UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

UGANDA

Report No. 2014

Issue Date: 21 December 2018

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Report on the Audit of UNDP Uganda
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Uganda (the Office) from 24 September 2018 to 6 October 2018. 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 2017 to 30 June 2018. The Office recorded programme and management expenses of approximately $23.2 million. The last audit of the Office was conducted by OAI in 2013.

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/some improvement needed**, which means "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." This rating was mainly due to weaknesses in programme/project design and implementation, procurement, financial resources management, and human resources management.

Key recommendations: Total = **8**, high priority = **1**

The eight recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	7	Medium
Effectiveness and efficiency of operations	3	Medium
	4	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1, 5, 6, 8	Medium
	2	High

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 recommendation is presented below:

Weak controls on project closure (Issue 2)	The 'UNDP Programme and Operations Policies and Procedures' require offices to financially close projects within 12 months of closing them operationally. The audit team noted that the Office had 13 projects that had been operationally closed for more than 12 months but had not been financially closed. Specifically, 4 projects were operationally closed in 2015, 6 projects were operationally closed in 2016, and 3 projects were operationally closed in July 2017. Recommendation: The Office should ensure that all operationally closed projects are financially closed within 12 months.

Implementation status of previous OAI audit recommendations: Report No. 1155, 22 August 2013.

Total recommendations: 5
Implemented: 5

Management comments and action plan

The Resident Representative accepted all 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 S. Osttveiten 2018.12.21 03:06:41 -05'00'

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Kampala, Uganda (the Country). The Office comprised of 51 staff members and 45 service contract holders. At the time of the audit mission, the Office had a total of 22 active projects with a total programme delivery of $13 million in 2017. The County Programme 2016-2020 comprised of two portfolios: (i) Inclusive, effective governance; and (ii) sustainable, inclusive economic development.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance. The Office exercised proper oversight and appropriate assurance to steer towards achieving its intended objectives.

(b) Operations – Information and Communication Technology. The Business Continuity Plan and Disaster Recovery Plan were updated and approved by the Office, and Disaster Recovery Plan tests were carried out by the UNDP Security Office.

(c) Operations – Asset Management. Asset management complied with UNDP policies and procedures. A sample of assets was physically verified for existence.

(d) Operations – Staff and Premises Security. The Office was compliant with safety and security guidelines.

(e) UN Leadership and Coordination. Support to the Resident Coordinator Office was adequate.

OAI made one recommendation ranked high (critical) and seven recommendations ranked medium (important) priority.

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

Medium priority recommendations that had been implemented as advised by the Office (and independently validated by OAI) prior to the issuance of this report are not included in this report.

High priority recommendation:
(a) Ensure that all operationally closed projects are financially closed within 12 months (Recommendation 2).

Medium priority recommendations, arranged according to significance:
(b) Improve controls over procurement processes (Recommendation 3).
(c) Improve controls over vendor management (Recommendation 4).
(d) Improve the implementation of Direct Project Costing (Recommendation 5).
(e) Ensure that grants are issued in accordance with the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 1).
(f) Ensure there is an adequate mechanism in place to liquidate outstanding advances (Recommendation 6).
(g) Ensure that the generic code IA001457 is cleared as soon as possible and all funds allocated therein are transferred using correct the codes (Recommendation 7).
(h) Ensure that all mandatory training courses are completed by staff and supervisors (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Programme

1. Programme/Project Design and Implementation

Issue 1 Micro-capital grants provided to individuals and not to institutions

According to the micro-capital grant guidelines in the 'UNDP Programme and Operations Policies and Procedures', grants can be provided to support the activities of non-governmental organizations (NGOs) and community-based organizations (CBOs).

Under project 86931, the Office paid micro-capital grants to five individuals, not NGOs or CBOs, with a total value of $30,353. A review of the selection process showed that the Office had requested for proposals from individuals and not from institutions, which went through a selection process to identify the successful proposals. The grants were used to pay for master degrees for the five individuals. The explanation obtained from the Office was that the individuals were supported to enhance the research agenda specified in the project document under component 1, outcome 1.3 of the Results and Resources Framework.

Amendments were made to the micro-capital grant agreement to accommodate the grants being issued to individuals. The Office did not obtain clearance from the Legal Office for the use of the agreements in such a manner or for changes to the template. The Office thought that the 'UNDP Programme and Operations Policies and Procedures' supported issuing micro-capital grants to individuals.

The misuse of micro-capital grants may result in a lack of accountability and financial losses for UNDP.

Priority	Medium (Important)
Recommendation 1: The Office should ensure that grants are not given to individuals and that micro-capital grants are issued in accordance with the 'UNDP Programme and Operations Policies and Procedures'.	
Management action plan: The Office agrees with the recommendation. **Estimated completion date:** 31 December 2019	

Issue 2 Weak controls on project closure

The 'UNDP Programme and Operations Policies and Procedures' require offices to financially close projects within 12 months of closing them operationally. In addition, the 'UNDP Programme and Operations Policies and Procedures' require that the financial closure of projects should be supported with documents, such as the final Combined Delivery Report and the Closure Checklist, to ensure that all applicable procedures are followed.

The audit team noted that the Office had 13 projects that had been operationally closed for more than 12 months, as of the time of the audit, that had not been financially closed. Specifically, 4 projects were operationally closed in 2015, 6 projects were operationally closed in 2016, and 3 projects were operationally closed in July 2017.

The Office explained that some of these projects had transactions that were not completed.

Projects closed operationally but not financially for extended periods may result in errors when processing transactions.

Priority	High (critical)
Recommendation 2: The Office should ensure that all operationally closed projects are financially closed within 12 months.	
Management action plan: The Office agrees with the recommendation and will ensure that all operationally closed projects are financially closed within 12 months. **Estimated completion date:** 30 June 2020	

B. Operations

1. Procurement

Issue 3 Weak controls over procurement processes

According to the 'UNDP Programme Operations Policies and Procedures', a dedicated staff member shall handle the safekeeping of offers and ensure their safety and confidentiality. No changes will be made to the criteria communicated to the bidders/proposers after bids/proposals have been received by the Office.

Out of a sample of 23 purchase orders reviewed totalling $2 million (representing 21 percent of the procurement expenditure recorded during the audit period) the following internal control weaknesses were identified:

a) Inadequate internal controls over the receipt of offers/bids:

   i. The email account that the Office used had inadequate security controls to ensure accuracy and completeness of offers received. Although only one individual had the password for the email account, there was a lack of control to ensure that all offers were safeguarded from being deleted or forwarded to another party without being detected by the Office. Management commented that the email account was monitored several times during the day, but it was noted that it was done so by the same person who had the password.

ii. For one procurement case (value of $98,300), seven proposals were recorded. However, documents from the evaluation stage recorded only six companies as having submitted proposals. There was no note to file to explain what happened to the seventh proposal during the evaluation process.

b) Inconsistent application of evaluation criteria: The Office changed the technical criteria and weight allocations during the evaluation process for one purchase order valued at $98,300. Management stated that the total score of that criterion stayed the same and that all vendors were scored using this changed criteria.

The deviations in the cases reviewed occurred because of inadequate supervision.

Failure to adhere to UNDP procurement principles can prevent the Office from securing the best goods or services or obtaining the best value for money.

Priority	Medium (Important)
Recommendation 3: The Office should improve controls over procurement processes by: (a) introducing sporadic spot checks for accuracy and completeness of offers received and considering transitioning to UNDP's e-tendering system; and (b) applying consistent evaluation criteria as per advertised solicitation documents.	
Management action plan: The Office agrees with the recommendation. **Estimated completion date:** 31 December 2019	

Issue 4 Inadequate controls over vendor management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that offices should exercise due diligence when entering vendors into the Atlas database (enterprise resource planning system of UNDP). This includes verifying the relationship between the vendor and the office, verification of the vendor's banking information and authenticating the vendor's identity through independent means. Complete and reliable supporting documentation is to be filed with the vendor forms and remain available on record for seven years for audit purposes.

The audit team noted from Atlas queries that there were 22 cases of duplicate vendors with different vendor IDs, but the same vendor name and same bank account details. There were five cases of different vendors sharing the same bank account. The reasons for different vendor IDs sharing the same bank accounts related to entities that underwent name changes and that were re-entered into the Atlas system as new vendors instead of updating the existing vendors or deactivating the already existing vendors. Other cases related to entities with more than one branch using the same bank account.

For 7 out of 18 vendors tested (39 percent of the sample), the Office could not provide vendor forms and their supporting documents. It was therefore not possible to ascertain that these 7 vendors were authentic or that sensitive vendor details like names and addresses were correct. For another eight vendors (44 percent), the Office only had completed vendor forms. No supporting documents were available.

Duplicate vendors and inadequate verification of vendor details may result in financial losses or fraud going undetected.

Priority	Medium (Important)
Recommendation 4: The Office should improve controls over vendor management by: (a) checking for existing vendors prior to creating new ones and periodically reviewing the Atlas database to remove duplicate vendors; and (b) verifying that all supporting documents are available prior to approving new vendors and ensuring that requests for changes to existing vendor data are substantiated.	
Management action plan: The Office agrees with the recommendation. **Estimated completion date:** 31 December 2019	

2. Financial Resources Management

Issue 5 Direct Project Costing not properly implemented

Stand-alone projects for Direct Project Costing (DPC) require pre-funding, periodic reconciliation and reversals of expenditure between the stand-alone project and the development projects. Expenses recorded under DPC projects must be fully apportioned to attributable projects at year end to ensure that projects reflect the correct costs and to clear the stand-alone account to a zero balance. The 'UNDP Programme and Operations Policies and Procedures' state that DPC should be reconciled (preferably on a quarterly basis) and allocated against two accounts: account 64398 – staff costs, and account 74596 – general operating expenses, to facilitate monitoring of DPC by the Office of Financial Resources Management.

The audit team noted that the Office's DPC project was not correctly set up in Atlas. Direct project costs were incorrectly included as one of several development activities under a development project. DPC was therefore budgeted and controlled at the activity level instead of as a dedicated stand-alone project.

Further, DPC attributable to projects was not reconciled regularly to actual DPC expenses and cleared to zero at the period cut off, when UNDP Headquarters requires financial certifications on DPC accounts. Instead, the Office attributed DPC twice a year to projects after delivery was recorded.

The incorrect recording of DPC was caused by the Office having an incomplete understanding of how DPC should be implemented and monitored. Incorrect classification of the DPC stand-alone project as an activity instead of as a project resulted in a misstatement of the Office's operational costs and project delivery.

Priority	Medium (Important)
Recommendation 5: The Office should improve the implementation of Direct Project Costing by: (a) setting up a dedicated Direct Project Costing project to facilitate reconciling accounts; (b) consulting with the Office of Financial Resources Management to facilitate monitoring and to clear account balances to zero; (c) using the proper account codes and reconciling account balances on a quarterly basis.	
Management action plan: The Office agrees with the recommendation. **Estimated completion date:** June 2020	

Issue 6 Outstanding advances to implementing partners

The Harmonized Approach to Cash Transfers (HACT) is applicable in all situations where cash is transferred by a UN agency to an implementing partner or on behalf of an implementing partner. HACT was made mandatory in February 2015. Country Offices must ensure that advances made to implementing partners are liquidated within six months of the advance being made.

The audit team noted that the following projects had advances that were outstanding for more than six months. These were:

- Inclusive Green Growth (project 97104) UGX 52,781,017 ($14,265)
- Integrated Landscape Management (project 95404) UGX 101,217,174 ($27,356)
- Peace and Security for Systems Resilience (project 97030) UGX 294,799,209 ($79,675)

Aging advances may result in funds being unaccounted for in a timely manner and may result in financial losses.

Priority	Medium (Important)
Recommendation 6: The Office should ensure that there is an adequate mechanism in place to follow up with the three projects to liquidate the outstanding advances.	
Management action plan: The Office agrees with the recommendation. From the end of the audit exercise to date, through engaging with partners, the Office has managed to receive, review and retire aging advances amounting to $57,050. There will be continued follow up with partners on any outstanding advances in the future. **Estimated completion date:** 30 December 2019	

Issue 7 Inadequate monitoring over allocation of implementing partner codes in Atlas

Based on the Implementing Partner and Implementing Agent Guidance shared with the Office from Headquarters in January 2018, the Office was informed that they had to use a unique six-digit implementing partner code in Atlas to create their budgets and record cash transfers and expenditures. The use of generic codes (e.g., national implementation, government) was discontinued. The offices that had been using the generic or incorrect implementing agent or partner codes were required to perform the necessary clean up. Furthermore, effective 1 January 2018, it was mandatory for offices to tag payments based upon the cash disbursement modalities and the project implementation modality to facilitate tracking and reporting of cash transfers to partners implementing development projects.

The Office used the generic code "UGA National Executing project" (IA001457) in creating project budgets and recording cash transfers and expenditures. As at 8 November 2018, the total budgeted amount in this implementing partner code for 2018 was $2,006,146 and the expenditure was $1,347,401. This account should have been cleaned up and the amounts transferred to the respective implementing partner codes. The Management Support Unit explained that IA001457 was an Atlas code that was used prior to the introduction of implementing partner codes that was specific to the different implementing partners. Furthermore, the HACT dashboard highlighted untagged payments amounting to $11,239,662, contrary to the guidelines.

The use of incorrect implementing partner codes may lead to project expenditures recorded in Atlas not being accurately attributed to specific implementing partners. Furthermore, untagged payments may not be easily tracked and attributed to the partners implementing the projects.

Priority	Medium (Important)
Recommendation 7: The Office should ensure that the generic code IA001457 (national execution) is cleared as soon as possible and ensure that all funds allocated therein are transferred to the correct codes and that payments are tagged based upon the cash disbursement modalities and the project implementation modality.	
Management action plan: The Office agrees with the recommendation. The clean-up of project expenses captured under IA code IA001457, has been ongoing. Once all expenses are cleared from code IA001457, budget revisions will be undertaken to ensure there are no funds held under this code. **Estimated completion date:** 30 December 2019	

3. Human Resources Management

Issue 8 UNDP mandatory training courses not completed by all eligible personnel

UNDP's mandatory courses reinforce organizational values and norms. Mandatory courses provide compliance-learning in topics such as security, prevention of harassment, gender equality, basic legal framework, ethical principles and standards of behaviour. It is expected that all staff members, including managers and supervisors complete the UNDP mandatory courses and obtain their certificates of completion.

OAI found that senior managers at the Office had not completed all UNDP mandatory learning courses.

Some data was corrupted when UNDP switched training platforms. One person's certificate of completion didn't show the name, but only "username." Some of the personnel had the certificates to prove they completed it, but the status still appeared as "incomplete" in the learning management system, causing inaccurate corporate data. The remaining personnel were working on completing the courses. Despite claims that the Office would complete the courses after the audit fieldwork, the remaining number of incomplete or not attempted courses indicate that completion was not prioritized by all personnel.

Failure to complete mandatory training courses may result in staff and senior managers not being aware of the organizations' values and principles and what is expected of them.

Priority	Medium (Important)
Recommendation 8: The Office should ensure that all mandatory training courses are completed by staff and supervisors.	
Management action plan: The Office agrees with the recommendation and shall ensure a 100 percent completion rate by March 2019. **Estimated completion date:** March 2019	

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>.