Direct Payments

1. The direct payment modality is possible only where the office has carried out the HACT micro-assessment of the implementing partner’s financial management capacity, including accounting, procurement, reporting and internal controls, and determined that standards are sufficient for project implementation and do not contradict those of UNDP.

2. Direct payments should not be confused with UNDP support services to national implementation. In both cases, payments are made from the UNDP bank account. But with direct payments, the government assumes responsibility for the contracting process, performs recruitment or procurement, and signs the contract according to its own rules and regulations. With UNDP support services, UNDP assumes responsibility for the contracting process according to its rules and regulations.

3. UNDP should not be considered a mere ‘administrator’ of funds of nationally implemented projects. Support services should assist the government in achieving clear development goals and foster capacities in national institutions.

4. For direct payments, expenses are recognized when reported to UNDP on the FACE forms, after delivery of goods or services.

5. Refer to sections on POs/Commitments, Accounts Payable and Disbursing Funds in the POPP chapter on Expense Management. Also see the UNDP internal control framework – Transactions at the request of an Implementing Partner (government or NGO).

Responsibility

6. Under the direct payment modality, the implementing partner is solely responsible for procurement; there cannot be mutual accountability. In conducting its micro-assessment and other assurance activities, UNDP should ensure it has reasonable confidence that the implementing partner is conducting procurement to standards compatible with its own. Should that not be the case, the payment modality and status of the implementing partner should be reviewed to better manage the level of risk. Another payment modality could be selected, or UNDP may decide to discontinue work with the implementing partner. The implementing partner’s technical, managerial, administrative and financial capacities should be reassessed throughout the life of the project, preferably on an annual basis.

7. If the programme officer considers a greater level of oversight is necessary, and wishes to monitor project activities on a transactional basis, she/he should request the implementing partner to provide back-up documentation (i.e., copies of invoices, purchase orders, quotations and goods received notes) with the FACE form. In addition, documentation may be used to develop capacity by giving the implementing partner advice on how it might improve its procurement practice. Nevertheless, care should be taken to ensure there is no confusion on where responsibility for procurement lies, i.e., with the implementing partner and not with UNDP.

8. UNDP has a responsibility to accept appropriate requests for direct payments consistent with the annual work plan and UNDP’s Financial Rules and Regulations, and to reject improper requests. If new information questions the appropriateness of direct payments already made, these should be rejected at any point up to the issuance and signature of the final Combined Delivery Report.

9. Improper payments may occur when:
• Payment is not consistent with the annual work plan or project budget, or is not within available funding ceilings
• Requested documentation is missing
• Inconsistencies exist with regards to the vendor or implementing partner approval
• There are irregularities in the procurement practice
• Funds go to the wrong recipient
• The right recipient receives the incorrect amount of funds (including overpayments and underpayments)
• Additional documentation is made available that would lead to UNDP questioning the appropriateness of the payment
• The recipient uses funds in an improper manner
• Funds are not directed towards the attainment of expected project outputs, and are absorbed by the implementing partner

10. UNDP identifies improper payments through the review and approval of the FACE forms submitted by implementing partners, as well as ongoing project monitoring and assurance exercises.
Improper payments may result from a lack of documentation, verification or administrative errors, and do not necessarily indicate fraud or other improper practices. If administrative issues are subsequently rectified, rejected payments may be later accepted by the programme officer.
Here the implementing partner cannot absorb direct payments subsequently rejected by UNDP, the latter should exercise due diligence and pursue all avenues to ensure it does not assume financial liability. If the case cannot be favorably resolved and the contentious amount is deemed irrecoverable, the office should fully document all action taken, including description, causes and responsibility of staff or others. It should obtain senior manager approval, and contact the OFRM Client Support Team for further guidance.

11. UNDP offices are responsible for regular project monitoring and assurance activities, including periodic monitoring visits and ‘spot checks’ of expenses and results achieved, to ensure prompt detection of any deviations from the project work plan and budget (refer to POPP chapter Implementing a Project). Ongoing monitoring and assurance actions must encompass operational and financial considerations, as well as programmatic ones.

12. UNDP policy requires each programme activity to be audited “at least once in its lifetime.” A newer requirement is that a project be audited once in its lifecycle in the year following cumulative expenses reaching or exceeding $300,000. This criterion does not apply in the first year of activities. The audit becomes due in the following year when the cumulative expenditure has reached or exceeded the threshold.

13. The programme officer has an obligation to review national implementation audit reports and ensure that the implementing partner takes corrective actions to address audit recommendations, particularly in cases where qualified audit opinions are issued by the auditors.

Exclusion of UNDP Letterheads or Reference in a Contract

14. Under the direct payment modality, implementing partners cannot use UNDP letterheads in procurement or recruitment processes. Any form of co-signing of contracts by UNDP and the
partner is prohibited. Implementing partners cannot refer to UNDP as a party in the contract or purchase order.

Roles and Responsibilities

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<thead>
<tr>
<th>Responsible party</th>
<th>Responsibilities</th>
<th>Remarks</th>
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| Implementing partner project director | Financial regulation 27.01: “…full responsibility and accountability for the effective use of UNDP resources and the delivery of outputs…” See overview section POPP NIM Finances & NGO Implementation Finances  
Raise and submit FACE forms that are consistent with annual work plan.  
Maintain full and proper accounting records, including original copies of all supporting documentation for commitments and expenses. Keep available for audit on request. | Internal control—first approval |
| Programme officer | Review signature on FACE form for conformity with record on file.  
Compare form to available budget/annual work plan to ensure correctness and consistency.  
Raise AP voucher or reject payment request. | Internal control—first approval |
| Approving manager | Review AP voucher and supporting FACE form for consistency and proper authorization.  
Consider any other knowledge that should prevent payment by UNDP. | Internal control—second approval |
| Operations manager/finance officer | Disburse funds. | Internal control—third approval |