



AUDIT

OF

UNDP COUNTRY OFFICE

IN

BURUNDI

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Report on the Audit of UNDP Burundi Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Burundi (the Office) from 27 July to 7 August 2020. 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
- (b) Development activities
- (c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2019 to 30 June 2020. The Office recorded programme and management expenses of approximately \$90 million. The last audit of the Office was conducted by OAI in 2016.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

- (a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.
- (b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team's understanding of the Office's working environment.
- (c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted.
- (d) Safe and petty cash contents were not verified.
- (e) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance 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 development activities, procurement, finance, and administrative services.

Key recommendations: Total = **8**, high priority = **0**

The audit did not result in any high (critical) priority recommendations. There are eight medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP."

The eight recommendations aim to ensure the following:

| Objectives | Recommendation No. | Priority Rating |
|--|--------------------|-----------------|
| Achievement of the organization's strategic objectives | 4 | Medium |
| Reliability and integrity of financial and operational information | 1, 7 | Medium |
| Effectiveness and efficiency of operations | 2, 3, 5, 6 | Medium |
| Compliance with legislative mandates, regulations and rules, policies and procedures | 8 | Medium |

Management comments and action plan

The Resident Representative accepted all eight 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
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Bujumbura, Burundi (the Country) and its Country Programme covered the period 2019–2023 with the following development priorities:

- a) develop rural non-farm livelihoods for local economic growth;
- b) improve access to administrative, health and judicial services; and
- c) strengthen community resilience to climate change and disaster.

During the period from January 2019 to June 2020, the Office spent \$87 million on development activities, an increase by 70 percent compared to the previous period.

The largest development projects in terms of expenses during the period covered by the audit were:

| Title | Expenditure January- December 2019 \$million | Expenditure January - June 2020 \$million |
|---|--|--|
| Improving access to administrative and judicial services and rights | 7.4 | 1.1 |
| Decentralization and local economic development | 3.1 | 1.1 |
| Reintegration and social cohesion | 2.3 | 0.3 |
| Community-based climate change related disaster risk management | 2.2 | 0.8 |
| Enhancement of community resilience | 1.1 | 0.1 |
| Total | 16.2 | 3.4 |

The largest sources of funding of the Office's development activities for the period covered by the audit were:

| Donor | Funding for the period \$million |
|-----------------------------|--|
| Global Fund (GFTAM) | 59.4 |
| Global Environment Facility | 7.5 |
| European Union | 4.3 |
| Total | 71.2 |

II. Audit results

OAI made eight 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, arranged according to significance:

- (a) Improve the management of HACT (Recommendation 1).
- (b) Strengthen the management of the audits of nationally implemented projects (Recommendation 2).
- (c) Strengthen the effectiveness and efficiency of the procurement function (Recommendation 4).
- (d) Strengthen project monitoring (Recommendation 3).
- (e) Formalize an agreement with the Government for the collection of Contributions towards Local Office Costs (GLOC) (Recommendation 5).
- (f) Monitor expenses incurred by implementing partners (Recommendation 6).
- (g) Improve monitoring of Direct Project Costing (Recommendation 7).

- (h) Improve travel management and comply with the UNDP travel policy (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Development activities

1. Implementation modalities

Issue 1 Gaps in the implementation of the Harmonized Approach to Cash Transfers

The Framework for Harmonized Approach to Cash Transfers (HACT) lists several minimum conditions to be met prior to transferring cash to implementing partners: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan that details the spot-checks for each implementing partner, based on the results of the micro-assessment. The 'UNDP Programme and Operations Policies and Procedures' provide guidance on the monitoring of payments to implementing partners. The Funding Authorization and Certificate of Expenditure (FACE) forms are used by implementing partners when requesting advances and reporting expenses.

The audit team reviewed the Office's compliance with the HACT Framework and noted the following:

- A macro-assessment had not been undertaken for the 2019–2023 programming cycle, nor was it planned at the time of the audit. The Office mentioned the recent political events and the COVID-19 pandemic as the reasons for delays in conducting the macro-assessment.
- The HACT quality assurance plan had not been fully implemented. None of the planned spot-checks were conducted during the period under review. The programmatic visits were not conducted during 2019. The Office explained these exceptions by the delayed finalization of the 2019 micro-assessments. Following the audit, the Office indicated that the spot-checks would be conducted by the end of the third quarter of 2020.

During the period under review, the Office processed 49 advances to implementing partners of nationally implemented projects amounting to \$4.2 million. The audit team noted the following weaknesses in the financial administration of these cash transfers:

- New cash advances can only be approved if 80 percent of the previous advance has been justified and all previous advances in the execution of the project had been fully reported and cleared. The Office approved cash advances for \$270,198, even though the above-mentioned conditions were not met.
- The Implementing Agent (IA) codes within the Chart of Accounts were not appropriately used. These exceptions distorted the amount of expenses incurred by the implementing partners for the approximate amount of \$2.5 million and might affect the HACT audits.
- Payments for implementing partners valued at \$12.3 million were not separately labelled restricting the tracking and reporting of cash transfers.
- The FACE opening and closing balance did not match with Atlas (enterprise resource planning system of UNDP) records in 6 out of 15 cases reviewed since the Office did not report on the FACE the balance of previous advances. This treatment did not allow for the follow-up of outstanding advances.

Failure to fully implement the HACT Framework could result in the use of an inappropriate cash transfer modality, which could result in financial losses. Furthermore, the inadequate processing of cash advances to partners and incorrect recording of payments may lead to financial risks and inefficiencies.

| Priority | Medium (Important) |
|---|--------------------|
| Recommendation 1: The Office should improve the management of HACT by: <ul style="list-style-type: none"> (a) initiating, in collaboration with other United Nations agencies in the Country, the macro-assessment of the public finance system for the 2019–2023 programming cycle; (b) timely implementing a HACT quality assurance plan; and (c) processing and recording cash transfers to national implementing partners in line with UNDP policies. | |
| Management action plan: <ul style="list-style-type: none"> (a) The Office will initiate discussions with the Resident Coordinator Office, the United Nations Country Team and the national partners in order to agree on the timeline for conducting the macro-assessment. (b) The Office recruited an audit firm to conduct the spot-checks and the reports will be available by the end of December 2020. (c) For transactions incorrectly encoded, the Office has already taken corrective actions in Atlas. Furthermore, the Office has organized training sessions to reinforce staff and implementing partners capacities on HACT procedures, including the correct use of FACE forms. | |
| Estimated completion date: June 2021 | |

Issue 2 Inefficient management of audits of nationally implemented projects

In expressing its opinion on UNDP financial statements, the Board of Auditors refers to the outcome of the audits of nationally implemented projects by governments and non-governmental organizations. Consequently, delays in the completion of audits of projects nationally implemented as well as qualified opinions expressed by the auditors have a direct impact on the opinion expressed by the Board of Auditors on UNDP financial statements. These audit reports are analysed by OAI for in-depth review of the quality, compliance with the audit terms of reference, and adequacy of the monitoring system put in place by the Office. The overall performance is rated by OAI on an annual basis through the issuance of the HACT review letters.

In the last five financial years (2015–2019), the Office did not receive satisfactory ratings on the management of audits of nationally implemented projects (HACT audits). A review of the management of HACT audits noted deficiencies with regards to monitoring and oversight by the Office. The audit noted the following:

- For the last four years, the audit reports for the nationally implemented projects were submitted after the deadlines.
- Inadequate follow-up of audit recommendations was recurrent in the last five years.

- For the last three years, OAI assessed the audit observations as “unsatisfactory” due to the significant number of observations and the impact they were likely to have on the projects’ operations.
- The Office did not address the issues that were reported by OAI in the HACT review letters. As a result, weaknesses related to incorrect inclusion of value added taxes in FACE forms, inadequate use of the reporting templates by auditors, and inadequate signatures of Combined Delivery Reports were continuously reported.

Inadequate oversight over the audits of nationally implemented projects could have a negative impact on the opinion expressed by the Board of Auditors on the UNDP financial statements, which in turn could have a negative impact on the organization’s image with its stakeholders.

| Priority | Medium (Important) |
|--|--------------------|
| Recommendation 2: The Office should strengthen the management of the audits of nationally implemented projects by: <ul style="list-style-type: none"> (a) submitting all HACT audit reports in a timely manner; (b) strengthening the capacities of national implementing partners to enhance proper follow up of the audit recommendations; and (c) establishing an adequate monitoring system to timely address the issues reported in the HACT review letters. | |
| Management action plan: <ul style="list-style-type: none"> (a) The Office will undertake every effort to ensure that the 2020 HACT audit reports are submitted on time. (b) The Office has developed a capacity-building plan for implementing partners and its implementation is ongoing. (c) The Office will develop an action plan for monitoring the implementation and addressing the issues raised in HACT review letters. | |
| Estimated completion date: April 2021 | |

2. Project administration

Issue 3 Weaknesses in the project monitoring process

The ‘UNDP Programme and Operations Policies and Procedures’ stipulate that monitoring is a continuous management function that provides regular feedback on the consistency or discrepancy between planned and actual results. Monitoring is related to pre-identified results in the project document.

The audit reviewed a sample of three ongoing development projects, including one nationally implemented project. Expenses amounted to \$9.2 million, representing 75 percent of total project expenditure (excluding Global Fund projects) during the period under audit. The following exceptions were noted:

i) Social and environmental screenings not timely reviewed

The 'UNDP Programme and Operations Policies and Procedures' stipulate that project appraisal is a mandatory process for all UNDP development projects. As part of the appraisal process, the social and environmental screening must be approved before the project appraisal.

In two cases, the social and environmental screenings were completed after the meeting of the project appraisal committees, whereas they should have been reviewed beforehand.

ii) Achievements against targets not clearly presented in Atlas

In two cases, results were correctly indicated in Atlas but the level of achievements against targets was not clearly presented, and there was no information to assess whether the targets had been reached or not. Thus, there was no assurance on the effective accomplishment of the targets.

These deficiencies resulted from a lack of project oversight and may prevent the Office from achieving its programmatic objectives.

| Priority | Medium (Important) |
|--|--------------------|
| Recommendation 3: The Office should strengthen project monitoring by: <ul style="list-style-type: none"> (a) timely implementing quality assessments, including the social and environmental screening procedures; and (b) clearly presenting information on achievements against targets in Atlas. | |
| Management action plan: <ul style="list-style-type: none"> (a) The Office will ensure that quality assurance procedures including evaluation of Social and Environmental Standards are proactively done for all new projects. Estimated completion date: 30 June 2021. (b) The Office will take the appropriate actions to ensure that this recommendation is implemented. Estimated completion date: 31 December 2020. Estimated completion date: June 2021 | |

B. Operations - Procurement

1. Goods and services

Issue 4 Weaknesses in procurement management

The 'UNDP Programme and Operations Policies and Procedures' require the development of consolidated procurement plans on an annual basis, which should be analysed, reviewed and updated regularly. Analysis of the consolidated procurement plans provide an opportunity to identify economies of scale and better use of resources.

While the Office had prepared procurement plans for 2019 and 2020, these plans were not comprehensive. For instance, the Office processed 267 procurement cases in 2019 totalling \$12.7 million, while the plan had only identified 62 procurement cases amounting to \$1.8 million. As at June 2020, the Office had already processed 93 procurement cases totalling \$2.5 million, while the 2020 plan had identified 21 procurement cases for \$0.6 million.

The inadequate procurement planning and the increased pressure on the Procurement Unit, composed of only one staff member, contributed to the following:

- (a) Insufficient lead time for sourcing, which led to 23 procurement processes valued at \$270,177 not being preceded by the creation of requisitions, and 38 percent of requisitions being created in Atlas concurrently with raising purchase orders. Requisitions should precede the creation of purchase orders.
- (b) Inefficiencies in the procurement of similar items. The audit team disclosed the following:
 - 17 different procurement processes related to the procurement of computers were carried out during the period under review for a total value of \$434,360; six out of the 17 processes were conducted during the same month for \$240,438. The procurement of goods of a similar nature should be done through one process once a comprehensive procurement plan is prepared.
 - Nine purchase orders amounting to \$531,651 for vehicles acquired from the same supplier were issued during the audit period. The purchase orders corresponded to different procurement processes. Four of them were raised during the same month, amounting to \$300,907.
- (c) The due date agreed on with the vendors and recorded in Atlas were generally underestimated when compared to actual receipt dates of goods and services:
 - Out of the 1,543 purchase order lines received during the period under review, the audit team noted that 341 lines (22 percent) valued at \$3.3 million were labelled as received in Atlas more than 45 days after the due date. The Office's weak planning on due dates had an impact on the delivery. For example, 113 purchase order lines expected to be received and expensed in 2019 were finally received in 2020, for a total amount of \$1.6 million.
 - For 224 purchase order lines valued at \$3.9 million, the dates reported in Atlas as due dates for receipt were the same as the purchase order issuance dates.
 - The procurement of items related to the response to COVID-19 were not timely received. In five instances valued at \$255,878, the items were pending receipt and exceeded the due dates between 28 and 85 days, as at the time of the audit mission.
- (d) The purchase orders were not created in a timely manner, which led to the risk that the commitments might not be honoured due to unsecured funds. The audit team disclosed the following:
 - In 10 out of 15 individual contracts reviewed and valued at \$301,957, the Office signed contracts amounting to \$231,655 with the consultants prior to the issuance of the purchase orders in Atlas, with delays ranging from 7 to 90 days.
 - Six purchase orders amounting to \$66,424 were created at the time of receiving the items procured, and nine purchase orders amounting to \$673,208 were approved after the goods/services were received.

These weaknesses were caused by the lack of an oversight mechanism over procurement processes.

Weaknesses in procurement planning may prevent the Office from obtaining the best value for money. Ineffective monitoring of commitments and due dates of contracted goods and services can negatively impact the delivery targets of the Office.

| | |
|---|--------------------|
| Priority | Medium (Important) |
| Recommendation 4: | |
| The Office should strengthen the effectiveness and efficiency of its procurement function by: | |
| <ul style="list-style-type: none"> (a) reinforcing the procurement team and preparing an accurate and comprehensive procurement plan to be used as a strategic tool, to streamline procurement activities and identify opportunities for economies of scale; (b) fine-tuning estimated expected delivery dates; and (c) timely raising of requisitions and issuance of purchase orders in Atlas. | |
| Management action plan: | |
| <ul style="list-style-type: none"> (a) The Office has updated the 2020 Procurement Plan in the Procurement Management and Planning Platform (PROMPT) system and completed a training for staff on the correct use of PROMPT. The workflow has been updated to ensure that all procurement goes through PROMPT. (b) The Office will review and update the organization chart with a view to strengthening the Procurement Unit. (c) The Office will proactively follow up with vendors to ensure that in case of potential delays in delivery timelines, action is taken in Atlas to update the due date. (d) The Office will ensure that requisitions are systematically created before the launch of any procurement process. Purchase orders and contracts will be submitted for approval at the same time to ensure funds are committed. | |
| Estimated completion date: April 2021 | |

C. Operations – Finance

1. Office budget and cost recovery

Issue 5 Outstanding collection of Government Contributions towards Local Office Costs

In accordance with the provisions of the Standards Basic Agreements that govern UNDP operations in programme countries, host governments are expected to contribute towards the cost of Country Offices. Such contributions are called Government Contributions towards Local Office Costs (GLOC) and are calculated on an annual basis.

At the time of the audit, the outstanding GLOC contribution due for the period from 2014 to 2019 reached \$575,738. The 2020 target was \$39,995.

While the Office took action to recover the arrears and met on several occasions with representatives of the Government, no formal agreement had yet been reached.

Not collecting GLOC might diminish available resources, thus impacting the financial sustainability of the Office.

| | |
|--|--------------------|
| Priority | Medium (Important) |
| Recommendation 5: | |
| The Office should intensify its efforts to formalize an agreement with the Government for the collection of its Contributions towards Local Office Costs (GLOC). | |
| Management action plan: | |
| The Office will reinforce its advocacy and send reminders to the Government for the payment of their GLOC commitments. | |
| Estimated completion date: April 2021 | |

2. Payments

During the period under review, the Office processed 4,537 vouchers totalling \$22.7 million. The audit team tested a sample of 15 vouchers valued at \$2 million (9.38 percent of the total amount processed through vouchers). It also tested a sample of 17 vouchers corresponding to advances, direct payments and reimbursements made to two national implementing partners amounting to \$2.5 million and representing 11 percent of the total amount processed through vouchers. From its review, the audit team noted the following:

Issue 6 Gaps in monitoring of nationally implemented project expenses

UNDP must monitor and verify the correct use of advanced funds. UNDP must ensure that advance requests are properly documented, and expenses are consistent with the annual work plan. A funding request in the FACE forms must be accompanied with an itemized cost estimate of the activities to be funded.

The audit team noted that FACE forms submitted by implementing partners to request cash advances did not include the cost estimate of the activities to be implemented by the projects. Only for 1 of the 12 advances and reimbursements tested, an itemized cost estimate of the activities to be funded was provided. The Office did not properly follow up on the expenditures incurred by the implementing partners.

Insufficient financial monitoring of implementing partners might prevent the Office from effectively following up on expenses incurred, impacting project delivery.

| | |
|---|--------------------|
| Priority | Medium (Important) |
| Recommendation 6: | |
| The Office should monitor expenses incurred by implementing partners through itemized cost estimates and expense reports. | |

Management action plan:

The Office will take the necessary actions to ensure full implementation of the recommendation.

Estimated completion date: March 2021

Issue 7 Gaps in monitoring Direct Project Costing

The UNDP policies and procedures state that Direct Project Costing (DPC) is used to charge directly attributable costs incurred by the Country Offices to the development projects. When a stand-alone project method is used, the Office must create periodic reconciliation reports and a year-end redistribution report to distribute the amounts charged to DPC among other development projects.

The audit team noted the following:

- As at 31 December 2019, there was an outstanding DPC balance of \$67,097 not redistributed to development projects. According to the Office, the balance was due to assets incorrectly transferred to the DPC project and not timely cleared.
- The 2019 and 2020 periodic reconciliation reports, including the summary of expenses incurred in a DPC stand-alone project, were not shared with the audit team. The audit team, therefore, could not ascertain that these expenses qualified for DPC.
- The 2019 redistribution report, supporting the redistribution of DPC costs among the Office's development projects, did not clearly state the account, fund and activity of the development programme to which the costs were redistributed.

The lack of effective monitoring of Direct Project Costing may prevent the Office from adequately distributing direct project costs among development projects.

| | |
|--|--------------------|
| Priority | Medium (Important) |
| Recommendation 7: The Office should improve Direct Project Costing monitoring by: <ul style="list-style-type: none"> (a) timely clearing Direct Project Costing balances; and (b) performing periodic reconciliations and including information on accounts, funds and activities in the redistribution reports when the stand-alone project method is used. | |
| Management action plan: <ul style="list-style-type: none"> (a) The Office will ensure bi-annual clearing of the Direct Project Costing account. (b) The Office will ensure that quarterly redistribution reports and summary expense reports are produced on time. | |
| Estimated completion date: March 2021 | |

D. Operations – Administrative services

1. Travel

Issue 8 Inefficiencies in travel management

In order to achieve successful economic performance, the UNDP travel policy strongly recommends that airline tickets be purchased at least 21 days in advance when travelling in business class and 14 days when travelling in economy class.

Out of the 14 international travel tickets purchased, none of them complied with the recommended timelines. In 9 out of the 14 cases, the tickets were bought within days ranging from two to five days prior to the travel dates.

Exceptions were caused by ineffective oversight over the travel activities. Inadequate management of travel might result in financial losses for the Office.

| | |
|---|--------------------|
| Priority | Medium (Important) |
| Recommendation 8: | |
| The Office should improve travel management and comply with the UNDP travel policy by organizing travel arrangements as early as possible and within the timelines stated in the UNDP policy. | |
| Management action plan: | |
| The Office will ensure that travel requests are processed within the stipulated timelines. | |
| Estimated completion date: March 2021 | |

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.