UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

SWAZILAND

Report No. 1770

Issue Date: 24 May 2017

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Report on the Audit of UNDP Swaziland
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Swaziland (the Office) from 27 March to 7 April 2017. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a)   governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b)   programme (quality assurance process, programme/project design and implementation, knowledge management);

(c)   operations (financial resources management, ICT and general administrative management, procurement and human resources management); and

(d)   United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 31 January 2017. The Office recorded programme and management expenditures of approximately $4.1 million. The last audit of the Office was conducted by OAI in 2009.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed** which means, "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity." This rating was mainly due to lack of programme monitoring, Direct Project Costing (DPC) that was not properly implemented, and poor vendor management.

Key recommendations: Total = **6**, high priority = **3**

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1, 2, 4	High
	5	Medium
Safeguarding of assets	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	6	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Lack of programme monitoring (Issue 1)	There was no evidence of programme monitoring. The oversight committee that was to be established for the current programme cycle to monitor programme delivery at the outcome level was yet to be established at the time of the audit fieldwork. In addition, the results focus groups tasked with monitoring development results were not operational. Recommendation: The Office should ensure that there is regular monitoring at the outcome level, the results of which will feed into the annual United Nations Development Assistance Framework review.
Direct Project Costing not properly implemented (Issue 2)	The Office started the implementation of DPC in 2015. The Office did not systematically pre-determine eligible projects for the implementation of DPC. The percentage charges applied were not based on workload studies but by budgeting and charging a portion of six staff members' salary costs to four development projects without justification. As an illustration of this practice, for five staff members, the Office budgeted and charged 25 percent of their salaries as direct project costs to projects, while for one staff member the Office budgeted and charged 50 percent of the staff member's salary. There was no justification provided for this methodology. Recommendation: The Office should complete a workload study to determine, more accurately, staff costs that are directly attributable to the projects and include them in project budgets.
Poor vendor management (Issue 4)	The Office had 788 active vendors in Atlas (enterprise resource planning system of UNDP), 164 of which (21 percent of total vendors) had not been used within the last three years. The review of the total population flagged 18 vendors with numerous exceptions, such as vendors with multiple names, one bank account under different locations, incomplete vendor request forms, uncertified copies of letters from banks, as well as lack of identity documentation. This situation was due to the fact that staff were not fully aware of the policies and procedures regarding vendor management. Recommendation: The Office should strengthen vendor management procedures by: (a) reviewing and updating the vendor database; (b) authenticating the vendor prior to creating a vendor account in Atlas; and (c) ensuring that staff members responsible for creating and approving vendors are familiar with organizational vendor management controls and guidelines.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Mbabane, Swaziland (the Country) had a total staff complement of 17 members at the time of the audit. The main programme focus for the current programme cycle that ends in 2020 is sustainable and inclusive growth and development, good governance and sound economic management, and climate change. The Country was ranked as a lower middle-income country with limited donor activity.

II.   Audit results

Satisfactory performance was noted in the following areas:

    (a) <u>Governance/Corporate external relations and partnership.</u> There was an adequate system in place to track donor contributions and pipeline initiatives. No audit issues were recorded in this area.

    (b) <u>Programme/Quality assurance process.</u> Programme planning and activities were found to be well coordinated. No audit issues were recorded in this area.

OAI made three recommendations ranked high (critical) and three recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:
    (a) Ensure that there is regular monitoring at the outcome level (Recommendation 1).
    (b) Complete a workload study to determine, more accurately, staff costs that are directly attributable to the projects and include them in project budgets (Recommendation 2).
    (c) Strengthen vendor management procedures (Recommendation 4).

Medium priority recommendations, arranged according to significance:
    (a) Strengthen controls over inventory and assets (Recommendation 3).
    (b) Strengthen procurement processes (Recommendation 5).
    (c) Implement the Harmonized Approach to Cash Transfers (Recommendation 6).

The detailed assessment is presented below, per audit area:

A.   Programme

1.   Programme/Project Design and Implementation

Issue 1　　　　<u>Lack of programme monitoring</u>

The 'UNDP Programme and Operations Policies and Procedures' state that monitoring is a continuous management function that provides decision makers with regular feedback on the consistency or discrepancy between planned and actual results and implementation performance. All UNDP programming activities are required to adhere to monitoring standards.

There was no evidence of programme monitoring at the outcome level. The current country programme, which started in 2016 and ends in 2020, detailed an oversight committee to be established to monitor programme

delivery at the outcome level. This committee was supposed to meet quarterly, chaired by an elected representative from the national counterpart with representation from selected government ministries, non-governmental organizations and the private sector. At the time of the audit mission in March 2017, the committee was yet to be established, although the terms of reference had been developed. At the same time, the UN Country Team, as part of the joint monitoring initiative, had established results focus groups for each of the three development pillars. These results focus groups were also scheduled to meet on a quarterly basis and were co-chaired by a head of agency and a principal secretary from the Government. The review of the meeting minutes for the two development pillars (poverty and inequality reduction and good governance and accountability) showed that the results groups were not meeting consistently and had yet to start monitoring programme results for the current programme cycle.

Subsequent to the audit mission, the Oversight Committee, chaired by the responsible ministry, met on 20 April and was scheduled to meet twice a year to ensure regular monitoring of the Country Programme Document results.

Inadequate programme monitoring may lead to issues and bottlenecks not being identified and resolved in a timely manner. The establishment of two monitoring bodies to perform similar tasks may lead to duplication of activities. This situation may result in development objectives not being achieved.

Priority	High (Critical)
Recommendation 1: The Office should ensure that there is regular monitoring at the outcome level, the results of which will feed into the annual United Nations Development Assistance Framework review.	
Management action plan: The UN Country Team has adopted a 'Delivering as One' (DaO) approach using joint annual work plans and integrated monitoring and evaluation mechanisms at the results group level. These structures have the potential to replace the agency-specific monitoring and evaluation structures once the fine-tuning is completed in 2017. The Office will then replace its current mechanisms with the monitoring structures of the United Nations Development Assistance Framework. **Estimated completion date:** January 2018	

B. Operations

1. Financial Resources Management

Issue 2 Direct Project Costing not properly implemented

The UNDP Direct Project Costing (DPC) policy requires that organizational costs incurred in the implementation of projects and attributable to the projects, should be included in the project budget and charged directly to the project. The 'UNDP Programme and Operations Policies and Procedures' recommend a workload study as one of the options of determining staff costs that can be directly attributed to projects.

The Office started the implementation of DPC in 2015. The Office did not systematically pre-determine eligible projects for the implementation of DPC. The percentage charges applied were not based on workload studies but by budgeting and charging a portion of six staff members' salary costs to four selected development projects without justification. As an illustration of this practice, for five staff members, the Office budgeted and charged 25 percent of their salaries as direct project costs to projects, while for one staff member the Office budgeted and charged 50 percent of the staff member's salary. The total direct project costs charged to projects in 2015 were $172,154 (20.4 percent of the total respective projects' budgets) and in 2016 was $103,732 (13.9 percent of the total respective projects' budgets).

The Office's management could not explain how the four projects used for DPC implementation were identified and acknowledged that these projects were not systematically selected.

Project costs may be overstated if staff salaries are charged to projects without properly determining the eligible projects and the workload attributable to them.

Priority	High (Critical)
Recommendation 2: The Office should complete a workload study to determine, more accurately, staff costs that are directly attributable to the projects and include them in project budgets.	
Management action plan: The workload survey has been initiated for completion by mid-May 2017. Once completed, DPC charges will be adjusted to reflect the results of the workload survey. **Estimated completion date:** June 2017	

2. ICT and General Administrative Management

Issue 3 Weak asset and inventory controls

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish control procedures to safeguard assets. Non-capital assets and inventory items are to be identified and recorded to facilitate identification and tracking of these non-capital assets and inventory items.

Procedures for recording assets were weak. In 2016, the Office purchased various pieces of ICT equipment of approximately $48,000. The equipment was not recorded in the Office's asset or inventory registers or stored separately for safe keeping before distribution. At the time of audit in March 2017, some of the equipment had already been distributed to staff members with no details regarding the type of equipment each staff member had been allocated or the location of these assets. Among these were two routers with a total value of $5,040 allocated to and installed in the staff members' private residences as part of the Business Continuity Plan. These assets were capital assets but were not identified as such and therefore were not recorded in the 2016 asset In-Service Report. One of the vehicles also purchased in 2016 had been recorded in the asset In-Service Report with a wrong identification number.

The inventory and non-capital assets register was not regularly updated:

- Four items of inventory that were selected from the Office floor could not be traced back to the inventory register.

- 61 non-capital items out of 159 recorded in the inventory register did not show tag numbers and therefore could not be physically verified. The inventory listing prepared by the Office did not provide details of acquisition costs, and therefore auditors were not able to determine the value of these non-capital items.

- Serial numbers, acquisition costs and dates were not included in 50 ICT and other electronic equipment items that were recorded in the inventory register.

Weak asset management procedures may result in the loss of assets.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen controls over inventory and assets by: (a) conducting a full asset and inventory verification exercise and updating the inventory register by entering the missing details, such as serial numbers for equipment and tag numbers; (b) recording and keeping received assets in a separate and safe space/location before being distributed to users; and (c) requesting the Global Shared Services Centre to capitalize the two routers that were purchased in 2016.	
Management action plan: The Office will: (a) conduct a full asset and inventory verification exercise to establish the existence, location of assets, acquisition price and date and update the asset In-Service Report and inventory register respectively; (b) ensure that when receiving new items of equipment, inventory and/or assets, the items are recorded and kept in a segregated and safe space/location before being distributed to users; and (c) request the Global Shared Services Centre to capitalize the two routers that were purchased in 2016. **Estimated completion date:** May 2017	

3. Procurement

Issue 4   Poor vendor management

The UNDP Internal Control Framework requires a vendor approver to ensure that the vendor is authentic. This entails the verification of a *bona fide* business relationship between the office and the vendor, vendor banking information, and/or proof of identity. The 'UNDP Programme and Operations Policies and Procedures' require vendors that have not been used for more than three years to be deactivated in Atlas.

The Office had 788 active vendors in Atlas, 164 of which (21 percent of total vendors) had not been used within the last three years.

A data analytics review through Atlas flagged 18 vendors with the following exceptions:

- Nine vendors were created with multiple names each.
- Three vendors had one banking account that was listed under different locations (i.e., one vendor had four different locations, one had three locations and the third had two different banking locations).
- Four vendors had not completed vendor request forms.
- Two vendors had uncertified copies from their banks instead of original letters.
- Eight vendors had completed the vendor request forms without any proof of banking data, or identification. None of these vendor request forms had the details of the staff member who had created the vendor, and none of the forms was signed by the vendor approver.

The responsible staff members were not adequately familiar with the vendor management controls in the Internal Control Framework and the 'UNDP Programme and Operations Policies and Procedures'.

Inadequate vendor management controls may expose the Office to fraudulent activity.

Priority	High (Critical)
Recommendation 4: The Office should strengthen vendor management procedures by: (a) reviewing and updating the vendor database; (b) authenticating the vendor prior to creating a vendor account in Atlas; and (c) ensuring that staff members responsible for creating and approving vendors are familiar with organizational vendor management controls and guidelines.	
Management action plan: The vendor management guidelines were shared with relevant staff and a checklist for vendor creation and approval has been created to be completed before the vendor approval to ensure that all supporting documents are in place. The vendor database is currently under review. **Estimated completion date:** June 2017	
OAI Response OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 5 Purchase order controls not adhered to

Procurement guidelines in the 'UNDP Programme and Operations Policies and Procedures' recommend that every procurement process begin with an e-requisition with clear specifications and quantities substantiated with the justification and need. The 'UNDP Programme and Operations Policies and Procedures' mandate all buyers to complete at least level 1 procurement certification.

Out of a sample of 29 purchase orders (with a value of approximately $420,000 representing 28 percent of the total value of all purchase orders processed during the period from 1 January 2016 to 31 January 2017), the following were noted:

(a)   Six purchase orders of $75,645 did not have clear specifications.
(b)   One purchase order of $9,455 was a direct procurement with no justification or waiver.
(c)   Six purchase orders of $110,480 were cases where procurement processes were completed outside of Atlas and a requisition and purchase order were created after the procurement process just to facilitate payment.
(d)   Two purchase orders of $41,520 were cases where procurement was completed by the implementing partner and the Office was requested to facilitate payment. In both cases, there was no supporting documentation indicating which project activities were being implemented.
(e)   Two purchase orders of $7,040 related to travel transactions and had an incorrect calculation of the Daily Subsistence Allowance, which resulted in an overpayment of $1,100.

The Office had two buyers, out of which only one had completed level 1 procurement certification.

Weak procurement controls affect the integrity of the procurement process and may result in the Office not obtaining the best value for money.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen procurement by: (a) ensuring that all procurement processes are initiated by creating an e-requisition with clear specifications and quantities; (b) recovering the overpayment of $1,100 from the respective travellers; and (c) developing the capacity of buyers and staff involved in procurement processing by encouraging all staff involved to take procurement courses.	
Management action plan: (a) The Office has developed a checklist to ensure that all procurement processes are initiated by creating an e-requisition with clear specifications and quantities. The staff involved in this process have been advised accordingly. The SOPs have been updated to include the checklist to be filled for purchase order creation. (b) The Office will ensure that calculation for Daily Subsistence Allowance is done correctly and recovery of the overpayment is underway. (c) The Office has encouraged all buyers and staff involved in procurement to undertake and complete the procurement certification level 1. The process has started and all relevant staff will be certified by 31 July	

| 2017. |
| **Estimated completion date:** June 2017 |

| **OAI Response** |
| OAI acknowledges the action taken by management; this will be reviewed at a later stage as part of the standard desk follow-up process of OAI. |

C. United Nations Leadership and Coordination

Issue 6   Inadequate implementation of Harmonized Approach to Cash Transfers

Harmonized Approach to Cash Transfers (HACT) is applicable in all situations where cash is transferred by a United Nations agency to an implementing partner or on behalf of an implementing partner. HACT was made mandatory in February 2015. HACT guidelines stipulate that a macro-assessment and micro-assessment of implementing partners common to UN agencies needs to be completed at the beginning of each country programme. In the absence of a micro-assessment, the use of the cash transfer modality should take into account the high risks until such a time when the micro-assessment is completed.

The Office's status was listed as "not completed/in progress" in terms of HACT implementation. This was due to the fact that the micro-assessments for qualifying implementing partners had just been finalized prior to the audit mission and were yet to be uploaded onto the HACT implementation website for rating.

The following weaknesses were noted:

- No macro-assessment had been completed for the current programme cycle. The last assessment was completed and reported on in January 2014.

- From a total of 32 micro-assessments completed, the review of eight reports suggested poorly evidenced conclusions and questionable risk ratings of the concerned implementing partners. One out of the eight implementing partners had been advanced $322,331. This represented 67 percent of funds advanced to implementing partners in 2016.

- The Office had advanced funds to implementing partners that had not been assessed. Out of the eight implementing partners that the Office had advanced a total of $477,693 during 2016, there were six for which a micro-assessment had not been completed. The total amount advanced to these six implementing partners was $131,451.

Unless all of the HACT requirements are implemented, the objectives of harmonizing practices among United Nations agencies are at risk of not being achieved. Furthermore, advancing funds to implementing partners that have not been assessed may result in funds being given to partners that do not have the capacity to manage and report on funds granted.

| **Priority**   Medium (Important) |

Recommendation 6:

The Office should implement the Harmonized Approach to Cash Transfers by:

(a)   conducting a macro-assessment for the current programme cycle;
(b)   reviewing all micro-assessments for implementing partners, taking note of discrepancies in consultation with the firm that completed the assessments; and
(c)   ensuring that future micro-assessments are completed correctly and do not have discrepancies that may lead to the wrong cash transfer modality being applied.

Management action plan:

(a)   The UN HACT group has approved the terms of reference for the macro-assessment and is in the process of procuring the consulting company to execute the macro-assessment.

(b)   The meeting with the consultant company is scheduled for 11 May 2017.

(c)   With regards to the micro-assessments, the Office has developed a HACT dashboard and completed a review of the cash transfer modalities for each of the implementing partners. Given the size of the cash transfers, all but one of the micro-assessments can be done as a desk-based exercise in line with UNDG HACT policy. These micro-assessments are reflected in the HACT annual work plan.

Estimated completion date: January 2018

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

▪ **Satisfactory**

The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Some Improvement Needed**

The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

▪ **Partially Satisfactory / Major Improvement Needed**

The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

▪ **Unsatisfactory**

The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

▪ **High (Critical)**

Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

▪ **Medium (Important)**

Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

▪ **Low**

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