UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

UGANDA

Report No. 2276

Issue Date: 9 December 2020

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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 14 to 25 September 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 $30 million. The last audit of the Office was conducted by OAI in 2018.

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; and
(e) The information communication and technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **partially satisfactory/major improvement needed**, which means that "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 inefficiencies in programme delivery and financial sustainability.

Key recommendations: Total = **4**, high priority = **2**

The four recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	4	High
Effectiveness and efficiency of operations	1	High
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3	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. Both high (critical) priority recommendations are presented below:

Low programme delivery (Issue 1)	Programme delivery was low during the 2016–2020 programme cycle. By 30 June 2020, with 2020 being the last year of its programming cycle, the Office had achieved a delivery of approximately $65 million (50 percent) against the target of $129 million. This was caused by the low delivery of nationally implemented (NIM) projects. Recommendation: The Office should improve programme delivery by: (a) assessing the causes for low programme implementation and developing an action plan to fast track implementation; and (b) based on the results from the assessment conducted, considering switching to direct implementation modality or applying full Country Office support to national implementation.
Financial sustainability of the Office at risk (Issue 4)	The Office had significantly higher management costs than the average of Country Offices of the Regional Bureau for Africa. The key driver to this was the Office's staffing costs. Further, the programme staffing was high as compared to an office with comparable programme delivery and number of projects in 2018 and 2019. As of December 2019, the number of programme personnel was 81, whereas the comparable office had 62. The core to non-core resources ratio had an annual average standing at 1:1 from 2016 to 2019, which was well below Regional Bureau for Africa average of 1:3. There was a large Government Contributions to Local Office Cost (GLOC) balance of $2.7 million, including 2020 targets, that remained outstanding at the time of audit. Recommendation: The Office should improve financial sustainability by: (a) developing and implementing an action plan to improve the financial sustainability situation and defining measures to reduce its management costs; (b) increasing non-core resource mobilization efforts; and (c) formally following up and agree with the Government on a timetable to recover the Government Contributions to Local Office Cost arrears.

Implementation status of previous OAI audit recommendations: Report No. 2014, 21 December 2018.
Total recommendations: 8
Implemented: 8

Management comments and action plan

The Resident Representative accepted all 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.

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Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Kampala, Uganda (the Country) and its Country Programme covered the period 2016–2020 with the following development priorities:

a) inclusive, effective governance; and
b) sustainable, inclusive economic development.

During the period from January 2019 to June 2020, the Office spent $21 million on development activities, a decrease of 3 percent compared to the previous period.

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

Title	Expenditure Jan–Dec 2019 $million	Expenditure Jan–Jun 2020 $million
Institutional Effectiveness Programme	3.9	1.8
Peace and Security for Systems Resilience	2.9	0.6
Inclusive Green Growth	2.5	0.3
Building Resilient Communities, Wetland Ecosystems	0.9	0.6
Climate Change Resilience And DRR	0.9	0.3
Total	**11.1**	**3.6**

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
Republic of Korea	6.7
Multi Partner Trust Funds	4.4
Global Environment Facility (GEF)	4.4
Total	**15.5**

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Human resources. The recruitment of staff and service contractors, the completion of UNDP mandatory courses and Performance Management and Development (PMD) were in line with operational procedures.

(b) Administrative services/Travel management. Procedures were found to be adequate in terms of authorization, travel arrangements and payments.

(c) Administrative services/Common services. Procedures were found to be adequate. The common services budget was prepared in consultation with participating agencies, dues were timely received, and payments were properly authorized.

OAI made two recommendations ranked high (critical) and two 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 financial sustainability (Recommendation 4).
(b) Improve programme delivery (Recommendation 1).

Medium priority recommendations, arranged according to significance:
(a) Improve assurance and risk management (Recommendation 2).
(b) Strengthen procurement processes (Recommendation 3).

The detailed assessment is presented below, per audit area:

A. Governance

1. Planning & Risk Management

Issue 1 Low programme delivery

Country Offices are expected to deliver results within the budget and timeframe agreed with governments in the Country Programme Document.

Programme delivery was low during the 2016–2020 programme cycle. By 30 June 2020, with 2020 being the last year of its programming cycle, the Office had achieved a delivery of approximately $65 million (50 percent) against the target of $129 million.

The low programme delivery was caused by the low delivery of nationally implemented (NIM) projects, which accounted for 40 percent of the total development projects. The Office's management, on board since mid-2019, indicated that the national implementing partners faced challenges in meeting the capacity needed to implement the programmes. The Office hired, in mid-2020, a Technical Advisor to fast track and support project implementation. The Office had also initiated support services to two NIM projects in 2020. However, it was not possible to assess the impact of these measures given the COVID-19 related delays in the implementation of activities.

Underutilization of available resources results in lower delivery and may put the Office's sustainability and the achievement of Country Programme Document results at risk.

Priority	High (Critical)
Recommendation 1: The Office should improve programme delivery by: (a) assessing the causes for low programme implementation and developing an action plan to fast track implementation; and (b) based on the results from the assessment conducted, considering switching to direct implementation modality or full Country Office support to national implementation.	

Management action plan:

(a) The Office has taken time to assess the causes for the low implementation of projects, both internally and with stakeholders. The Office developed a detailed Delivery Action Plan to accelerate implementation and meet delivery targets by the end of this year and ensure momentum on implementation is maintained in the next cycle.

(b) The recommendation to switch to direct implementation or full Country Office support to national implementation is agreeable and management will discuss this with the relevant government counterparts to ensure acceptance of the same.

Estimated completion date: July 2021

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.

B. Development Activities

1. Implementation Modalities

Issue 2 Inadequate project assurance and risk management

UNDP's Harmonized Approach to Cash Transfers (HACT) policy requires that spot checks[1] of implementation partners be undertaken in line with the HACT assurance plan. These spot checks must be conducted by independent audit firms, or if Office staff conduct spot checks, prior authorization is required from the Headquarters HACT focal point.

In addition, project risks should be identified and managed using the project management module of Atlas (enterprise resource planning system of UNDP).

During the audit period, a total of 25 implementing partners received advances amounting to $5.5 million. The Office's HACT assurance plan did not cover all entities that should have been included in the spot check plans for 2019 and 2020. In 2019, out of the seven implementing partners requiring spot checks, three were not included in the spot check plan, while in 2020, out of the 11 implementing partners requiring spot checks, 5 were not included in the plan.

Out of the four planned HACT spot checks in 2019, two were not undertaken. And the remaining two spot checks were undertaken by the Office staff without obtaining prior authorization from the HACT focal point. Further, no working papers supporting the execution of these spot checks were provided to the audit team.

In 2020, none of the spot checks planned had been undertaken as of September 2020; total advances disbursed to implementing partners amounted to $2.1 million. The Office stated that it had prepared the

[1] Spot checks are performed to assess the accuracy of financial records for cash transfers to IPs, status of the programme and whether there have been any significant changes to applicable internal controls.

terms of reference for contracting an audit firm to perform the spot checks. At the time of audit, the selection of the audit firm was not completed.

The audit team noted that project risk logs were not routinely updated in Atlas. No updates had been done in 2020 for any of the projects. It was noted that for one project reviewed, the risk logs were last updated in 2016.

Failure to undertake spot checks may result in undetected financial management weaknesses that could result in losses for the organization.

Priority	Medium (Important)

Recommendation 2:

The Office should improve assurance and risk management by ensuring that:

(a) all implementing partners that require spot checks are included in the HACT assurance plan;
(b) Spot checks are conducted according to the assurance plan by independent audit firms, or by the Office if authorized by the HACT focal point, ensuring the review is duly documented; and
(c) project risks are routinely identified, documented and mitigated using Atlas.

Management action plan:

(a) The Office agrees with this recommendation; all implementing partners that meet the criteria for spot checks have now been included in the plan.

(b) An independent audit firm has been recruited to undertake the spot checks and the exercise is underway.

(c) The Office is already taking measures (for example, improving its business processes, strengthening the management support unit with additional staff for oversight, holding refresher training for programme staff) to ensure that project risks are routinely identified, documented and mitigated using Atlas.

Estimated completion date: August 2021

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. Operations

1. Procurement/Goods & Services

Issue 3 Inefficiencies in procurement processes

Procurement processes in UNDP must contract services and products at best value for money with fairness, transparency and integrity. Procurement processes need to be efficient, by planning the required services and goods in a timely manner.

The audit team reviewed a sample of 15 procurement cases totalling $634,166 (9.6 percent of total procurement worth $6.6 million) and noted the issues below.

a) Weaknesses in procurement processes

- In three procurement cases with a total value of $182,896, the decisions leading to the selection of the vendor were unclear. In one case, no cost-benefit analysis of the vendor's options included in the proposal was undertaken. In another case, a vendor proposal with the highest score was disqualified due to the unsubstantiated explanation that the vendor did not have financial capacity to deliver on the bid. In the third case, there was a substantive change in the terms of reference; however, the procurement processes and contract awarding were based on the original terms of reference.
- In one case valued at $57,105 the requesting unit stipulated a specific brand for the vehicle to be procured. Stipulating brands goes against organizational rules and regulations and disqualifies bids from vendors who may offer a similar product at better value for money.
- In two cases valued at $124,155 the purchase order was created after the procurement process had been completed. In both instances, the Office stated that the purchase orders could not be created until budgets were confirmed; the Office was unable to explain why the procurement process was initiated when funds availability had not been confirmed.

The foregoing was due to inadequate oversight over the procurement process.

b) Pace of procurement processes

- In two cases valued at $64,607, the procurement process was lengthy, resulting in delays. In one case amounting to $57,105, the initial request was sent in May 2018 and the procurement process was initiated in September 2018. The process was completed in January 2019, after the validity of the quotes had already expired. In the second case amounting to $7,501, the initial request from the implementing partner was in 19 November 2019 with delivery of items needed to be between December 2019 and January 2020; however, the goods were only procured in March 2020.

- The audit team found that the Office's procurement workflow contributed to the delays in the procurement process. The current process starts with the request from implementing partners, then the Office creates an internal memo. This memo must be signed-off by the programme manager and Deputy Resident Representative before the procurement can be initiated. These memos caused delays and did not add value as the information in the memo duplicated the request sent by the implementing partner.

Weak procurement processes may not ensure value for money in relation to the quality of goods and services is obtained.

Priority	Medium (Important)
Recommendation 3: The Office should strengthen procurement processes by: (a) improving controls and oversight over the procurement process so that decisions on awarded vendors are adequately justified, evaluation of proposals are based on valid terms of reference,	

specifications of items on requisitions are generic, and procurement is initiated when funds are available and purchase orders are timely issued; and (b) reviewing and streamlining the procurement workflow to eliminate steps that cause delays and impact efficiency.
Management action plan: The Office agrees with the issue of strengthening procurement processes with key actions to take, as indicated below: (a) The Office has reviewed the business processes and put in place procedures to eliminating those that are bureaucratic and eliminating those that do not add value. (b) The Office has put in place improved controls and oversight in procurement processes including streamlining business processes. **Estimated completion date:** June 2021
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.

2. Finance/Office Budget and Cost Recoveries

Issue 4 Financial sustainability of the Office at risk

Strategic planning processes require offices to consider income and expenditures, expenditures must remain within the limits of available income to ensure financial sustainability. Offices are also required by the 'UNDP Programme and Operations Policies and Procedures' to work with host governments for the timely collection of Government Contributions to Local Office Costs (GLOC) in accordance with corporate targets.

The Office had significantly higher management costs than the average of Country Offices of the Regional Bureau for Africa. The management ratio[2] for the Office was 15 and 12 percent in 2018 and 2019, respectively, while the management ratio of the Regional Bureau for Africa was at 9.6 and 8 percent in the respective years. The key driver to the high management costs was the staffing costs, which stood at 75 and 66 percent in 2019 and 2018, respectively.

Further, the programme staffing was high relative to another UNDP office with comparable programme delivery ($17 million) and number of projects in 2018 and 2019. As of December 2019, the number of programme personnel was 81, whereas the comparable office had 62. There were large differences in programme delivery to personnel ratio among the four outcome areas. Outcome 2, aligned with institutional effectiveness, yielded $3 million per personnel, whereas all the other pillars yielded one third of this delivery (range of $1 million per personnel).

[2] Management ratio measures operational efficiency of UNDP offices by comparing the total management expenses to the total expenses incurred for all UNDP activities for the current period based on the Integrated Results and Resources Framework (IRRF). The corporate target is set at 8 percent.

The core to non-core resources ratio had an annual average of 1:1 from 2016 to 2019. This was higher than the 1:3 bureau average, and the 1:2 target that the Office had set out to achieve by December 2018 in its 2016 Resource Mobilization Strategy.

There was a large GLOC balance of $2.7 million, including 2020 targets, that remained outstanding since 2008. The Office indicated that there had been verbal discussions with various levels of Government on this subject in 2020, but this had not been followed up on in writing since 2019.

While the income to management costs ratio in 2019 was reasonable at 78 percent, this ratio stood at 28 percent for 2020 at the time of the audit. This was explained by the low delivery, which had negatively impacted the collection of management fees as well as GLOC.

No documented financial sustainability analysis had been undertaken to indicate the financial situation of the Office.

High management costs may put the Office's operations at risk. High dependency on core resources and low resource mobilization may prevent the Office from achieving development objectives.

Priority High (Critical)
Recommendation 4 The Office should improve financial sustainability by: (a) developing and implementing an action plan to improve the financial sustainability, and defining measures to reduce its management costs; (b) increasing non-core resource mobilization efforts; and (c) formally following up and agreeing with the Government on a timetable to recover the Government Contributions to Local Office Cost arrears.
Management action plan: The Office agrees with the recommendations for improvement of financial sustainability with actions to take as follows: (a) The Office has embarked on the process of developing a financial sustainability action plan covering the new 5-year programme period 2021–2025. The Office continues to implement cost containment measures and focus on the delivery acceleration plan. (b) The Office has been intensively engaging in resource mobilization efforts; for example, in 2020 the Office mobilized approximately $7 million for an election's basket fund. This remains a priority for the Office, which is updating the Partnership and Resource Mobilization Strategy to align with the vision of the new Country Programme 2021–2025. (c) The Office has discussed GLOC with the Government. The Office followed up with the Government and at the portfolio review meeting in November 2020; this issue was raised again with the relevant government ministry and will continue to be followed up. **Estimated completion date:** December 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 <u>not included in this report</u>.