Figure 3 (Chapter 6.1.1), the FD is headed by a Director, who reports to the Permanent Secretary ("PS") - MTENR. The PS is the Administrative Head of the Ministry and Controlling Officer and is assisted by the five (5) departmental functional heads, each of whom is responsible for executing the technical aspects of the Ministry's functions.

According to a study by the Finnish Consulting Group, the MTENR has undergone recent developments with respect to its governing team, resulting in the PS being in office for just over a year, leading to learning curve effects and problematic governance structures and systems such as hampered development of governance policies and delayed population of the intranet[1] due, probably, to increased staff distraction.

6.1.5 Appropriateness of Structure for UN Cooperation

Studies have also shown that:

1. Staff in MTENR and in turn the FD is not always fully occupied. The effect on organisational governance is to undermine the sense of urgency and discipline which must prevail if the high goals of the Ministry and the FD are to be attained[2].

2. Ministry departments communicate poorly and operate independently of one another. If correct this is a significant concern. For example, the ENRRM Programme implemented by Planning and Information Department ("PID") in MTENR did not have a specific project implementation unit as most ENR interventions have had; instead, the existing structures in PID in conformity with GRZ systems were used, and as a result many financial challenges arose[3]. To the extent that communication was poor between PID and the Accounts Unit, financial management was threatened[4].

3. Discussions with the CPs during this assessment revealed there had been serious financial management control weaknesses in the ENRMMP. By extension, the FD was also deduced to be lacking in the financial management capacity requirements to effectively implement the UN-REDD Programme.

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

[2] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

[3] MTENR Management and Mainstreaming Programme, Financial And Technical Progress Reporting, Walis Chartered Accountants, October 2010

[4] MTENR Management and Mainstreaming Programme, Financial And Technical Progress Reporting, Walis Chartered Accountants, October 2010

The actual functional structure of the FD is shown in Figure 3 in 6.1.1. This shows an outlying proviso for projects to be included in the functional structure of the department. This applies to both projectised structures and matrix structures i.e. systems that combine both the functional and projectised structures. Detailed analysis of each of the past experiences of FD working with the UN showed that in instances where full project mode was applied by the FD, financial management controls were found to be materially effective and that these projects were able to adequately manage allocated cash transfers. This was, probably, because of the projects having a dedicated staff complement, supported by properly designed and customised accounting systems for financial monitoring and reporting. In contrast, on matrix structures such as in the Sustainable Utilisation of Environmental Assets and Climate Change Project: Support to Forestry Department, there were programme and financial management control weaknesses that came to the auditors' attention, including for example, lack of evidence to demonstrate that formal management meetings were being held in the programme.

Hence, the ability of the FD to effectively implement the UN-REDD programme is dependent on what type of structure is adopted. Evidently, a fully projectised structure separate from the organisational systems and processes of the FD would be most effective. However, this can be, as proposed by FAO, managed by officers recruited for other programmes in FD, say, ILUA II, who would, then, need to be trained on the UN procedures required under HACT.

6.1.6 Risk Assessment

The proposed project structure notwithstanding, the overall risk with respect to the Implementing Partner has been classified as **Moderate** as the FD has an established working structure and has received UN resources in the past, and does undergo regular financial audits.

6.2 Funds Flow

6.2.1 Government Funding

The FD has systems in place that enable it to receive funds from the state treasury allocations to MTENR. However, MTENR does experience some delays in funds that are disbursed through the state treasury, attributed mostly to changes in GRZ priorities or unexpected events, which result in either deferment of funds or reduction in the amounts received by the Ministry.

The primary source of revenue received by the MTENR is from the Forestry Department ("FD"). Under the rules of the GRZ for Appropriations-in-Aid, 50% is allowed to be retained by the Ministry and a further 50% is paid over to MoFNP. FD has offices in all districts, and revenues are collected throughout the country for the use of forest produce. It is widely thought that revenues are incompletely recorded, and casual estimates within MTENR suggest that a diligent effort to strengthen systems might double or triple revenues collected, with clear benefits for the protection of forests in addition. There is little capacity to monitor this revenue although internal audit has been making a major effort, and a recent audit of revenues carried out by the Office of the Auditor General ("OAG") shows instances of delayed banking. Under-banking is also reported to be common, with one district in Northern Region failing to bank funds for 3 years. At present, given the highly decentralised process for collection of large amounts of cash revenue, the (fiduciary) risk that revenues are appropriated for other purposes is thought to be at least significant[1].

6.2.2 UN Agencies CP Funding

The FD, through the MTENR also receives funds from UN Agencies and CPs. This is in the form of direct payments or direct cash transfers:

1. In recent times, the FD has been on direct payments for UN funded programmes, where resources are disbursed directly to vendors of goods and services by the UN Agency. For example, in the ILUA Programme implemented between 2005 - 2008, which was partly funded by FAO, direct payments were made by the FAO, despite the programme receiving

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

direct cash transfers from GRZ through specially opened programme bank accounts. FD staff lamented that the direct payments system is lengthy and bureaucratic and at times has resulted in delays in the implementation of programme activities, although FAO maintain that delays in respect of FAO funding are, generally, minimal.

2. The FD/MTENR receives direct cash transfers on CP funded projects such as the World Bank funded SEED Project and the ENRMMP. Discussions with the Danish and Finnish CPs during this assessment revealed that there had been serious control weaknesses noted in the required financial management controls for ENRMMP as discussed in Section 6.1.5. The Norwegian Embassy suggested that direct payments modality would be more appropriate, followed by the Reimbursement Method (Chapter 7.2), although the latter is inhibited by general lack of funds in government departments.

6.2.3 Tracking and Monitoring

The FD - and the MTENR in general- have encountered a number of problems and weaknesses in the tracking and monitoring the use of funds:

1. FD collects large amounts of cash revenue - often from multiple remote locations. Cash revenues are notoriously difficult to manage effectively, and the wide distribution of the collection points exacerbates this[1].

2. On the Sustainable Utilisation of Environmental Assets: Support to Forestry Department[2]:

   (a). There was lack of evidence to demonstrate programme management awareness of the programme budget for the preparatory phase, which increased the risk of expenditures exceeding the funds received or the authorised budgets.

   (b). Despite an approved work plan for 2009 being developed for the preparatory phase, there was no evidence to suggest the programme managers had this in their possession and that they managed the programme to this work plan.

3. Other departments of MTENR have encountered similar problems on monitoring and tracking the use of funds. For example, ENRMMP implementation showed that receipts and disbursements of funds for implementation activities did not reflect the two income streams (CPs and GRZ). As a result, it was difficult to ascertain which funds between the CPs and GRZ, were being utilised for which activities in keeping with the work plan and budget; and Analysis of expenditure versus work plan and budget during the Inception Phase variances, included unexplained variances the financial progress reports.[3]

6.2.4 Foreign Exchange Risks

In instances where projects are funded in foreign currency, separate foreign currency accounts are opened from which funds are converted into operational currency (Zambian Kwacha). However, neither the FD, nor the MTENR as a whole has an explicit policy in place to mitigate exposures to foreign exchange risks in situations where they are funded in foreign currency.

6.2.5 Risk Assessment

Overall risk with respect to funds flow has been classified as **Significant** due to difficulties encountered in monitoring and tracking of counterpart funds, inadequate capacity to monitor implementation expenditures against work plans, and absence of policy or procedures to manage exposure to foreign currency exchange rate risks.

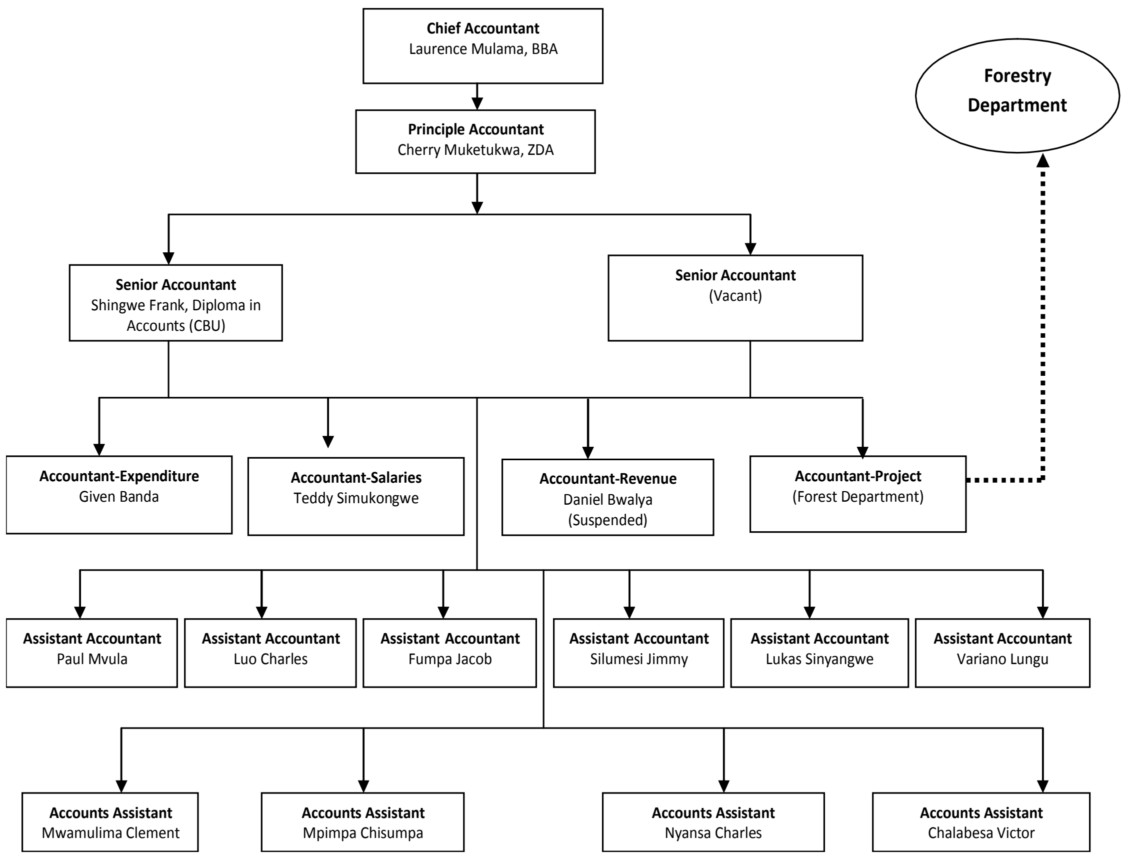
[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009
[2] 2009 Audit Report on Sustainable Utilisation of Environmental Assets & Climate Change Project: Support to Forestry Department CDR
[3] MTENR Management and Mainstreaming Programme, Financial And Technical Progress Reporting, Walis Chartered Accountants, October 2010

6.3 Staffing

6.3.1 Staffing and Structure

The FD does not have a full accounting unit; instead it is has one accounts assistant who is part of the ministerial Accounts Unit, which is but a component of the Department of Human Resources and Administration ("DHRA"). The Unit is led by a Chief Accountant who reports to the Director-DHRA. Figure 4 below shows the structure at the time of our assessment.

Figure 4: Structure of Accounts Unit



The post of Senior Accountant (Revenue) has been vacant for almost one year, and the incumbent in the position of Accountant-Revenue had been suspended due to financial management irregularities in his area.

6.3.2 Staff Qualifications

Summary profiles and qualifications of key staff of the Accounts Unit are shown below:

Name	Position	Date of appointment	Date of confirmation to current position	Qualification
Lawrence Mulama	Chief Accountant	22/12/92	2005	BBA
Cherry Muketukwa	Principle Accountant	*Not established*	*Not established*	ZDA
Shingwe Frank	Senior Accountant	5/4/1994	2003	Diploma in Accounts
Daniel Bwalya	Accountant	*Not established*	*Not established*	BBA, ACCA Part 2
Brian Mwamba	Assistant-Forestry	2002	2009	BBA, NATECH

MTENR Staff is employed on a permanent basis. However, none of the accounting staff have internationally recognised qualifications such as ACCA or CIMA. The Chief Accountant holds a Bachelor's Degree in Business Administration ("BBA"), with most members of the Unit holding the intermediate National Accounting Technician ("NATECH") qualification.

The Accounts Assistant-Forestry has a Bachelor of Arts Degree in Business Administration, Advanced Diploma in Business Administration and also holds the NATECH accounting qualification. However, he was only appointed to this position in 2009, having previously served as Clerical Officer in the same unit. His key responsibilities include: preparation of bank reconciliation statements and other reports for projects under FD; preparing monthly revenue returns for the department, maintaining departmental financial records, including cashbooks; receipting and banking of departmental revenue; and preparation of quarterly and annual department expenditure returns and work plans.

6.3.3 Adequacy of Staffing

Although the Accounts Unit has been able to cope with the volume of financial operations, there are a few vacancies within its structure. The position of Senior Accountant is currently vacant, and there are only four (4) Accounts Assistants as opposed to the five (5) provided in the establishment's structure. Still, it would appear that the functional structure of MTENR's Accounts Unit is sufficiently able to handle the level of financial volume for its current operations. However, this may not be the case when the financial management requirements of the implemented programmes, such as UN-REDD, are taken into account. Analysis shows that the qualifications, experience and position of the designated FD accounting officer are inadequate for the needs of the UN-REDD programme. Additionally, as the Accounts Assistant ultimately reports to the Chief Accountant-MTENR, the effectiveness of financial control systems may be affected. Delinking the UN-REDD programme accounting functions from those of the FD structures would minimise the risk of financial management control weaknesses that were observed in the ENRMMP. A qualified and experienced accounting officer may have to be recruited into this position.

6.3.4 Familiarity with UN Procedures

Results of assessment inquiries suggest that the MTENR Accounts Unit is generally aware of the UN procedures, from staff experiences on the ILUA Programme. However, when reviewed in the context of findings in recent audit reports, accounting staff appears to have limited exposure to UN procedures. For example, a common finding on the audits of CCFU and Sustainable Utilisation of Environmental Assets: Support to Forestry Department, was that accounting staff appeared insufficiently trained in UNDP requirements. As a result, there were difficulties in obtaining support records for project disbursements, which may not have been the case if the projects were administered by projectised staff who usually would obtain full training in the procedural requirements of UN financial management procedures.

6.3.5 Training Policy

Neither the FD nor the MTENR has a training policy in place for their accounting staff. The Chief Accountant explained that the Ministry has no financial resources for this. Further, there is no MTENR-specific manual of procedures or set of desk instructions to guide staff in the Accounts Unit on procedures specific to the MTENR which could be used as fallback for lack of a formal training policy.

6.3.6 Risk Assessment

The overall risk assessment for Staffing can be regarded as **Significant** due to vacancies in the staff structure, inadequacy of staff qualifications, and limited exposure to UN procedures for FD accounting staff.

6.4 Accounting Policies and Procedures

6.4.1 Chart of Accounts

Separate FD accounting i.e. through a specific chart of accounts does not occur as the FD is incorporated into the overall MTENR accounting system using GRZ financial policies and procedures as stipulated by the Public Finance Management Act of 2004 ("PFMA 2004") and the Financial Regulations of 2006 ("FR 2006"). All GRZ Ministries utilise a standard Chart of Accounts which is periodically reviewed by the Ministry of Finance and National Planning ("MoFNP"). The Chart of Accounts assigns cost codes to each department with sub-codes for every unit, programme and activity. These codes are included on each payment voucher for ease of referencing and expenditure tracking. As the Chart of Accounts is to be used on all projects under the MTENR, there is a risk that this may not follow the specific codes or activity line that would be required in the UN-REDD Programme.

6.4.2 Accounting System

The FD has no system in place for recording of financial transactions, relying instead on the overall systems in use by the MTENR, which also does not have an accounting system that enables proper recordation of financial transactions from the UN agencies, including, for example, the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds. However, Accounts Unit is in the process of installing the *Navision accounting package* which, it is hoped, should enable this. As the system was still at installation stage, no data had been posted into it during the time of our review.

6.4.3 Basis of Accounting

The Ministry and all GRZ Institutions currently utilise the cash basis of accounting. With the planned implementation of IFMIS, all GRZ Ministries and Institutions will be required to implement International Public Sector Accounting Standards ("IPSASs") which require among other things accruals accounting. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of all public sector entities. Accrual IPSASs are converged with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") by adapting them to a public sector context when appropriate. As many accrual-based IPSASs are based on IFRSs, the IASB's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of IPSASs, including MTENR.

In 2009, selected members of staff of the Accounts Unit attended training on pronouncements of IPSASs so as to build capacity for the transition to IFMIS and the implementation of the IPSASs. However, IPSASs are not being used in current financial report preparation. Further, we did not come across any evidence to determine how Accounts Unit will ensure compliance with IPSASs as there is no IPSA based checklist in use at MTENR. This could potentially lead to IPSASs-compliance failures.

6.4.4 Accounting Procedures

There is no MTENR-specific manual of procedures or set of desk instructions to guide staff in the Accounts Unit on procedures specific to the FD or the MTENR as presently, Accounts Unit uses the accounting manual issued by MoFNP for all government ministries. As a result, the FD does not have stand-alone accounting policies, instead applying the accounting policies of the MTENR, which are, in turn, those of the GRZ, primarily drawn from the requirements of the PFMA 2004 and the FR 2006, which provide for accounting on a modified cash basis.

GRZ accounting policy also includes the use of the Financial Management System ("FMS") (See Section 6.7). It is not a double-entry system and is primarily cash-based. The only accrual accounting carried out at MTENR is to follow the GRZ policy on maintaining an imprest ledger for advances to officers and others on FMS. The systemic weaknesses are exacerbated by the condition that despite the FMS being single entry, no general to subsidiary ledger reconciliation is performed in the MTENR, which increases the risk of error or fraud going undetected.

6.4.5 Accounting Controls

The FD does not have separate procedures for accounting and recording of transactions. Practice is to follow and apply the following MTENR procedures:

1. All transactions are initiated by a user department which is required to complete either a purchase requisition form, for the procurement of goods and services, or a memorandum requesting the Accounts Unit to disburse amounts for the execution of an activity. All purchase requisitions have to be approved by the Head of Procurement and the Accounts Unit (for sufficiency of funds on the budget line).

2. Following the approval of the purchase requisition and if the procurement value is within the approval limits of the Procurement Unit, enquiries are made to suppliers who are on the Ministry's list of approved suppliers after which quotations are evaluated and an award is subsequently made. If the procurement values involved are beyond the internal approval threshold, the process is escalated to the Ministerial Tender Committee ("MTC") that will invite and subsequently evaluate bids before awarding a contract.

3. Payment approvals tag along the following limits:

   (a). All payments below K10million are authorised by the Director.

   (b). Payments between K10 - 50million are authorised by the PS.

   (c). Payments between K50 - 100million are approved by the MTC.

   (d). All payments above K100million are approved by the Zambia Public Procurement Authority ("ZPPA").

4. Following contract award, the necessary documentation is forwarded to the Accounts Unit for payment in accordance with the contract terms. A payment voucher is then prepared by an Accounts Officer, checked by a superior before being approved by the Chief Accountant and counter approved by the PS (or Head of the Department to which the expenditure relates).

5. The payment voucher is then forwarded to the Internal Audit Unit for verification of compliance to prescribed procedures after which the document is sent to the Cashier for cheque typing. However, in certain matters the Internal Audit function has been circumvented on operational matters. This has compromised their ability to act effectively in certain instances[1].

6. All the supporting documents are retained by the cashiers and secured in a safe.

6.4.6 Controls on Previous CP and UNDP Funding

Desk reviewed reports and discussions with CPs have raised a number of control and systemic weaknesses in accounting for CP and UNDP Funds by the FD and/MTENR, including weaknesses in cost allocations to funding sources. For example, in the Sustainable Utilisation of Environmental Assets: Support to Forestry Department, there were delays in obtaining the asset inventory listing for audit purposes[2]. UNDP guidelines require maintenance, by implementing partners, of an inventory recording the acquisition and disposition of property and equipment that contains information on all property and equipment, whether purchased directly by the executing agent from funds advanced to it by UNDP or purchased by others on behalf of the executing agent.

[1] Assessment of the Ministry of Tourism Environment and Natural Resources, UNDP/Deloitte, May 2009

[2] 2009 Audit Report on Sustainable Utilisation of Environmental Assets And Climate Change Project: Support to Forestry Department CDR

6.4.7 Segregation of Duties

Segregation of duties means separating the tasks so that different people are responsible for different duties under the same task. There are some key internal control and internal check strengths built into GRZ systems that are operating effectively in FD and MTENR:

1. Payment Vouchers require three separate signatures and pre-audit;

2. The authorisation of transactions is performed by senior management (e.g. Director of FD);

3. All the transactions at the FD are authorised by the Chief Accountant-MTENR;

4. Cheques require signatures from Accounts Unit and from non-finance personnel;

5. Banking is carried out by designated cashiers;

6. Recording of transaction is the duty of the assistant accountants. The accountants at the MTENR are required to record all the transactions and the approval of such transactions is done by the Chief Accountant;

7. The Procurement and Supplies Unit is quite separate from accounting/FD;

8. The Receiving function is within the Stores at the MTENR, which distributes all items procured to the relevant department within the MTENR. FD does not directly receive procurements, although it does have an Assistant Stores Officer; and

9. The Internal Audit Unit reports administratively to the PS and is part of a wider common service under the Controller of Internal Audit, MoFNP.

However, in practice some internal controls slip because of work reallocations:

1. Cash Books are maintained by the same staff member who prepares the bank reconciliation statements. This combination of duties makes cheque fraud more possible, and less likely to be discovered. At present this risk is partially alleviated because the Chief Accountant reviews all bank reconciliations. We however noted that there was no evidence of these being actually checked.

2. Receipting and banking of departmental revenue are performed by the same person. Again, this makes revenue fraud more possible.

6.4.8 Budgets and Budgeting

The FD's funding is affected by the ministerial budgetary process, which is overseen by the Budget Committee, mandated by the FR 2006 and required to be chaired by the Controlling Officer. Under this system the Ministry receives a quarterly Funding Slip for various elements of non-salary funding showing the amount available to each Department of the Ministry and for what activities. The amount shown on the Funding Slip may be substantially below the amount indicated in the annual budget. The PS is at liberty to reallocate within Departments, but requires the authority of the Secretary to the Treasury ("ST") for reallocation between Departments. Upon receipt of the Funding Slip, directors, including the Director of FD, are requested to prepare an Expenditure Profile for their Departments for the coming quarter. A consolidated Expenditure Profile is developed which is equal in total to the Funding Slip(s) and this is used to monitor expenditures for the quarter.

The following control weaknesses were observed[1]:

1. The FD does not perform any budget development. Instead, this is tasked to the Planning and Information Department ("PID") in MTENR. Budget development is the responsibility

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

of the PID although Accounts Unit as the custodians of information on actual expenditures are required to be closely involved. PID report that needed historical data from Accounts Unit is not always forthcoming in a timely manner, and this issue needs to be resolved through closer coordination between the two.

2. In practice the budget of the Ministry is not credible. Although the GRZ component of the budget is somewhat credible, the poor credibility of the budget is to a large extent because the amount of donor funding likely to become available and dispersed is routinely overestimated. It is understood that such overestimation is motivated in part by the need to secure maximum matching funds from GRZ.

3. The primary report of the FMS is the budget comparison. However, this is not widely used in the ministry as a management tool and senior staff in the departments of the ministry advised that they receive little useful information from the Accounts Unit. This is in part because the FMS is primarily designed as a reporting and control tool for the MoFNP, and not as a means of providing management information to Ministry decision-makers.

4. Budget monitoring needs much more coordination between Accounts Unit and PID. Whilst Accounts Unit is capable of presenting and explaining the figures, a meaningful budget monitoring report must include the monitoring and evaluation of outcomes as well as financial data, and agreement on corrective action where goals are not being met.

6.4.9 Payments

Payments for each period are batched and documented on a backing sheet which is initiated by two account signatories before being sent to the Bank of Zambia ("BoZ") instructing the Central Bank to transfer the said amounts to the Ministry's mirror account held with a Commercial Bank. After funds are transferred to the mirror account at a Commercial Bank, suppliers collect cheques from the Ministry and present them for payment. The backing sheet is used as the basis of inputting expenditure information into the FMS. The full payments process is as follows[1]:

1. PVs are un-numbered and in 4 copies; they are allocated a folio number at the time of preparation.

2. In response to a request from a Department backed up by appropriate documentation, the Expenditure Section draws up a PV which includes the folio number, date, payee, amount and account coding.

3. The PV is checked thoroughly by the Accountant-Expenditure who also checks against the Department's expenditure profile to see whether budget exists in the quarter. Once he signs, the PV is then authorised by the Head of Department.

4. After this, the PV is passed to Internal Audit for pre-audit who advise that they verify all details. They also check for budget availability. Internal audit report that this is difficult, since there is no up-to-date running record of available budget balances.

5. After Internal Audit approval, the PV is passed to the cashier's office for cheque typing; at the same time as the cheque is typed, an official Backing Sheet is produced in 4 copies – this is a listing of all PVs showing Date, PV Folio Number, Payee, Coding, Amount, etc. It is checked for completeness and signed by bank account signatories when they sign the cheques. It is also signed and stamped by the cashier.

6. The Backing Sheet is sent to the BoZ via the MOFNP; the BoZ retain two copies – one for the bank holding the mirror account and one for themselves. The amount on the Backing Sheet is then transferred to the mirror account to cover the cheques.

[1] Assessment of the Ministry of Tourism Environment and Natural Resources, UNDP/Deloitte, May 2009

7. Two copies of the Backing Sheet come back to MTENR: one for the Section that maintains the FMS and one for the Expenditure Section. The FMS copy is used for FMS data entry.

Assessment showed that the following risks were generally prevalent in the process:

1. The listing of PVs may be incomplete since the GRZ PV is not pre- numbered nor is it an accountable document.

2. There is also a risk that PVs are prepared and authorised where the underlying documentation is inadequate to ensure proper procurement and delivery of the required goods or services. For example, purchase orders and receiving reports are not always obtained directly from issuing departments.

3. Payments can be made when there is no budget because there is no up-to-date record of spending and this budget balance, and the manual commitments system is not functional.

4. Payments for advances to implementing partners are particularly problematic.

5. Whilst the FMS has a system for the management and monitoring of advances or imprest, it is not a full double entry accounting system and does not have the self-checking mechanisms associated with such a system.

6. Invoices are not stamped "PAID" when settled. There is a risk of duplicated payments going unnoticed.

7. It was noted that there have been delays in the input of information into the FMS resulting in out of date expenditure tracking. It was also noted that there were other limitation in FMS that limit the ministry's ability to effectively track expenditure

6.4.10 Policies and Procedures

The accounting policies of the Ministry are guided by the Public Finance Management Act of 2004 ("PFMA 2004") and the Financial Regulations of 2006 ("FR 2006"). However, there is no manual of accounting procedures or set of desk instructions to guide staff in the FD, or the ministry's Accounts Unit on procedures specific to the MTENR. Both the FD and the MTENR need a single MTENR-specific procedures document that would include all systems, procedures and controls. Such a document would:

1. Provide relevant staff with direction and guidance in relation to management of assets;

2. Determine and identify the policies and procedures as developed by the management, which are extremely important for the department or the ministry, as they are the processes that guarantee the integrity of the general ledger system and maintenance of internal control of the financial operations of the FD/MTENR;

3. Advance and promote the objectives of the department and the ministry; and

4. Provide guidance to the staff with regards to financial operations.

The manual could be an all-inclusive handbook, allowing for officers and employees to be guided by professional standards, laws and regulations and other relevant guidelines.

6.4.11 Cash and Bank

The MTENR holds several bank accounts, some of which are specifically for the activities of the FD. Some of these follow the primary GRZ system whereby there is an account at the Bank of Zambia ("BoZ") and a "mirror" account in a commercial bank. The commercial bank mostly used by the MTENR is the Zambia National Commercial Bank. Authorised signatories on the bank accounts are divided into two sets: Panel A- Any Senior Personnel in the Accounts Unit and

Panel B- Directors in the MTENR.

A number of control weaknesses (in the MTENR) were observed:

1. The Ministry does not maintain a listing of bank accounts[1]. Hence, we could not tell which accounts were exclusively for the FD.

2. Procedures for updating of the cash book and the recording of the receipts and payments are insufficient.

3. Procedures in place to ensure that there is proper recording of receipts at each collection location are not detailed.

4. MTENR bank reconciliation statements are prepared on a monthly basis. However we noted that the statements that were availed to us were not signed by the preparer and the reviewer, to evidence checking.

5. Controls on the PID-implemented ENRMMP cashbooks and bank reconciliation statements were found to be inadequate[2]:

   (a). The ENRMMP Cashbook was not being properly prepared as it lacked analysis of expenditure in conformity with the Work Plan and Budget for financial reporting purposes. Backing Sheets only indicated reference numbers connoting attachments of payment supporting documentation. This system did not provide for proper linkages with the budget for purposes of management reporting.

   (b). The MTENR Control account reconciliations for August 2009 to May 2010 were not being checked by a senior officer, contravening management arrangements that provided for this, although the same were being verified by the Assistant Internal Auditor.

   (c). Cashbook preparation had serious shortcomings in that it was merely a monthly statement of receipts and payments which were not analysed to provide traceable linkage with the Work Plan and Budget thereby posing a challenge to periodic management and progress reporting.

   (d). There were difficulties in regular CP Funds bank reconciliations on accounts of amounts having been entered into the FMS Aggregate.

   (e). Generated reports were not reconciled to the bank statements; instead bank statements were reconciled to the excel-based cashbooks, which are known for their vulnerability to fraudulent alteration and postings meant for specific budget lines which are routinely altered at the point of data entry, thus further eroding credibility of the reports generated by the system.

   (f). Closing financial report balances were significantly different from the total cumulative cashbook closing balances.

6.4.12 Safeguard Over Assets

It is a requirement of the IPSAS for public sector institutions to maintain comprehensive fixed asset register and account for fixed assets in the Statement of Financial Position (Balance Sheet). However, it was noted that:

1. For the FD:

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

[2] MTENR Management and Mainstreaming Programme, Financial And Technical Progress Reporting, Walis Chartered Accountants, October 2010

(a). The FD does not have a comprehensive fixed asset register.

(b). Insurance cover for non-vehicular assets is not obtained.

(c). Periodic asset counts and verification exercises are not performed.

2. For the Support to Forestry under Sustainable Utilisation of Environmental Assets and Climate Change implemented by the FD, there were audit delays in obtaining asset inventory as an asset inventory listing had not been generated beforehand, resulting in increased risk of loss of assets and audit delays.[1]

3. For other projects executed by the MTENR:

(a). For the ENRMMP, the inventory of fixed assets indicated in the progress report was not cost-specific for linkage and verification purposes with the Work Plan and Budget[2].

(b). For the CCFU, the MTENR did not comply with policies and procedures governing the use of motor vehicles. As a result, the project's motor vehicle - Toyota Land Cruiser GX ABT 2433 - was not being used by the project, but by the PS-MTENR, effectively resulting in utilisation/expending of project assets on non-project activities[3].

6.4.13 Other Entities

1. Each province maintains a Revolving Funds Account for sawmill operations which is managed by the province under the oversight of the Ministry. Payments for advances to implementing partners are particularly problematic. Whilst the FMS has a system for the management and monitoring of advances or imprest, it is not a full double entry accounting system and does not have the self-checking mechanisms associated with such a system. Payments to implementing agencies outside the Ministry are often not well reported and the risk of these funds being misapplied by those agencies is again significant[4].

2. Grant management is a critical subset of financial management, and is especially relevant to MTENR since it is the conduit for GRZ funds to its Statutory Bodies. However, despite requests by the Ministry, reporting of these grants is infrequent and irregular, requiring stronger engagement from the Ministry.

At present, management at FD is not able to determine whether UN-REDD Programme implementation would extend to remote locations.

6.4.14 Risk Assessment

Risk assessment on accounting policies, procedures and controls has been classified as **High**. This is in view of:

1. The weaknesses noted on fund accounting, cash and bank procedures, asset safeguarding procedures, and payment processing and controls.

2. The accounting and reporting systems do not generate useful management information.

3. The weak accounting and reporting systems increase the risk of fraud going undetected, and being further obscured by these weaknesses.

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[1] 2009 Audit Report on Sustainable Utilisation of Environmental Assets And Climate Change Project: Support to Forestry Department CDR

[2] MTENR Management and Mainstreaming Programme, Financial And Technical Progress Reporting, Walis Chartered Accountants, October 2010

[3] 2009 Audit Report on the Combined Delivery Report of the Climate Change Facilitation Unit

[4] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

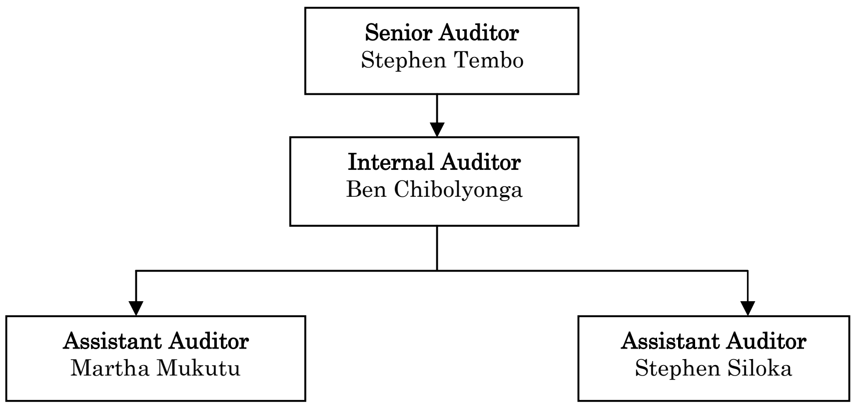
6.5 Internal Audit

6.5.1 Structure

FD does not have an in-house internal audit function, relying instead on the ministerial internal audit establishment, which provides for three (3) members of staff for the Internal Audit Unit, a Senior Internal Auditor and two (2) Internal Auditors. Presently, though, the Internal Audit Unit comprises four staff headed by a Senior Internal Auditor and is engaged both in producing specific ex-post audit reports and in carrying out extensive pre-audit work on Payment Vouchers ("PVs").

The structure of the Internal Audit Function is shown below:

Figure 5: Structure of Internal Audit



The Ministry has sufficient safeguards in place to ensure the independence of the Internal Audit Unit which include the fact that the Unit reports to the PS-MTENR, administratively, and the Controller of Internal Audits, MoFNP, functionally.

Internal Audit staff report that although they produce a plan they do not have the resources to carry it out[1]. Further, the ministerial Audit Committee has been dormant for a number of years.

6.5.2 Qualifications and Experience

The profiles and qualifications of IAD staff are shown below:

Name of Personnel	Position	Date of Appointment	Qualification
Stephen Tembo	Senior Internal Auditor	17.11.94	BBA
Ben Chibolyonga	Internal Auditor	02/01/02	Diploma
Martha Mukutu	Assistant Auditor	*Not established*	*Not established*
Stephen Siloka	Assistant Auditor	*Not established*	*Not established*

One of the biggest challenges for MTENR's internal audit function, as well as for internal audit functions across the government, is the recruitment, training and retention of qualified internal audit professionals. This problem arises from the limited pool of qualified internal audit professionals in the public service. As a result, experience and qualification in the Internal Audit in MTENR are inadequate: internal audit staff has partial accounting qualifications and none hold any audit related qualifications.

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

6.5.3 Standards

Internal audits in MTENR, and by extension, those performed in FD are not performed in compliance with any internationally recognised framework such as:

1. Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors ("IIA");

2. The Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association ("ISCA"); and

3. Committee of Sponsoring Organisation ("COSO") framework; and/or

4. Other professional standards, including standards relevant to internal audit issued by ZICA and/or by the International Accounting Standards Board ("IASB").

Generally, while differences may affect the practice of internal auditing in each environment, conformance with at least the IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity.

6.5.4 Operations

It is likely that the pre-audit activity contributes to some reduction in fiduciary risk, and the focus on forestry revenue audits helps to ensure revenue completeness. However, the poor level of resources in the Unit, the lack of understanding of the key accounting and reporting system and the absence of an effective Audit Committee indicates a weak Internal Audit function:

1. It was noted that in certain matters the Internal Audit function has been circumvented on operational matters which has compromised their ability to act effectively in certain instances.

2. The Internal Audit Unit has not been in a position to audit financial matters relating to projects' expenditure. This has impaired assurance of activities as they are not verified by the Internal Audit Unit to ensure that controls are adhered to.

3. Internal Audit staff report that they do not understand the FMS and have received no training in its use. Consequently they do not feel competent to check it[1].

4. The staff of four appears too small for the task at hand, which should cover multiple decentralised locations and engagement with internal audit at statutory bodies in addition to wider range of post audit reports and follow-up within the Ministry itself.

5. The Audit Committee which is intended to be a resource to support both internal and external audit has not met since 2007. The reasons for this are not clear.

6. The additional challenge for the internal audit function is its lack of dedicated ability to engage with external auditors. The limited engagement with external audit activity suggests that the Unit needs to be more proactive. Financial management and fiduciary risks are higher as a result of these weaknesses.

6.5.5 Risk Assessment

The overall risk assessment with regard to Internal Audit can be classified as **High**, due to the fact that none of the staff is fully qualified, work is not performed in accordance with relevant internal audit standards, and there are instances where the Internal Audit Unit is circumvented and the Unit does not audit all project related transactions.

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[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

6.6 External Audit

6.6.1 Audit Entity

The FD has been audited by the Office of the Auditor General ("OAG") as part of the annual audits of MTENR in following with audits of all Government and quasi-government Institutions. It is considered that the audit process as described contributes significantly to the reduction of fiduciary risk.

6.6.2 Auditing Standards

Audits performed by the OAG are generally performed in line with International Standards on Auditing ("ISAs") as promulgated by the International Federation of Accountants and International Organisation of Supreme Audit Institutions ("INTOSAI"). ISAs are adopted and continuously implemented through training and supervision. OAG has also introduced performance audit although it is in its early stages.

6.6.3 Status of Audits

Generally, FD, as part of the MTENR, has not experienced any delays in external audits as they are up to date in this respect. Review of the 2008 OAG report showed that there were no major accountability issues other than those of unretired imprest and supporting documentation. The OAG has also emphasised the need for the Ministry to enhance its monitoring and evaluation structures so as to ensure that all controls are adhered to[1].

6.6.4 Audits of UNDP Awards

In 2009, the Office of the Auditor General ("OAG") performed an audit of the UNDP Award number 00046996. The audit was performed in line with provisions of Article 121 of Constitution of Zambia, the Public Audit Act of 1980, the Public Finance Act No. 15 of 2004 and the project document signed on 29 March 2007. Findings relating to the award related to asset management and control systems. Our review of this report showed that there had been effort to respond to the matters raised in this report.

6.6.5 Risk Assessment

The risk assessment with regard to external audit has been classified as **Moderate** at this point in time, as the Ministry and the FD have no major accountability issues. However, it was noted that the Ministry needs to enhance its monitoring and evaluation structures.

6.7 Reporting and Monitoring

6.7.1 Reporting Requirements

Reports by FD are generally prepared as part of MTENR statutory reports which are guided by the PFMA 2004 and the FR 2006. However, the FD is also required to prepare reports to CPs as stipulated in various Memoranda of Understanding ("MoU"). The MoUs would usually indicate the reports that are to be prepared as well as the format of these reports. These financial reports are prepared on a periodic (quarterly or financial) basis, and are used by internal management to monitor expenditure and progress toward meeting project objectives.

6.7.2 Reporting System

Generally, Financial Reports in the Department, as those in the MTENR, are prepared via the Financial Management System ("FMS") which provides detailed reports on operational funds. The FMS is the standard accounting and reporting system within the GRZ. It is a database developed in Access, but is not a double entry accounting system. Further, the FMS is limited in monitoring of finances as it does not include projects related funds. Practice in the ministry is to prepare financial reports via tailored accounting packages for projects depending on the terms of

[1] 2008 Audit Report of the OAG

MoU with CPs. Other project related funds that are not accounted for using accounting software packages have reports prepared manually via Excel spreadsheets.

6.7.3 Limitations and Weaknesses

There were some limitations and weaknesses in the reporting and monitoring systems:

1. The FMS, a database developed in Access, is not a double entry accounting system and is primarily cash-based. The only accrual accounting carried out at MTENR is to follow the GRZ policy on maintaining an imprest ledger for advances to officers and others on FMS.

2. The FMS is limited in monitoring of finances as it does not include projects related funds.

3. The primary report of the FMS is the budget comparison. However, this is not widely used in the ministry as a management tool. This is in part because the FMS is primarily designed as a reporting and control tool for the MoFNP, and not as a means of providing management information to ministerial or departmental decision-makers.

4. The key verification activity for any accounting system is reconciliation of the cash record to the bank statement. It is not known whether it is possible to reconcile the FMS database to the bank statement, but it is not done at FD or MTENR. In the case of CP funds, regular bank reconciliation would not be possible in any event since amounts are only entered into FMS in aggregate, and that annually (Section 6.8.1). Bank reconciliations are reportedly on all accounts, but these are prepared using a parallel system of cash books maintained in Excel.

5. Currently all UNDP accounting is undertaken manually using spreadsheets. This could be because the FD has been on a Direct Payment system with all financial reporting being managed by UNDP. There could be a need for the procurement of an automated financial management system so as to build capacity of project accounting systems in FD/MTENR.

6. The accounting and reporting system has demonstrated multiple additional weaknesses[1]:

   (a). First, the FMS system which generates the reports used by GRZ is not reconciled back to a bank statement, and therefore a fundamental check on its accuracy is missing.

   (b). Secondly, the necessity for reclassification of Payment Vouchers ("PVs") at the point of data entry casts further doubt on the accuracy of the FMS. Expenditure data is entered in the FMS from the Backing Sheet. Prior to data entry the FMS officer checks the sequence of the Backing Sheets by number, and the sequence of cheque numbers within them. Items are then entered. However, where they exceed the amount available for the budget line (by reference to the Funding Slip less earlier charges) entry is not allowed. Consequently, since the payment has already been made, the data entry clerk is forced to recode the payment in order to make his FMS entry. This is reported to happen reasonably often, although no tests were carried out to verify its extent. There are two aspects to this weakness:

      (i). That there is no effective check on budget availability prior to raising a Local Purchase Order ("LPO") or PV; and

      (ii). That the control is only made at the (rather late) point of data entry, when it needs to be effective when the transaction is first initiated.

   (c). Thirdly, because the FMS is not a double entry accounting system, it lacks the strong and tested checks and balances that such systems contain, and cannot maintain any record of arrears.

[1] Assessment of the MTENR Financial Assessment Systems, Finnish Consulting Group, October 2009

(d). Finally, the cash books that are reconciled back to bank statements are prepared in Microsoft Excel, which is highly vulnerable to fraudulent alteration since it is not an accounting system, has no audit trail, and can be amended at any time by any officer with access to the relevant computer.

6.7.4 Risk Assessment

The risk assessment with respect to reporting and monitoring has been classified as **Significant**, due to the shortcomings of the FMS and the reporting systems used in the FD/MTENR.

6.8 Information Systems

6.8.1 Limitations and Weaknesses

FD's systems are dependent on the information systems of the entire MTENR, which have the following limitations and weaknesses.

1. The Accounts Unit uses the Financial Management System ("FMS") for its financial reporting. It also has a Local Area Network which is used for internal communications. However, it was noted that the current server is inadequate for the number of users on the network. This has hindered the efficiency of the flow of information within the Ministry.

2. The standard accounting and reporting system within the GRZ is the FMS. At MTENR the FMS maintains data in seven input categories as follows: RDCs, PRPs, salaries, Appropriations-in-Aid, Mainstreaming, donor funds and Retirement of Imprest. However, payments against donor funds are only entered into the FMS at the year-end. At that time, key donor funds are entered, but only in aggregate - total receipts, total payments and balance. This aggregate data is then reported to MoFNP.

3. MTENR recently introduced the position of Data Manager, which is responsible for overall data management within the Ministry. It was noted that the Data Manager does not have the capacity to deal with the administration of the FMS, and the Ministry relies on support provided by MoFNP. In the event that future financial volumes increase, it is imperative that the Data Manager be oriented with the financial reporting systems that the Ministry uses in order to increase efficiency[1].

6.8.2 Risk Assessment

The risk assessment with respect to Information Systems has been classified as Significant, primarily because the information systems do not produce the necessary financial reports and staff is not fully trained on various aspects of the information systems.

[1] Assessment of the Ministry of Tourism Environment and Natural Resources, UNDP/Deloitte, May 2009

7 REQUIREMENTS OF PARTICIPATING UN ORGANISATIONS

7.1 Introduction

UN Agencies have adopted a common operational framework for transferring cash to government and non-government Implementing Partners ("IPs"), the Harmonised Approach to Cash Transfers ("HACT") System. This approach significantly reduces transaction costs and lessens the burden that the multiplicity of UN procedures and rules creates for implementing partners. In relation to this micro-assessment, Forestry Department ("FD") in MTENR are implementing the UN REDD Programme and are being funded by UNDP, UNEP and FAO. Because of the MDTF approach for the UN-REDD, FD need, under the HACT system, common forms and procedures for requesting cash from the participating UN Agencies and reporting on its utilisation. Beforehand, however, the Agencies are required to assess the risks associated with transactions to FD, before initiating cash transfers under the harmonised procedures. Thus, together with the FD, the UN Agencies are required to conduct a financial management capacity assessment of the FD to evaluate the FD's capacity to effectively and efficiently manage the funds from the UN Agencies.

This Chapter discusses the various cash transfer modalities available to the agencies, the modality preferred or pre-selected by each agency, the likely barriers against each option and the possible solutions to these barriers. Resulting from this chapter and the findings of the financial management assessment of the FD in Chapter 6, a recommendation is made in respect of the cash transfer modality to be employed by the UN-REDD Programme in Zambia (in Chapter 8), with the concluding chapter of this report (Chapter 9) making recommendations for the necessary capacity strengthening, safeguards and implementing partner systems to be put in place to employ the proposed cash transfer modality in the FD.

7.2 Available Cash Transfer Modalities

Four cash transfer options are, generally, available to the UN Agencies[1]:

Modality	Obligation	Payment
1. **Direct cash transfers** to IPs, for obligations and expenditures to be made by them in support of activities agreed in annual work plans ("AWPs").	IP	IP
2. **Direct payments** to vendors and other third parties, for obligations incurred by the IPs in support of activities agreed in AWPs.	IP	Agency
3. **Reimbursement** to IPs for obligations made and expenditure incurred by them in support of activities agreed in AWPs.	IP	IP
4. **Direct agency implementation** through which an Agency makes obligations/incurs expenditure in support of activities in AWPs.	Agency	Agency

The procedures for transferring cash, including the periodicity of disbursements, reporting on cash utilisation, and maintaining assurance over the accuracy of the reports, are essentially the same for the four modalities. However, as each Agency may choose the most appropriate modality for specific programmes and IPs, the participating organisations in UN-REDD have adopted the following specific cash transfer modalities:

1. **FAO**: the FAO local office will transfer funds to the FD on a *reimbursement* basis. Funds will be managed according to FAO financial rules and regulations.

2. **UNDP**: funds will be transferred from the UNDP/BDP/EEG to the UNDP Country Office. Fund utilisation will be according to the UN HACT. The payment will take the form of *"direct cash transfer", "direct payment"* or *"reimbursement"*. Funds will be managed in accordance with UNDP financial rules and regulations.

[1] "Agencies" will be used to refer to the UNDP, UNEP and FAO, participating organisations in UN-REDD

3. **UNEP**: the Nairobi office shall manage its programme funds in accordance with UNEP's financial rules and regulations. Accountable advances will be transferred to the IP (FD) in following the designated modalities outlined in the agreements with UNEP.

It is desirable that the Agencies agree on a preferred common modality for an IP, as under the HACT system, whenever an IP receives cash transfers from more than one Agency, the Agencies should use the same cash transfer procedures and the IP should use the same standard format for requesting cash transfers and reporting on their use. This means that for the UN-REDD, the FD should use common forms and procedures for requesting cash from the participating UN Agencies and reporting on its utilisation, and the UN Agencies should select specific procedures for transferring cash on the basis of the joint assessment of the financial management capacity of the FD. They should also agree on and coordinate activities to maintain assurance over the utilisation of the provided cash. Nonetheless, the Agencies will continue to account for cash transfers in accordance with their established policies and procedures. The adoption of a harmonised approach, however, is contingent on completion of a financial management capacity assessment of the FD, during the Inception Phase, prior to which the NJP should follow the 'direct payments' modality.

7.3 Barriers and Risks

The following drawbacks of each cash transfer modality have been deduced by the consulting team on the basis of information gathered from desk reviews and interviews:

Agency	Preferred Method	Barriers and Risks
FAO	Reimbursement (per MOU)	✓ Because of funding problems, FD may not have the liquidity to meet programme obligations, affecting overall implementation. ✓ FD has history of failed linkages between expenditures and AWPs, rendering expenditure validity checks more difficult.
	Direct Payment (per interview findings)	Because of risks alluded to below in direct cash transfers, and given that FD might not have funds for the reimbursement system, referred to above, FAO officers interviewed during this study suggest the actual preferred method for FAO funding would be direct payments as under ILUA I and II and not the reimbursement method referred to in the UN REDD MOU.
UNDP	Direct Cash Transfer	✓ This has a high risk that monies will not be spent for the purpose intended (regardless of the perceived legitimacy of the ultimate use). ✓ Unless special project bank accounts opened, funds may be commingled with GRZ or other funds and accountability for the project funds may be problematic.
	Direct Payments	However, this is deemed bureaucratic due to delays arising from control activities performed prior to processing of requests for direct payments and transfer of advances.
	Reimbursement	✓ As per reimbursement method under FAO.
UNEP	Direct Cash Transfer	✓ As per Direct Cash Transfer method under UNDP.

7.4 Risk Grading and Possible Solutions for Each Modality

Practicality, risk grading and possible solutions for each transfer method are surmised below:

Modality	Preferred By	Practicality	Fiduciary Risk Grading	Possible Solutions under HACT
Direct Cash Transfer	UNDP UNEP	Assessments by the Finnish Consulting Group (2009) and Walis Chartered Accountants (2010) reveal serious financial management weaknesses on funds received from direct cash transfers. Consequently, there is a high probable risk that UN-REDD monies would face similar problems.	**High**	1. Create projectised structure for UN-REDD Programme, separate from functional structures of the FD 2. Recruit qualified and experienced accounting and internal audit staff for the programme 3. Train recruited programme staff in UN financial management procedures, especially *direct cash transfer* system 4. Acquire computerised accounting package for UN-REDD 5. Open special bank account exclusively for UN-REDD 6. Train programme accounting staff on linking budget to AWPs. 7. Train programme's accounting staff on HACT Approach and use of the FACE form 8. Undertake periodic spot checks on FD
Direct Payment	UNDP FAO	Because of bureaucracy arising from checks prior to processing of requests for direct payments and transfer of advances, there is a risk of programme implementation delays. However, this carries a low risk of monies being spent on non-programme activities.	**Low**	1. Train FD accounting staff in UN Financial Management Procedures, especially *direct payments* system 2. Train FD accounting staff on HACT Approach and use of FACE form
Reimbursement	FAO UNDP	Like many GRZ ministries the MTENR is short of funds. Poor liquidity or adverse prioritisation has reduced spending on key financial management and related units in the Ministry, resulting in reductions in non-salary funding across the board. This degree of poor liquidity heightens the risk of programme implementation failures under this method. However, this modality has a relatively lower risk of misapplication of funds than cash transfers.	**Relatively Low**	1. Train FD accounting staff in UN Financial Management Procedures, especially *reimbursement* system 2. Acquire automated accounting package for FD accounting for UN-REDD 3. Train FD staff on HACT Approach and use of FACE forms.

8 CONCLUSION AND RECOMMENDATIONS ON CASH TRANSFER METHOD

8.1 FD Risk Assessment Conclusions

The summary of risks related to the financial management capacity assessment of the FD is presented below:

Section	Rating	Comments
1. Implementing Partner	M	The overall risk with respect to the Implementing Partner has been classified as **Moderate** as the FD has an established working structure and has received UN resources in the past, and does undergo regular financial audits.
2. Funds Flow	S	Overall risk with respect to Funds Flow has been classified as **Significant** due to difficulties encountered in monitoring and tracking of counterpart funds, inadequate capacity to monitor implementation expenditures against work plans, and non-existence of policy or procedures to manage exposure to foreign currency exchange rate risks.
3. Staffing	S	Overall risk assessment for Staffing is regarded as **Significant** due to vacancies in the staff structure, inadequate qualifications of accounting staff, and limited exposure to UN procedures for FD accounting staff.
4. Accounting Policies and Procedures	H	Risk assessment on Accounting Policies and Procedures has been classified as **High**. This is in view of the weaknesses noted on funding accounting, inadequacy of cash and bank procedures, findings on asset safeguarding procedures, and weaknesses in payment processes and controls. Further, the accounting and reporting systems do not generate useful management information. Additionally, the weak accounting and reporting systems increase the risk of fraud going undetected, and being further obscured by systemic weaknesses.
5. Internal Audit	H	The overall risk assessment with regard to Internal Audit has been classified as **High**, due to the fact that none of the MTENR internal audit staff are fully qualified, work is not performed in accordance with relevant internal audit standards, and there are instances where the Internal Audit Unit is circumvented and the Unit does not audit all project related transactions.
6. External Audit	M	The risk assessment with regard to External Audit has been classified as **Moderate** at this point in time, as the FD has no major accountability issues.
7. Reporting and Monitoring	S	The risk assessment with respect to Reporting and Monitoring has been classified as **Significant**, due to the shortcomings of the FMS.
8. Information Systems	S	The risk assessment with respect to Information Systems has been classified as **Significant**, primarily because the information systems do not produce the necessary financial reports and staff is not fully trained on various aspects of the information systems.
Overall Risk Assessment	**S**	The overall risk assessment for the Financial Management Capacity of the Forestry Department is **Significant**. The weak financial management system creates a high fiduciary risk.

H – High **S – Significant** **M – Moderate** **L –Low**

8.2 Recommendations on Cash Transfer Method

On the basis of the capacity assessment, a risk profile of each cash transfer method as applying to the FD is given below. An adoption grading for each modality is then indicated:

Modality	Fiduciary Risks	Adoption Grading
Direct Cash Transfer	**High**	**3**
Direct Payment	**Low**	**1**
Reimbursement	**Relatively Low**	**2**
Direct Agency Implementation	**N/A**	**N/A**

Based on the overall **Significant** risk rating of the FD, and the fiduciary risk profile for each modality, we recommend the **Direct Payments Modality**, after which, should the financial management capacity of the FD be built up as recommended in Chapter 9 of this report, there should be a move to **Direct Cash Transfer Modality**, failure to which no change should occur.

8.3 Action Plan

Area	Action	Timing
Cash Transfer Modality to be Used	In the inception phase, and prior to building up of capacity of the FD, the UN Agencies should use the **Direct Payments Modality**.	Immediate
Annual Work Plan	To minimise risk of implementation delays, the UN Agencies should approve the initial Work plan as early as possible in 2011.	January/February 2011
Basis for Initial Disbursements	FD should submit a request to UN that they pay for initial expenditures planned for first quarter of 2011. The requests should detail both the activities to be carried out by FD, and the associated budgets to be funded by each Agency as detailed in the Work Plan.	January/February 2011
Periodicity of Disbursements	Whilst building capacity of the FD, direct payments for previously authorised activities should be made quarterly, based on a request signed by a designated official in the FD.	Quarterly
Reporting on Cash Utilisation	As a designated official in FD should authorise direct payments to vendors, the designated officials should be provided training in the use of the *Funding Authorisation and Certificate of Expenditures* (FACE) form, which simplifies the paperwork to authorise expenditure or transfer cash to IPs. Most importantly, the form is aligned with AWPs. The activities for which funds authorisation is requested, or for which expenditure is reported, should be the activities specified in the AWP	Immediate
Assurance over Accuracy of Reporting	The 3 UN Agencies should coordinate their assurance activities and should jointly: 1. Develop terms of reference for audits of the FD; 2. Commission audits for the FD; 3. Perform, after migration to Direct Cash Transfer, periodic assurance and spot-checks; and 4. Perform annual reviews of the AWPs.	Annually

9 RECOMMENDATIONS ON CAPACITY STRENGTHENING

9.1 Introduction

This Chapter discusses the capacity building ("CB") considerations for the FD as part of its implementation of the UN-REDD Programme. It is predicated on the FD working at building its financial management capacity to enable it **migrate** from the proposed Inception Period direct payments to direct cash transfers for the established Programme. To that end, CB recommendations have been placed into two sets:

1. Recommendations on initial set up of the financial management framework for the UN-REDD Programme; and

2. Recommendations on CB for the Programme, post establishment.

These recommendations are discussed in Section 9.2 and 9.3 respectively. However, recommendations made in either chapter take no account of any capacity building initiatives presently underway in the MTENR. This is because, as explained in 4(b) of Chapter 3 of this report i.e. Statement of Limitations, documentation on the capacity needs assessment and capacity building activities in the MTENR was not availed to the consulting team.

9.2 Financial Management Capacity Establishment

This section provides recommendations on establishment of proper accounting functions in the Programme. It should be used in conjunction with other CB initiatives discussed in Section 9.3 below, and alongside other initiatives being pursued by the FD/MTENR:

Component	Target Staff	Recommendation	Timeframe for Implementation	Monitoring Frequency
Programme Organisation	FD	To minimise fiduciary risks arising from financial management weaknesses noted in FD, a fully projectised structure separate from the functional systems and processes of the FD should be set up for UN-REDD Programme. This will require recruitment of programme management and staff, and establishment of sundry systems and procedures as discussed below. Alternatively, consideration can be given to the FAO proposal that the same programme staff on ILUA II is used on UN-REDD.	Immediate	Monthly
Accounting Functions	Accounting Staff Internal Audit Staff	Recommendation 1 above notwithstanding, the accounting system should as far as possible be operating from the Programme's start. In reality, however, it may take some weeks or a couple of months before the accounts section is in operation, and the required system is implemented. A manual cashbook should be used for recording expenses until the automated system is in place. When the computerised system is in place all transactions from the beginning of the Programme should be	Immediate	Monthly

Component	Target Staff	Recommendation	Timeframe for Implementation	Monitoring Frequency
		recorded in the system. It should be agreed with the UN Agencies that the first manual financial reports may cover more than one month, if necessary.		
Establishment of the Accounting Unit	Accounting Staff	The stakeholders should, at an early stage, prepare a plan for the detailed organisation of the accounts function and the establishment of the accounts system for the Programme. The main issues are:		
		1. **Organisation:** The organisation and staffing of the Programme's accounts section should be determined. It is, however, the task of the FD and/or programme management to design the detailed organisation. Attention should, inter alia, be given to: (a). How the accounts functions shall be organised; (b). What functions will be carried out; and (c). Where staff shall be placed, and to whom they will report.	1 Month	Monthly
		2. **Remote Locations:** If the Programme requires accounts staff in remote areas, considerations should also be given to issues related to available office facilities, communication and reporting to central management.		
		3. **Staffing:** On the basis of its matrix design, the FD should determine how the programme accounts functions will be staffed, from where staff will be available, and what training will be required. On top of training necessary to do the specified job a further training for capacity building should be included as explained in both this section and in 9.3 below.	1 Month	Monthly
Accounting system	Accounting Staff	The main issues to be resolved by programme management are:		
		1. **Choice of Technology:** Apart from during the commencement phase, a simple spreadsheet (e.g. Excel) must not be used as an alternative to an automated accounting package. A number of packages have been recommended for use by FD or MTENR including SAGE Pastel Evolution, Sun Accounting System or Epicor, etc. Presently, Accounts Unit in MTENR is installing Navision.	3 Months	Monthly

Component	Target Staff	Recommendation	Timeframe for Implementation	Monitoring Frequency
		Both Accounts Unit in MTENR and recruited programme accounting staff should be consulted on the selection of both hardware and software for the preferred automated project accounting system. It is recommended that the selection of accounting software is guided by availability and systems support locally. Whichever system is selected should be able to counter the following risks identified during our assessment: (a). *Reporting capability*: The accounting system should provide the programme management with the necessary financial information required to ensure efficient programme implementation. It should also provide for accurate and timely financial reporting to the UN Agencies and to the government according to prevailing rules and agreements. (b). *Control:* The accounting system should provide for efficient control and monitoring of the use of funds and other assets made available for the Programme.		
		2. **Chart of Accounts**: The Programme should prepare a chart of accounts, which can fulfill the needs of the Programme and its stakeholders: (a). *Control:* Control of funds is essential. Management information and the possibility of monitoring the Programme's use of funds are equally important. The chart of accounts should be designed such that accounting information supports monitoring and control of programme funds. (b). *Monitoring:* The chart of accounts must allow for monitoring according to activities in the AWPs and budget, and must enable reporting to the Agencies according to the budget lines and in line with the AWPs. When setting up the accounts system and designing the chart of accounts it is necessary to have a clear picture of how the Programme management shall take place. The need to monitor the activities and output of the Programme against the financial input must be considered when preparing this chart of accounts.	3 Months	Monthly

Component	Target Staff	Recommendation	Timeframe for Implementation	Monitoring Frequency
		3. **Installation of the system**: This activity should include installation of hardware and software, installation of the chart of accounts, entry of budget figures, and, in the case of expenses initially captured in manual cashbooks, entry of opening balances.	3 Months	Monthly
Accounting Manual	Accounting Staff Internal Audit Staff	1. The Programme should develop an accounting manual customised for the Programme as was the case on ILUA I. The manual should give an explicit description of the Programme's accounting procedures and of the organisation of the accounting function and the accounting system and related systems. It should stress programme management's responsibility to maintain a sound record-keeping system, and to control the use of funds in relation to achievement of objectives. The manual should be prepared at the outset of the Programme. 2. The manual should serve as a reference guide for programme management and staff, auditors, and UN representatives and should cover specific procedures including: (a). *Flow of funds*: The flow of funds from the Agencies to the Programme and how funds from each Agency will be tracked and monitored. (b). *Disbursement of funds*. *(c). Cash Transfer Procedures* (d). *Accounting Standards*. *(e). UN Reporting Requirements* (f). *Entry of data from remote locations* (g). *The relations to FD and MTENR accounting system*: A description of the relations between the Programme's accounts and the FD/MTENR's accounts.	3 Month	Monthly

Component	Target Staff	Recommendation	Timeframe for Implementation	Monitoring Frequency
		(h). *Reviews:* During the implementation of the Programme the manual should be reviewed and updated at least once a year following the annual audit incorporating the auditor's recommendations regarding accounting and control procedures. An updated version should be forwarded to all holders of the manual, including UN and the auditors. (i). *External Audits* and how they will be managed through the NJP.		
Fixed Assets and Assets Register	Accounting Staff Internal Audit Staff	1. From findings in Section 6.4.12 of this report, the Programme should maintain a register of fixed assets where the individual items are registered with a reference to item number, location, date of purchase, invoice number and value. The individual item should be numbered so that it is easy to identify. 2. The assets register should refer to specific accounts in the Programme's books, so that it is possible to reconcile the accounts with the assets register.	3 Months	Monthly
Rates of Exchange	Accounting Staff	The Programme should develop procedures for management of foreign currency exchange risks. The procedures for managing this risk should be enshrined in the accounting manual.	3 Months	Monthly
Internal Audit	Internal Audit Staff	Depending on the degree of administrative complexity, the Programme may have to establish an internal audit function. The role and procedures of the function should be agreed between FD and the UN Agencies and described in the manual. The goal will be to ensure that, unlike is presently the case where internal audit in MTENR does not perform audits of projects, there is scope for internal audit review of the activities and operations of the UN-REDD Programme.	4 Months	Monthly
Monitoring System	Programme Managers Accounts Staff	When designing the chart of accounts the management must consider how it is going to monitor programme achievement in relation to plans and in relation to funds spent. The interface between the accounts system and the monitoring system should be described as should be the relationship to the quarterly progress reports.	6 Months	Monthly

9.3 Capacity Building Initiatives

Capacity building ("CB") for UN-REDD Programme staff and/or the accounting section of the FD will be central to effective and efficient functioning of the UN REDD Programme. This CB will need to be continuous and customised to the needs of the Programme and cover areas such as CB of accounting and internal audit staff, fund flow arrangements, accounting systems, financial reporting, audit and procurement. Continuous CB will be necessary to equip accounts and internal audit staff with sufficient knowledge of the area of their work. This would enable the staff to carry out the work more efficiently and systematically.

The Programme should aim for at least a minimum 5 days mandatory training, and should nonetheless be given for all programme recruits as well as any seconded from the FD. Programme management as well as the UN Agencies will need to determine sufficiency of the budget provision made in each year's budget for CB. The proposed contents of the CB are presented below, with recommendations on initiatives and timing thereof.

Capacity Issue	Target Group	Content	Initiative	Timeframe
Capacity Building of Accounts and Audit Staff	✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	✓ Staffing and qualifications of Accounts and Internal Audit ✓ Staff structure in accounts and internal audit ✓ Applicable framework for conduct of work	Engagement of independent consultant to generate capacity building materials	Immediate
Funds Flow Arrangements	✓ Programme Management ✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	✓ Funds flow from UN Agencies ✓ HACT Procedures ✓ FACE Forms ✓ Opening of bank accounts ✓ Exchange Rate Risk Management	Training/Workshop facilitated by UNDP resource persons	3 Months
Budgeting	✓ Accounts Staff	✓ Preparation of annual work plan and budget ✓ Progress reviews and reports ✓ Review of AWPs	Training/Workshop facilitated by UN resource persons	3 Months
Accounting System	✓ Accounts Staff	✓ Programme Chart of Accounts ✓ Accounting Manual ✓ Accounting package	Engagement of independent consultant to establish accounting system	3 Months
Accounting Procedures	✓ Accounts Staff	✓ IPSAs, IFRSs and other applicable standards ✓ Double entry method ✓ Maintenance of general and subsidiary ledgers ✓ Maintenance of asset registers ✓ Maintenance of cash books ✓ Bank reconciliation statements	Training facilitated by public accounting firm	3 Months

Capacity Issue	Target Group	Content	Initiative	Timeframe
Financial Reporting	✓ Accounts	✓ Requirements of the 3 UN Agencies ✓ Preparation of quarterly CDRs/financial reports ✓ Quarterly progress statements ✓ Annual Financial Reports	Training/Workshop facilitated by UNDP resource persons	3 Months
Internal Control	✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	✓ Segregation of duties ✓ Safeguards on assets ✓ Expenditure controls ✓ Controls on amounts and norms of staff advances	Training facilitated by public accounting firm	3 Months
Monitoring	✓ Accounts Staff	✓ Financial review and monitoring by UN	Training/Workshop facilitated by UNDP resource persons	3 Months
Internal Audit	✓ Programme Management ✓ Internal Audit(for the Programme and/or MTENR)	✓ Arrangement for internal audit ✓ Scope and coverage of internal audit ✓ Standards and Framework ✓ Reports and Follow up action on audit observations	Training facilitated by public accounting firm	3 Months
External Audits	✓ Programme Management ✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	Role of UN Agencies in: ✓ Selection of audit firms ✓ Scope of audit ✓ Audit calendar ✓ Submissions of audit reports to UN Agencies	Training/Workshop facilitated by UNDP resource persons	6 Months
Procurement Procedure	✓ Programme Management ✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	✓ Levels of procurement ✓ Preparation of procurement plan ✓ Procurement procedures	Training/Workshop facilitated by selected resource persons	3 Months
Information Systems	✓ Programme Management ✓ Accounts Staff ✓ Internal Audit (for the Programme and/or MTENR)	✓ Backing up ✓ Technical Support	Engagement of independent consultant for procedures on LAN management, backing up and support requirements.	4 Months

10 APPENDICES

APPENDIX-COMPLETED FINANCIAL MANAGEMENT CHECKLIST B

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
1. IMPLEMENTING PARTNER					
1.1 Is the IP legally registered? Please note the legal status/registration of the entity.	√				6.1.1
1.2 Has the implementing partner received UN resources in the past?	√				6.1.2
1.3 Does the IP have statutory reporting requirements? Please describe.	√				6.1.3
1.4 Is the governing body for the implementing partner independent?		√			6.1.4
1.5 Is the organisational structure appropriate for the work to be carried out under UN cooperation?	√				6.1.5
Risk Assessment (Implementing Partner)	**H**	**S**	**M**	**L**	**Circle assessed risk for Subject Area 1**
2. FUNDS FLOW					
2.1 Can the entity receive and transfer funds?	√				6.2.1 and 6.2.2
2.2 Are the arrangements to transfer the funds to the entity satisfactory?		√			6.2.3.
2.3 Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from the Government?	√				6.2.1
2.4 In the past, has the entity had any problems in the management of disbursements from a member of the UN country team?	√				6.2.2
2.5 Does the entity have/need a capacity to manage foreign exchange risks?		√			6.2.4
2.6 How are counterpart funds accessed?				√	6.2.4
2.7 How are payments made from counterpart funds?				√	6.2.4
2.8 If some activities will be implemented by communities or NGOs, does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?		√			6.2.3
Risk Assessment (Funds Flow)	**H**	**S**	***M***	***L***	**Circle assessed risk for Subject Area 2**
3. STAFFING					
3.1 Is the organisational structure of the accounting department appropriate for the level of financial volume? Attach an organisation chart.					

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
3.2 Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	√				6.3.1, 6.3.2
3.3 Is the implementing partner finance and accounts function staffed adequately?		√			6.3.3
3.4 Are finance and accounts staff adequately qualified and experienced?		√			6.3.1, 6.3.2
3.5 Are accounts and finance staff familiar with UN procedures related to cash transfers?		√			6.3.4
3.6 What is the duration of the contract of finance and accounts staff?					6.3.1
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.					6.3.1
3.8 Is staff frequently transferred? At what frequency?		√			6.3.1
3.9 Is there a training policy for the finance and accounting staff? Please describe.		√			6.3.5
Risk Assessment (Staffing)	**H**	**S**	**M**	**L**	**Circle assessed risk for Subject Area 3**
4. ACCOUNTING POLICIES AND PROCEDURES					
4.1 Does the entity have an accounting system that allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?		√			6.4.2, 6.4.3, 6.4.4
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	√				6.4.9
4.3 Is chart of accounts adequate to properly account for and report on activities and disbursement categories?		√			6.4.1
4.4 Are cost allocations to various funding sources made accurately in accordance with established agreements?		√			6.4.6
4.5 Are the general ledger and subsidiary ledgers reconciled and in balance?		√			6.4.5
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorised users easy access?		√			6.4.5
Segregation of Duties					
4.7 Are the following functional responsibilities performed by different units or persons: (a) authorisation to execute a transaction; (b) recording of the transaction; and (c) Custody of assets involved in the transaction?	√				6.4.7
4.8 Are functions of ordering, receiving, accounting, paying for goods and services appropriately segregated?		√			6.4.7

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	√				6.4.11
Budgeting System					
4.10 Do the budgets lay down physical and financial targets?	√				6.4.8
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?		√			6.4.8
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?		√			6.4.8
4.13 Are approvals from variations from the budget required in advance or after the fact?		√			6.4.8
4.14 Who is responsible for preparation and approval of budgets?					6.4.8
4.15 Are procedures in place to plan activities, collect information from the units in charge of the different components, and prepare the budgets?		√			6.4.8
4.16 Are the plans and budgets of activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	√				6.4.8
Payments					
4.17 Do invoice processing procedures provide for: (a) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (b) Comparison of invoice quantities, prices, and terms with those indicated on the purchase order and with records of goods actually received? (c) Comparison of invoice quantities with those indicated on the receiving reports? (d) Checking the accuracy of calculations?		√			6.4.9
4.18 Are all invoices stamped *PAID*, dated, reviewed and approved, and clearly marked for account code assignment?		√			6.4.9
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorised?	√				6.4.9
Policies And Procedures					
4.20 Describe the basis of accounting (e.g., cash, accrual)?					6.4.10
4.21 Are internationally accepted accounting standards followed? If so, which standard?		√			6.4.10
4.22 Does the entity have an adequate policies and procedures manual to guide activities and ensure staff accountability?		√			6.4.10

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
4.23 Do procedures exist to ensure that only authorised persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?		√			6.4.10
4.24 Are there written policies and procedures covering all routine financial management and related administrative activities? Are these accessible?		√			6.4.10
4.25 Do policies and procedures clearly define *conflict of interest* and *related party transactions* (real and apparent) and provide safeguards to protect the organisation from them?		√			6.4.10
4.26 Are manuals distributed to appropriate personnel?		√			6.4.10
Cash and Bank					
4.27 Indicate in remarks/comments section the names and positions of authorised signatories on the bank accounts.					6.4.11
4.28 Does the implementing partner maintain an adequate, up-to-date cashbook, recording receipts and payments?	√				6.4.11
4.29 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?		√			6.4.11
4.30 Are bank and cash reconciled on a monthly basis?	√				6.4.11
4.31 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?		√			6.4.11
4.32 Are receipts deposited on a timely basis?	√				6.4.11
Safeguard Over Assets					
4.33 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?		√			6.4.12
4.34 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?		√			6.4.12
4.35 Are there periodic physical inventories of fixed assets and stocks?		√			6.4.12
4.36 Are assets sufficiently covered by insurance policies?		√			6.4.12
Other Offices or entities					
4.37 Are there any other regional offices participating in implementation?			√		6.4.13
4.38 Has the IP established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities? Please describe approval process.	√				6.4.13
4.39 Does information among the different offices/Agencies flow in an accurate and timely fashion?	√				6.4.13
4.40 Are periodic reconciliations performed among the different offices/Agencies?		√			6.4.13

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
Other					
4.41 Has the implementing partner advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of Agency resources or property?				√	N/A
Risk Assessment (Accounting Policies and Procedures)	H	S	M	L	Circle assessed risk for Subject Area 4
5. INTERNAL AUDIT					
5.1 Is there an internal audit department in the entity?	√				6.5.1
5.2 What are the qualifications and experience of audit department staff?					6.5.2
5.3 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?		√			6.5.3
5.4 Will the internal audit department include the activities financed by the Agencies in its work program?		√			6.5.4
5.5 Are actions taken on the internal audit findings?	√				6.5.4
Risk Assessment (Internal Audit)	H	S	M	L	Circle assessed risk for Subject Area 5
6. EXTERNAL AUDIT					
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	√				6.6.1
6.2 Are there any delays in audit of the entity? When are the audit reports issued?		√			6.6.3
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	√				6.6.2
6.4 Were there any major project accountability issues brought out in the last audit report?		√			6.6.3
6.5 Will the entity auditor audit the AWP accounts or will a separate auditor be appointed to audit the AWP financial statements?			√		N/A
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?			√		N/A
6.7 Has the implementing partner prepared audit plans?			√		N/A
Risk Assessment (External Audit)	H	S	M	L	Circle assessed risk for Subject Area 6

SUBJECT AREA	YES	NO	N/A	REVIEW	REMARKS
7. REPORTING AND MONITORING					
7.1 Are financial statements prepared for the entity?		√			6.7.1
7.2 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?			√		6.7.1, 6.7.2
7.3 Does the reporting system need to be adapted to report on the AWP related expenditure?	√				6.7.3
7.4 Does the reporting system have the capacity to link the financial information with the AWP's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?		√			6.7.3
7.5 Does the Implementing Partner have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?		√			6.7.3
7.6 Are financial management reports used by management?		√			6.7.3
7.7 Do financial reports compare actual expenditures with budgeted and programmed allocations?		√			6.7.3
7.8 Are financial reports prepared directly by the automated accounting system or are they or are they prepared by some other means?		√			6.7.3
Risk Assessment (Monitoring and Reporting)	**H**	**S**	**M**	**L**	**Circle assessed risk for Subject Area 7**
8. INFORMATION SYSTEMS					
8.1 Is the financial management system computerised?		√			6.8.1
8.2 Can the system produce the necessary financial reports?		√			6.8.1
8.3 Is staff adequately trained to maintain system?		√			6.8.1
8.4 Does the management organisation and processing system safeguard the confidentiality, integrity, and availability of the data?	√				6.8.1
Risk Assessment (Information Systems)	**H**	**S**	**M**	**L**	**Circle assessed risk for Subject Area 8**