

# Internal Audit of the Uganda Country Office

November 2020

Office of Internal Audit  
and Investigations



Report 2020/14

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## Audit objectives and scope

The objective of the audit was to provide assurance as to whether there are adequate and effective governance, risk management and control processes over key risk areas in the country office. These processes should ensure: achievement of the office's objectives related to reliability and integrity of financial and operational reporting; effectiveness; efficiency of operations and economic acquisition of resources; safeguarding of assets; and compliance with relevant policies and contractual arrangements.

This report presents the more important risks and issues found by the audit, the measures agreed with Uganda country office to address them, and the timelines and accountabilities for their implementation. It does not include lower-level risks, which have been communicated to the office during the audit.

## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Uganda Country Office. The objective of the audit was to provide assurance as to whether there are adequate and effective governance, risk management and control processes over key areas in the country office. The audit covered the period from 1 January 2019 to 31 July 2020. It was performed remotely from 6 July to 7 August 2020 through online interviews with staff, implementing partners, the Resident Coordinator and donors; document reviews and transaction testing; a virtual warehouse visit; and data analysis.

### The UNICEF country programme

The 2016-2020 Uganda country programme has four key components: *Child survival and development*; *Basic education and adolescent development*; and *Child protection*. The overall approved budget for the five-year programme is US\$ 316 million. The majority of expenditures for the period under review were related to child survival and development, basic education, adolescent development and child protection. In addition to the regular programme budget, Uganda is also subject to a UNICEF humanitarian appeal (which for 2020 is US\$ 50.1 million). This reflects the country's role as a significant refugee-hosting country. There are 226 approved posts, of which 152 are in Kampala and 74 in the three zone offices.

### The key risks

The audit focused on key risks that were identified after an initial risk assessment and review of documentation and data. Some of these key risks were related to external factors; for example, the local operating environment increased the risk of losses caused by fraud, misuse, or diversion. The audit did note some gaps in anti-fraud measures and fraud-risk management practices.

Programme activities were geographically dispersed throughout the country, and a significant number of implementing partners were used to deliver results. These factors increased the risk of insufficient monitoring of programme implementation, which could lead to gaps in oversight and inadequate feedback into programming. The audit did find gaps in results tracking, monitoring and follow-up of activities.

### Results of the audit and actions agreed

The audit noted several controls that worked well. The office had demonstrated its resilience during the COVID-19 lockdown and, to the extent possible, effectively continued programme

delivery and support to its partners and beneficiaries. The office's results framework was well-defined, and the setting of priorities was an inclusive process. The annual workplans were developed in collaboration with the Government and aligned with Government national priorities. Donors interviewed by the audit confirmed constructive relationships and satisfaction with reporting. The 2019 risk assessment exercise had been robust – with a wide staff participation, resulting in a holistic and realistic assessment of risks. The office also strengthened its governance through a revision of working procedures and of membership of statutory committees. An active Staff Committee was an integral part of the office governance processes.

The office monitored the implementation of its procurement plan and HACT assurance plan through regular Country Management Team meetings. There was a quality assurance process for donor reports, and for HACT-related assurance reports.

However, the audit identified a number of areas where risks to UNICEF's activities could be better managed. The office had not prepared a global field-monitoring plan that covered all field offices and the main office in Kampala, and included all programme-related activities. Gaps were noted in the end-user monitoring process, and delays were identified in following-up of the recommendations and required actions resulting from monitoring and assurance activities. Additionally, some risks were noted in fraud awareness, and in partners' knowledge of fraud-related reporting requirements; verification of results reported by partners and national systems; vehicle-related asset management procedures; and monitoring of performance bonds related to construction contracts.

Following discussion with the office, the audit team has recommended a number of measures to address the risks identified. Two are regarded as high priority – that is, requiring immediate management attention. They relate to the need to put in place systematic end-user monitoring, and ensuring timely follow-up of high-priority recommendations and required actions arising from monitoring and assurance activities.

## Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the office were generally established and functioning during the period under audit.

## Background

With a total population of 47.2 million (2018),<sup>1</sup> Uganda has one of the youngest and fastest-growing populations in the world. Fifty-seven percent of its citizens are under the age of 18 and this is expected to double by 2040. Rapid population growth, urbanization and the refugee influx continue to put pressures on the country's social service delivery.

Uganda has made recent progress in improving child survival and development and access to safe water; there have also been declines in under-five mortality, stunting and AIDS-related deaths. However, multiple challenges remain. Uganda ranks 159th of 189 countries on the Human Development Index (2019), and 56 percent of children suffer from multi-dimensional poverty. The impact of the coronavirus disease 2019 (COVID-19) pandemic is expected to exacerbate poverty further.

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<sup>1</sup> World Bank Open Data database.

Uganda continues to confront a range of simultaneous humanitarian crises and is one of the largest refugee-hosting countries in the world; according to UNHCR, it was host to 1.36 million refugees in 2019, from Democratic Republic of Congo, South Sudan and the Great Lakes Region. Children make up 60 percent of refugee populations. While Uganda has adopted a progressive and generous refugee policy, the rapid and unpredictable growth in refugee populations has placed severe strain on host communities, service delivery and local governance capacities.

Across all sectors and programmes, the challenges are broadly similar. Progress has been achieved but gains are fragile, and the pace of improvement is slowing. The increasing demands of a rapidly growing population, the impact of refugee flows, urbanization, disease outbreaks and climate-related events have collectively outpaced Uganda's moderate economic growth, stagnant budget allocations and strained capacities to plan and deliver essential social services.

The 2016-2020 Uganda country programme has four key components: *Child survival and development*; *Basic education and adolescent development*; *Child protection*; and a cross-sectoral component.<sup>2</sup> The overall approved budget for the five-year programme is US\$ 316 million. The majority of expenditures for the period under review were related to child survival and development, basic education, adolescent development and child protection. In addition to the regular programme budget, Uganda is also subject to a UNICEF humanitarian appeal (which for 2020 is US\$ 50.1 million). This reflects the country's role as a significant refugee-hosting country.

UNICEF's child survival and development activities in Uganda focus on four strategic areas, namely reproductive, maternal, neonatal and child health; HIV, AIDS and adolescent health; nutrition; and water, sanitation and hygiene (WASH). The ultimate objective is to strengthen national capacity to deliver improved health and nutrition outcomes for vulnerable groups and contribute to sustained improvements in population dynamics. In addition, the basic education and adolescent development component aims to ensure an effective, efficient and well-resourced formal and non-formal quality education system through the implementation of three key strategic areas: early childhood development; quality of basic education; and adolescent development.

UNICEF's country office in Uganda also works with its partners to establish a comprehensive and functional national and subnational system to prevent gender-based violence and violence against children; it also aims to deliver quality and equitable response services to survivors and victims. This is ensured through the implementation of activities in three key strategic areas: child protection systems; justice for children; and birth registration.

The country office is in Kampala and there are three zone offices, in Gulu, Mbarara and Moroto. There are 226 approved posts, of which 152 are in Kampala and 74 in the zone offices.

## Audit observations

### End-user monitoring

From January 2019 to June 2020, the office had raised 1,108 purchase orders for supplies and services (including construction), amounting to a total of US\$ 36 million. Approximately 40 percent of the US\$ 36 million was for programme supplies meant for distribution to end-users through implementing partners.

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<sup>2</sup> The cross-sectoral component includes social policy and advocacy, strategic communication and partnerships, and coordination, planning and monitoring.

The audit identified gaps in the tracking of supplies to the beneficiary level, impairing the office's ability to validate the distribution of supplies reported by partners. Additionally, there was insufficient evidence of end-user monitoring performed directly with beneficiaries to obtain first-hand knowledge on the quality, appropriateness and usefulness of supplies and services delivered and provided. Inadequate beneficiary feedback may reduce the office's ability to properly account for the supplies delivered. It could also reduce useful feedback into planning and forecasting of programmatic interventions, including provision of supplies and services.

**Agreed action 1 (high priority):** The office agrees to implement appropriate measures to strengthen the tracking of supply distribution to beneficiaries and to establish first-hand whether the supplies procured and services delivered were appropriate, useful and of the specified quality.

**Responsible staff members:** Deputy Representative Programmes; Chief of Planning, Monitoring & Evaluation; Supply & Logistics Manager

**Date by which action will be taken:** April 2021

### Follow-up of actions from monitoring and assurance activities

Cash transfers to implementing partners from January 2019 to July 2020 amounted to US\$ 36.5 million,<sup>3</sup> of which US\$ 19.3 million (53 percent) was transferred to Government implementing partners, and US\$ 17.2 million (47 per cent) to NGOs.

UNICEF country offices must ensure funds disbursed to partners are used for the intended purposes and must also monitor progress towards results. To provide reasonable assurance in these respects, UNICEF and certain other UN agencies have adopted the Harmonized Approach to Cash Transfers (HACT). This is a risk-based framework to assess the risk of a particular partner and use the results to determine the most suitable cash-transfer method to be used, and the number and frequency of assurance activities. The latter include programmatic visits that assess the progress of activities and achievement of results, and report any constraints. They also include spot checks of the partner's financial management, scheduled audits when required, and special audits according to need. These HACT-related procedures are complemented by other ongoing programme-monitoring activities outside the HACT framework.

UNICEF offices also undertake appropriate follow-up to ensure that any recommendations arising from these monitoring and assurance activities have been implemented promptly and as intended. This follow-up is a significant part of obtaining assurance on the use of funds provided to partners, as assurance activities are clearly of less use if their findings are not used properly.

However, the audit found insufficient evidence that the office had followed up these findings and ensured that partners improved their cash management or assigned activities as advised. Specifically, the audit noted that there were delays in the closure of recommendations from HACT-related programmatic visits and spot checks, primarily due to inadequate and ineffective follow-up. Approximately 24 percent of the 713 high-priority recommendations from programmatic visits, and 29 percent of the 56 recommendations from spot checks, had been outstanding for over a year at the time of the audit. Some of the most significant outstanding recommendations related to ineligible expenditures and/or inadequate supporting documentation; delay in following these up would increase risks related to fraud, and to misuse or misappropriation of funding.

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<sup>3</sup> This includes direct cash transfers (DCTs), direct payments and reimbursements.

There was also insufficient follow-up of recommendations from non-HACT monitoring reports. Out of the 27 recommendations in a sample of 10 such reports, seven had been identified for follow-up and recorded in eTools.<sup>4</sup> Of the seven, three had been closed; the remaining four had been outstanding for 10 to 12 months as at the time of the audit. (The audit also made some observations about programme monitoring in general; these are discussed in *Programme monitoring*, below.)

Non-implementation of recommendations arising from assurance and monitoring activities means that observed issues of possible mismanagement might not be rectified promptly. Cash transfers could thus continue to be exposed to significant risk of misstatement or unintended use, even though the risk has been identified.

**Agreed action 2 (high priority):** The office agrees to implement an appropriate mechanism to ensure that actions resulting from monitoring and assurance activities are promptly implemented and mitigate the underlying risks identified by those activities.

**Responsible staff members:** Deputy Representative Operations; Deputy Representative Programmes; Chief of Planning, Monitoring & Evaluation; Programme Specialist QA

**Date by which action will be taken:** April 2021

## Programme monitoring

Programme monitoring activities should be adequately planned and resourced, with appropriate skills, and should be executed as planned. Otherwise an office runs an increased risk of not detecting major gaps in the use of resources, and/or non-achievement of results.

In the Uganda Country Office, the primary responsibility for undertaking programmatic field monitoring visits lay with the individual programme sections and with zone offices. A review of the planning, resourcing and execution of programme monitoring activities noted the following.

**Resources and capacity:** The office did not have the resources and capacity to conduct all of the required field-monitoring activities and ensure consistent follow-up of findings. This reduced the office's ability to track the progress of programme implementation properly, and ensure timely achievement of results. However, although the office had identified third-party monitoring services as a mechanism to address this, it had not yet used them. Some country offices have found such services useful, especially for locations that are inaccessible to UNICEF personnel or in situations of inadequate or overstretched resources. In Uganda also, such services might improve the quality and independence of monitoring activities and contribute to achievement of planned results.

**Planning and execution:** To ensure adequate monitoring coverage and identify bottlenecks and barriers to the UNICEF programme, field-monitoring activities need to be adequately resourced, planned and executed. The office did not have a comprehensive office-wide field-monitoring plan with the target coverage, a timetable for visits, and partners and specific sites to be visited. Instead, the sections and zone offices developed their own individual plans. This could lead to gaps in monitoring coverage, and make monitoring less effective and efficient due to the absence of synergies between different monitoring activities.

**Agreed action 3 (medium priority):** The office agrees to:

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<sup>4</sup> A suite of tools designed by UNICEF to help offices keep track of various functions. The different components are currently being introduced across UNICEF offices.

- i. Consider the use of third-party monitoring services, especially in remote, inaccessible and security-compromised areas where staff cannot, or cannot easily, go.
- ii. Consistently implement an office-wide field-monitoring plan with integrated specialized monitoring activities (e.g. supplies, construction/civil works), to ensure appropriate and risk-based coverage, scale and frequency of field-monitoring visits.

**Responsible staff members:** Deputy Representative Programmes; Chief of Planning, Monitoring & Evaluation; Chief Field Operations; Programme Specialist QA; Supply & Logistics Manager

**Date by which action will be taken:** June 2021

## Results reporting

Offices disclose results in the results assessment module (RAM),<sup>5</sup> as well as in their annual reports and donor reports, among other places. Inaccurate reporting by a UNICEF office or programme could put donor relations and funding at risk, as well as creating broader reputational risk for the country office and UNICEF in general. It is thus important that offices' results as reported are based on adequate indicators and documentation.

In 2019, the office reported in RAM that six of the seven programme outcomes and 25 of the 27 outputs were on track, and that one outcome and two outputs were constrained.<sup>6</sup> The office had issued 75 donor reports in 2019 and 50 in 2020 (as of 30 July 2020). All reports were issued on time. The office had a quality assurance review process for the preparation of donor reports.

The audit noted that the office relied heavily on information obtained primarily through national data sources or submitted by implementing partners in their progress reports. In some cases, the results reported by national authorities and implementing partners had been cross-checked against other sources. However, there was no consistent process in place to ascertain the accuracy of (self-)reporting by implementing partners, or any systematic verification of data obtained from national information sources. This may increase the risk of undetected inaccuracies in results reported by the Uganda office.

The audit acknowledged that the office had recognized the gaps in the accuracy and reliability of data, especially at the level of national information systems. The office had included the strengthening of the national information system as part of the overall national capacity building measures. This is consistent with the overall strategy of a shift from service delivery to upstream programming, as noted in the strategic documents.

**Agreed action 4 (medium priority):** The office agrees to institute an effective mechanism to obtain reasonable assurance over the accuracy of key results reported by partners. It should consider obtaining this assurance through testing the accuracy of a sample of reported results and/or systematic third-party monitoring process.

**Responsible staff members:** Deputy Representative Programmes; Chief of Planning, Monitoring & Evaluation; Chief Field Operations; Programme Specialist QA; Supply & Logistics Manager

**Date by which action will be taken:** June 2021

<sup>5</sup> An online portal through which the results of offices can be viewed across the organization.

<sup>6</sup> An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change that will significantly contribute to the achievement of an outcome. Thus, an output might include (say) the construction of a school or clinic, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.



## Fraud awareness, prevention and detection

The office works in an inherently high-risk environment as regards fraud. The 2019 Transparency International Corruption Perception Index ranked Uganda at 137 out of 180 countries – up from 149 in 2018, but still indicating a very high level of corruption perception, primarily in the public domain.

The office had taken account of this in its 2019 annual risk assessment, in which it included wider internal and external fraud-related risks (e.g. bribery, corruption, diversion of funds/supplies, collusion etc.), and rated them at a level that reflected the high-risk operating environment. In line with the criticality of the risks, the office identified multiple actions to mitigate them, in particular mandatory staff training, enhanced monitoring and a strong focus on ethics. It had also strengthened training and capacity building of implementing partners to include anti-fraud elements.

The implementing partners interviewed by the audit had a general understanding of fraud and mostly referred to their own organizations' internal policies regarding fraud prevention/detection, whistleblowing and other areas. However, three of the seven partners' staff interviewed were not aware of any training provided by UNICEF on the issue and lacked a clear understanding of UNICEF's fraud reporting requirements. Additionally, some of the gaps identified by the audit and noted in this report – especially in the areas of assurance and monitoring – may further increase the risks of inadequate detection of, and response to, fraud or other proscribed practices.

The office recognized a continued need for specific measures to increase fraud awareness, including fraud reporting among implementing partners and beneficiaries, as well as the need to strengthen the overall monitoring processes. This is critical given the number of irregularities noted by the office in its HACT assurance activities, including fraud cases and misuse of funds involving implementing partners.

**Agreed action 5 (medium priority):** The office agrees to strengthen the promotion of anti-fraud awareness among implementing partners and extend it to the beneficiaries, by reinforcing awareness measures as foreseen by the UNICEF Anti-Fraud Strategy (e.g. require partners to implement adequate anti-fraud/whistleblowing policies as part of capacity-building measures; provide localized posters at project sites on fraud reporting).

**Responsible staff members:** Deputy Representative Operations; Programme Specialist QA; Finance Manager; Planning Specialist

**Date by which action will be taken:** April 2021

## Asset management

The office had issued standard operating procedures (SOPs) on asset management, including vehicles donated or loaned to implementing partners for their use in programme activities. According to VISION, the office had 62 vehicles in its fleet and 35 vehicles on loan to partners as of July 2020.

The audit's review of the office's vehicle management noted that the records in UNICEF's management system, VISION, did not accurately reflect the actual number of vehicles in its fleet and the vehicles on loan to the implementing partners. For example, five vehicles which had been donated to the implementing partners in 2018-2019 were still recorded as vehicles on loan. Likewise, two vehicles that had already been donated were still considered as part of the office's fleet. On the other hand, two vehicles which had been in use by the office since their acquisition in 2015 were not recorded in VISION.

The audit also noted that, as of July 2020, 13 vehicles were still in the possession of the implementing partners although the relevant vehicle loan agreements had expired up to seven years earlier. There is hence a risk that the office may be liable for claims or lawsuits from vehicular accidents. Additionally, the 13 vehicles could have been reassigned, on expiry of the loan agreements, to other partners whose need for these vehicles might be greater. Meanwhile four vehicles (three of which were already on loan and one of which was an office vehicle) that had been donated to the implementing partners did not have donation agreements. In that case, the office may be made liable for taxes, duties and fees for the transfer of ownership or subsequent disposal of the vehicle.

**Agreed action 6 (medium priority):** The office should:

- i. Perform regular reconciliation of records between VISION and the actual number of office vehicles and vehicles on loan.
- ii. Monitor the expiry of vehicle loan agreements and ensure their prompt renewal if required.
- iii. Consistently sign and file donation agreements before the handover of vehicles to partners.

**Responsible staff members:** Deputy Representative Operations; Administrative Specialist; Programme Specialist QA

**Date by which action will be taken:** April 2021

## Procurement and contract management

From January 2019 to June 2020, the office had raised 1,108 purchase orders for supplies and services (including construction) amounting to a total of US\$36 million. Institutional contractual services accounted for 60 percent of the contract values. The office had prepared procurement plans related to supplies and institutional contractual services and consistently monitored their implementation throughout the period under review.

The audit reviewed a sample of 25 purchase orders covering supply procurement and service contracts. It mostly did not identify any reportable issues based on the samples tested. However, it did note that, in four of the six construction contracts sampled (amounting to US\$ 3.4 million), the performance bonds expired before issue of the certificate of substantial completion. This happened because the validity dates of the performance bonds had not been systematically monitored in relation to the individual contracts' completion. Without a valid performance bond, the office would not be compensated by the issuing bank for any failure of the contractors to perform the agreed services.

The audit also noted that, among the 17 institutional contracts sampled (with an aggregate value of US\$6 million), the contractor's performance was not evaluated in one of the two institutional contracts for which the services had been delivered and paid. In fact, since 2018 the office had secured the services of and concluded seven contracts with the institutional contractor in question (for a total value of US \$1 million); however, the contractor's performance had not been evaluated. The lack of a performance evaluation creates a risk that the office might re-engage a contractor despite poor previous performance.

**Agreed action 7 (medium priority):** The office agrees to:

- i. Establish a monitoring mechanism to ensure that the performance bonds are valid 30 days after the certificate of substantial completion is issued.
- ii. Ensure that the performance of contractors is periodically evaluated.

**Responsible staff members:** Supply & Logistics Manager; Finance Manager **Date by which action will be taken:** January 2021

## Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions, and a virtual visit to a warehouse in Kampala. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

The audit was executed remotely. While the audit team enhanced its audit planning process and adapted audit procedures to fit the remote audit execution, limitations of a remote audit approach were recognized by the Institute of Internal Auditors as follows:

- First-hand observations of processes, sites, and persons cannot be replaced by online interaction and documentary evidence. Critical aspect, gaps or material misstatements may be missed.
- Remote auditing makes it hard to build rapport with auditees, as opportunities to provide hints, tips, and observations for improvement are lost. It is hard to identify best practices or describe things that others may benefit from, outside of the documentation process.
- The lack of in-person interaction opens other opportunities for fraud, as the opportunity to present doctored documents and to omit relevant information is increased. This may call for a strengthened follow-up audit process once the barriers to a traditional audit lift.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal auditing practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

### Priorities attached to agreed actions

**High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

**Medium:** Action is considered necessary to avoid exposure to significant risks. Failure

to take action could result in significant consequences.

**Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

## Conclusions

The conclusions presented in the Summary fall into one of four categories:

***[Unqualified (satisfactory) conclusion]***

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the office were generally established and functioning during the period under audit.

***[Qualified conclusion, moderate]***

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the office were generally established and functioning during the period under audit.

***[Qualified conclusion, strong]***

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed improvement to be adequately established and functioning.

***[Adverse conclusion]***

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed **significant** improvement to be adequately established and functioning.