

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

BOTSWANA

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Report on the Audit of UNDP Botswana Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Botswana (the Office) from 18 to 29 September 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, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2016 to 30 June 2017. The Office recorded programme and management expenses of approximately \$7.9 million. The last audit of the Office was conducted by OAI in 2011 and a follow-up audit was conducted in 2012.

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/area." This rating was mainly due to inadequate planning for programme resources and sub-optimal delivery rates, and inadequate procurement controls and contract management.

Key recommendations: Total = 4, high priority = 3

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1,2,3	High
	4	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. The high (critical) priority recommendations are presented below:

Inadequate planning for programme resources and sub-optimal delivery rates	Since 2014, the Office has not budgeted adequately for programme funds and had sub-optimal delivery rates. For the current programme cycle, out of a portfolio of 12 projects, only 8 projects representing 58 percent of the Office's programme portfolio had signed annual work plans and were being
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(Issue 1)	<p>implemented.</p> <p>Over the years, the Office has had challenges of delays with the finalization and signing of annual work plans, which led to programme implementation only starting in the second or third quarter of the year. Further analysis of the 2017 delivery rate showed that the recorded delivery of \$2.7 million included \$0.39 million of direct project costs. Actual programme delivery was \$2.4 million, giving an actual delivery rate of 44 percent.</p> <p><u>Recommendation:</u> The Office should improve planning for programme resources by: (a) adequately planning activities in advance to increase delivery and implement the current programme cycle (2017-2021) objectives; and (b) engaging with the national counterpart to introduce multi-year planning and budgeting.</p>
<p>Inadequate procurement controls (Issue 2)</p>	<p>The review of a selected sample of 20 purchase orders with a total value of \$732,836 (representing 20 percent of total procurement value of goods and services between 1 January 2016 and 30 June 2017) identified several weaknesses such as: (i) in all sampled cases, the initiation of procurement process in Atlas (enterprise resource planning system of UNDP) was completed after the suppliers had been sourced, contrary to the 'UNDP Programme and Operations Policies and Procedures'; (ii) in 15 out of the 20 cases reviewed, procurement was not completed by the Procurement Unit, but instead by the requesting unit, which was not always familiar with the relevant rules and regulations; (iii) in 10 cases there was inadequate proof of competitive selection; (iv) specifications and/or terms of reference in 3 out of the 20 selected cases were weak and did not clearly describe what was required from the supplier; (v) in three cases where changes in specification, quantity and submission dates, these were done with no justification and no clear documented evidence that the changes were communicated to the suppliers; and (vi) in two cases, procurement documents (e-requisition & purchase order) were prepared after the services were provided and invoices had been presented by the supplier for payment.</p> <p><u>Recommendation:</u> The Office should strengthen the procurement process by: (a) limiting procurement activities to the appropriate operations unit this is knowledgeable on the various rules that govern procurement; (b) considering the decentralization of the procurement function for goods and services that fall within the threshold for micro-purchasing; and (c) conducting training sessions that will ensure that staff are knowledgeable on the correct procurement processes to be followed.</p>
<p>Inadequate controls over contract management (Issue 3)</p>	<p>The review of 9 individual contracts out of 21 individual contracts issued between January 2016 and 30 June 2017, with a total value of \$206,530, noted weaknesses such as: (i) payments made for eight contracts amounting to \$193,335 without certification of services being completed; (ii) certification of two lump sum contracts amounting to \$35,731.60 was based on days worked and not on milestones achieved; (iii) three contracts of \$83,118.26 were renewed after the contracts' expiration date; (iv) payments made for two contracts totalling \$29,748, were not based on stated milestones or contract terms. In the case of one contract of \$13,195, 50 percent of the contract amount was to be paid when the last milestone had been achieved; however, upon request from</p>


the contract holder, the Office paid 40 of the remaining 50 percent without any certification of services rendered. In the second contract, travel costs of \$3,664 incurred by the individual contractor were not paid at the UNDP per diem rate as stated in the contract.

Recommendation: The Office should ensure that programme managers are fully knowledgeable on rules developed for the management of individual contracts and their roles in the process.

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.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Gaborone, Botswana (the Country) comprised of 23 staff and personnel. The main programme focus for the programme cycle ending in 2021 was on Environment and Climate Change, Economic Diversification, Health and Poverty. The Country was classified as an upper middle-income country. There was limited donor activity with approximately 73 percent of the Office's development resources obtained from the Government.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance/corporate direction. Support to the Resident Coordinator Office was adequate and UN Development Operations Coordination Office (DOCO) funds were used for the purposes intended.
- (b) Operations/ICT and general administrative management. Systems were in place in concordance with Office of Information Management and Technology guidelines to mitigate risks in case of emergency or crisis.
- (c) Operations/human resources management. Controls over human resources management were adequate.
- (d) United Nations leadership and coordination. Actions taken by the Office for HACT implementation were adequate.

OAI made one recommendation 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) Improve planning for programme resources (Recommendation 1).
- (b) Strengthen the procurement process (Recommendation 2).
- (c) Ensure that the programme managers are fully knowledgeable on rules developed for the management of individual contracts and their roles in the process (Recommendation 3).

Medium priority recommendations:

- (a) Improve Direct Project Costing (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Programme

1. Programme/Project Design and Implementation

Issue 1 Inadequate planning for programme resources and sub-optimal delivery rates

To achieve the objectives defined in the Country Programme Document (CPD), Country Offices are required to plan and maintain an adequate level of programming delivery to achieve the objectives defined in the CPD. Since 2014, the Office had not budgeted adequately for programme funds available, and had sub-optimal delivery rates, as illustrated by the office in the table below:

Description	2014	2015	2016	2017
Available resources (\$)	7.8 million	7.5 million	7.5 million	10.3 million
Budgeted resources (\$)	4 million	4.4 million	3.7 million	5.2 million
Percentage of budgeted resources against available resources (%)	51	59	49	50
Delivery against budgeted resources (%)	79	75	57	52
RBA average (delivery against budgeted) (%)	88	92	48	57

For the current programme cycle, out of a portfolio of 12 projects, only 8 projects representing 58 percent of the Office's programme portfolio had signed annual work plans and were being implemented. The remaining four relating to Governance and Economic Diversification were at a conceptualization stage.

Over the years, the Office has had challenges of delays with the finalization and signing of annual work plans. This translates to programme implementation only starting in the second or third quarter of the year. In order to mitigate delays, management is considering engaging the Government on multi-year planning and budgeting.

While management acknowledged the challenges of inadequate planning, in their view, programme delivery in 2017 was reasonable and was targeting a delivery rate of 85 percent at the end of 2017. Further analysis of the 2017 delivery rate shows that recorded delivery of \$2.7 million included \$0.39 million of direct project costs. This effectively means that actual programme delivery was \$2.4 million, giving an actual delivery rate of 44 percent instead of the presented 52 percent.

Office management had indicated that the introduction in 2017 of a simple system of reporting has helped to improve monitoring of delivery and adherence to annual work plan activities. This system allows timely intervention by the Office to liaise with implementing partners to address issues of programme implementation and delivery.

There is a risk that development objectives for the current programme cycle may not be met if planning and programme delivery are not optimized.

Priority	High (Critical)
Recommendation 1: The Office should improve planning for programme resources by: <ul style="list-style-type: none"> (a) adequately planning activities in advance to increase delivery and implement the current programme cycle (2017-2021) objectives; and (b) engaging with the national counterpart to introduce multi-year planning and budgeting. 	
Management action plan: The Office will budget for all its available resources by 31 December 2017. The development of 2018 annual work plans began in October 2017 with the guiding principles and process shared by the Resident Representative. The Office will continue using the recently developed system to monitor programme delivery. The Office has also prioritized procurement capacity-building in recognition of its strategic role in delivery. Estimated completion date: December 2017	

B. Operations

1. Procurement

Issue 2 Inadequate procurement controls

The 'UNDP Programme and Operations Policies and Procedures' require that a correct procurement process be initiated in Atlas (enterprise resource planning system of UNDP) through the creation and approval of a requisition and purchase order before goods and services are purchased. The procurement selection process must be competitive, to obtain the best services or goods at the most reasonable cost. In the case of the Office, a standard operating procedure was developed detailing the centralization of the procurement function and the role of the requesting unit.

From a selected sample of 20 purchase orders with a total value of \$732,836 (representing 20 percent of total procurement between 1 January 2016 and 30 June 2017), that related to the procurement of goods and services, the following weaknesses were noted:

- In all cases, the initiation of the procurement process in Atlas was completed after the suppliers had been sourced.
- In 15 out of the 20 cases reviewed (with a total procurement value of \$658,921 representing 89 percent of selected sample), the procurement process was completed by the requesting unit and not by the Procurement Unit. In all 15 cases, there was no evidence that procurement staff were involved in the process. Requesting units only informed the Procurement Unit of the process once the successful supplier had been identified and were requesting procurement to generate an e-requisition and a purchase order.

- There were 10 cases (amounting to \$202,566.07, i.e., 27 percent of the selected sample) where there was inadequate proof of competitive selection. For five of these cases (with a total value of \$95,265 – 13 percent of the selected sample), a Note to File was used to justify non-adherence to competitive procurement rules and regulations. The Notes to File were not dated, and therefore it could not be established when these notes were written.
- Specifications and/or terms of reference in 3 out of the 20 selected cases (total value of \$143,830.26 – 20 percent of selected sample) did not clearly describe what was required from the supplier. In one case (totalling \$118,605), the terms of reference had been changed manually during the evaluation process, and it was not clear which terms of reference were used for evaluation, and which ones had been provided to applicants.
- There were 3 cases (of \$186,759 – 25 percent of selected sample) where there were changes in specifications, quantity and submission dates, with no justification and no clear documented evidence that the changes were communicated to the suppliers. In one case (\$57,098), the total contract price for the consultancy was changed from \$63,446 to the current \$57,098 with no documented evidence on what caused the change and whether this was agreed with the supplier.

The weaknesses noted were due to lack of adherence by the Office to the documented operating procedures relating to procurement. Management was not able to explain why the Office was not following their documented procurement procedures. Procurement was also being completed by requesting units, with little to no inputs from the operations unit responsible for the procurement.

Procurement shortcomings of a similar nature were raised in the audit undertaken by OAI in 2011 and even though the Office had committed to take corrective measures, serious procurement shortcomings continue to prevail.

Besides the fact that the initiation of the procurement process in Atlas before sourcing the suppliers is mandatory, there is also a risk that goods and services being ordered have not been authorized by the respective project manager and have not been budgeted for. Requesting units other than the Procurement Unit may not be fully conversant with the rules and regulations that relate to procurement and this may have a negative impact on the quality and cost of goods and services obtained.

Priority	High (Critical)
Recommendation 2: The Office should strengthen the procurement process by: <ul style="list-style-type: none"> (a) limiting procurement activities to the appropriate operations unit that is knowledgeable on the various rules that govern procurement; (b) considering the decentralization of the procurement function for goods and services that fall within the threshold for micro-purchasing; and (c) conducting training sessions that will ensure that staff are knowledgeable on the correct procurement processes to be followed. 	
Management action plan: The Office will do the following:	

- (a) Engage in in-depth peer learning from other offices to strengthen the knowledge of Procurement Unit staff and other staff involved in procurement.
- (b) Temporarily increase personnel to strengthen the procurement process.
- (c) Reinforce role clarity with regards to procurement.
- (d) Prepare and share standard operating procedures for decentralized procurement of low value (below \$5000) items.
- (e) Conduct regular refresher courses on procurement.

Estimated completion date: December 2017

Issue 3 Inadequate controls over contract management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that the work and performance of an individual contractor must be evaluated and monitored by the responsible manager on a regular basis to ensure that contractual obligations are fully met. The key elements for monitoring shall be the deliverables (quantity and quality), time frame and cost. The Individual Contract Performance Evaluation Form must be attached to the Certification for Payment Form when processing final payment. With regards to contract amendments, only active contracts may be amended. Expired contracts are no longer valid and the obligations of both parties to the other cease to exist, so that amending or extending the contract no longer serves any purpose. As such, monitoring and management of contracts are crucial to ensuring UNDP's best interests.

From the review of 9 individual contracts (from a total of 21 individual contracts issued between January 2016 and 30 June 2017) with a total contract value of \$206,530, the following weaknesses were noted:

- Payments made for eight contracts (\$193,335 – 93 percent of selected sample) were made without certification of services being completed.
- Certification of two lump sum contracts (\$35,731.60 – 17 percent of selected sample) was based on days worked and not on milestones achieved.
- Three contracts (\$83,118.26 – 40 percent of selected sample) were renewed after the contracts' expiration date.
- Payments made for two contracts (\$29,748.42 – 14 percent of the selected sample) were not based on stated milestones or contract terms. In the case of one contract (total contract value of \$13,195), 50 percent of the contract amount was to be paid when the last milestone had been achieved; however, upon request from the contract holder, the Office paid 40 of the remaining 50 percent without any certification of services rendered. In the second contract, travel costs of \$3,664 incurred by the individual contractor were not paid at the UNDP per diem rate as stated in the contract.

The Office's management indicated that the current Resident Representative now uses the current management tool, which is color-coded and shows the status of the contract, the schedule of deliverables, as well as payments made or due. This is shared with programme managers monthly, and supports them to manage contracts signed by the Office.

There is a risk that contract terms and deliverables may not be adhered to. This may result in sub-standard work that will not meet the development objective and additional costs may be incurred. There is also a risk of financial loss if agreed upon work is not completed and payments are made.

Priority	High (Critical)
Recommendation 3:	
The Office should ensure that programme managers are fully knowledgeable on rules developed for the management of individual contracts and their roles in the process.	
Management action plan:	
The use of the monthly contract management tool will continue and the Office will conduct training to ensure that the programme managers are fully knowledgeable on rules developed for the management of individual contracts and their roles in the process.	
Estimated completion date: December 2017	

2. Financial Resources Management

Issue 4 Cost recovery not properly applied

Offices are required to ensure that they can operate effectively and efficiently within available resources. With diminishing resources, the development of Direct Project Costing was to allow offices to correctly reflect the true costs of achieving development results. Updated guidelines state that direct project costs should be allocated against two accounts, account No. 64398 for staff costs, and account No. 74596 for general operating expenditure, to facilitate monitoring by the Office of Financial Resources Management.

The Office had not properly implemented the Direct Project Costing, as out of total annual staff costs of approximately \$1.3 million, 30 percent was not based on the results of a workload study and proper costs attribution.

In not completing a workload study, the Office had not determined the true costs of implementing a project and therefore was not in a position to know if current costs being allocated to projects were justified or not.

Priority	Medium (Important)
Recommendation 4:	
The Office should improve Direct Project Costing by:	
<ul style="list-style-type: none"> (a) developing a workload study to ascertain whether the costs being charged to projects can be justified and obtain Government approval to charge the identified projects; and (b) budgeting for and expensing direct project costs against stipulated account codes to facilitate monitoring by the Office of Financial Resources Management. 	
Management action plan:	
The Office will undertake the following:	

- (a) A workload study to objectively determine direct project costs related to staffing by March 2018. The findings will be incorporated into all Direct Project Costing and these costs will be communicated to Government.
- (b) The Office will follow Direct Project Costing guidelines (including use of the correct accounting codes) to ensure Direct Project Costing monitoring and reporting by 31 December 2017.

Estimated completion date: March 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 not included in this report.