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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN ETHIOPIA

FINAL REPORT
N° IA/2017-07

16 May 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Ethiopia (the Office). The audit covered the period from 1 January 2015 to 30 June 2016. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. The activities covered by the audit correspond to (i) the fourth year of the seventh Country Programme 2012– 2015, approved by the Executive Board in its second regular session 2011, with indicative resources of USD 85.0 million, and (ii) the Programme's six-month extension approved by the Executive Director in September 2015 with information provided to the Executive Board. The latter extension allowed to align the Programme with the United Nations Development Assistance Framework July 2016-June 2020, the Ethiopia fiscal calendar and the Government planning cycle, with additional indicative resources of USD 11.0 million.

3. Expenses covered by the audit amounted to USD 22.3 million executed by 43 implementing partners (USD 11.4 million) and by UNFPA (USD 10.9 million), funded from core resources of USD 9.4 million and non-core resources of USD 12.9 million. In addition the audit covered the supply of reproductive health commodities during the period under review, procured primarily with funding provided by the UNFPA Supplies programme, totalling USD 12.7 million.

4. Approximately 64 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Population and Development, and Gender components accounted for 18 per cent and 12 per cent of the expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of expenses.[1]

Methodology and scope

5. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

6. The scope of the audit included the review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology.

Audit rating[2]

7. The overall audit rating is ***"Some Improvement Needed" –*** which means that the assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited Office should be achieved. Issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

8. Ratings by key audit area are summarized in the following table.

[1] Source: Cognos reports
[2] See complete set of definitions in Annex 1

Audit ratings by key audit area		
Office Governance		**Some improvement needed**
Office management		*Some improvement needed*
Organizational structure and staffing		*Some improvement needed*
Risk management		*Major improvement needed*
Programme Management		**Some improvement needed**
Programme planning and implementation		*Some improvement needed*
National execution		*Some improvement needed*
Inventory management		*Some improvement needed*
Management of non-core funding		*Major improvement needed*
Operations Management		**Some improvement needed**
Human resources management		*Effective*
Procurement		*Major improvement needed*
Financial management		*Effective*
General administration		*Effective*
Information and communications technology		*Not covered due to low assessed risk*
Security		*Not covered due to low assessed risk*

Key findings and recommendations

9. The audit identified some good practices implemented by the Office as well as areas that require Management attention, some of a strategic nature, and others related to operational and compliance matters. Overall, the audit report includes 6 high priority and 10 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 16 recommendations, 4 are of strategic nature; 9 refer to operational matters, and 3 to compliance matters.

Good practices

10. The audit identified several good practices implemented by the Office, some of which could be considered for replication by other offices. The Office properly planned its annual activities using the corporate Strategic Information System; established a Staff Development Committee to ensure that appropriate training is given to newly recruited personnel, as well as refresh and enhance knowledge of existent personnel. The Office also registered a high completion rate of the performance appraisal and development.

11. From a programme management perspective, the Office developed a comprehensive training package for implementing partners, detailing training areas and modules, the duration of each module, and target group. The Office also developed an in-house tracking tool to track shipments of commodities procured through the Procurement Services Branch, from receipt in country up to warehousing. Finally, in the area of operations management, the Office implemented sound filing procedures in the area of human resources, and registered high completion rates of vendor performance assessment and mandatory security training courses.

Strategic level

12. There is a need to complete the review of the Office structure, in the context of the organization-wide structural review, and the implementation of the country programme cycle tracking and monitoring tool. The use of the Strategic Information System should be improved to better manage risks. Further, the quality of baselines and targets for the output indicators defined, as well as indicative resources should be enhanced.

Operational level

13. The Office needs to improve the use of the Strategic Information System to monitor progress towards achievement of Office outputs and milestones. The Office should strengthen the quality of workplans; as well as its personnel skills through training. Further, the Office needs to raise implementing partners' awareness on the need

to maintain detailed documentation supporting UNFPA-funded expenses; enhance the HACT[3] assurance process and the monitoring activities related to visits to service delivery points. Equally important are the need to improve the physical and financial security of inventory, limit requests for no-cost extensions to co-financing agreement, strengthen the Office resource mobilization capacity and the quality assurance of proposals for donor funding; and increase the procurement process cost-effectiveness.

Compliance level

14. The Office needs to ensure compliance with the applicable policies and procedures in the areas of: (i) timely submission of required reports to donors; (ii) UNFPA Supplies funding eligibility requirements; and (iii) better procurement planning.

Management response

15. Management appreciates the audit process which will help the Office to improve the efficiency and effectiveness of its programmes. Management in general agrees with the findings and recommendations made by the audit team, and will ensure timely implementation of the recommendations.

16. The OAIS team would like to thank the Management and personnel of the Office, the East and Southern Africa Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

[3] harmonized approach to cash transfer

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the activities implemented by the Office in the period from 1 January 2015 to 30 June 2016. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over UNFPA's operations in Ethiopia.

3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:

a) The effectiveness and efficiency of the Office operations;
b) The conformity of expenses with the purposes for which funds were appropriated;
c) The safeguarding of assets entrusted to the Office;
d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
e) The reliability of the Office financial and operational reporting.

4. The scope of the audit included the review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.

5. The engagement was conducted by an OAIS team, supported by staff from an external audit firm and by an individual consultant. The audit started on 01 August 2016. A field mission took place from 19 September to 07 October 2016. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at exit meetings held on 07 October 2016. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 13 April 2017, and a final Management response received on 16 May 2017.

II. BACKGROUND

6. Ethiopia is the second most populous country in Africa, with an estimated population of 90 million. Approximately 80 per cent of the population, a quarter of whom are women of reproductive age, lives in rural areas.

7. While showing a decrease, the maternal mortality ratio has remained high at 353 per 100,000 live births in 2015.[4] The total fertility rate declined from 5.4 in 2005 to 4.1 in 2014, and the contraceptive prevalence rate increased from 6.3 per cent in 2000 to 41 per cent in 2014. However, the unmet need for contraceptives is still high at 25 per cent. The 2013 Global Gender Gap Index ranked Ethiopia 118 out of 136 countries, and the 2014 Gender and Development Index ranked Ethiopia 174 out of 188 countries. About 23.8 million girls and women have undergone female genital mutilation, the second highest estimate globally.[5]

8. In addition to over 500,000 internally displaced persons, Ethiopia hosts close to 780,000 refugees, one of the largest number in Africa, the majority of them from Eritrea, Somalia, and South Sudan. Recurrent disasters affect large population groups, with aggravating factors like chronic food insecurity and drought. These situations exacerbate the risk of violence, exploitation and abuse for women and girls.[5]

9. The activities covered by the audit correspond to (i) the fourth year of the seventh Country Programme 2012–2015, approved by the Executive Board in its second regular session 2011, with indicative resources of USD 85.0 million, and (ii) the Programme's six-month extension approved by the Executive Director in September 2015, with information provided to the Executive Board. The latter extension allowed to align the Programme with the United Nations Development Assistance Framework (UNDAF) July 2016-June 2020, the Ethiopia fiscal calendar and the Government planning cycle, with additional indicative resources of USD 11.0 million.

10. Expenses covered by the audit amounted to USD 22.3 million executed by 43 implementing partners (USD 11.4 million) and by UNFPA (USD 10.9 million), funded from core resources of USD 9.4 million and non-core resources of USD 12.9 million. In addition, the audit covered the supply of reproductive health commodities during the period under review, procured primarily with funding provided by the UNFPA Supplies programme, totalling USD 12.7 million.

11. Approximately 64 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Population and Development and Gender components accounted for 18 per cent and 12 per cent, respectively, of the expenses incurred. Costs funded from the Institutional Budget and from programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of expenses.[6]

12. The UNFPA Office in Ethiopia is located in the city of Addis Ababa. During the period under review, the Office was managed by a Representative (who retired in February 2017), assisted by a Deputy Representative, two Assistant Representatives and an International Operations Manager.

[4] Trends in Maternal Mortality: 1990 to 2015 – Estimates by WHO, UNICEF, UNFPA, World Bank Group and the United Nations Population Division
[5] UNFPA Country Programme Document for the Ethiopia (July 2016 – June 2020)
[6] Source: Cognos budgets and expenditures by programme cycle output reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE	SOME IMPROVEMENT NEEDED

Good practices identified

17. The audit identified the following good practices in the area of governance; some of which could be considered for replication by other Country Offices:

a) Annual activities were properly planned: (i) each programme output was linked to one Strategic Plan outcome and output; (ii) each output had at least one output indicator with, at least, one quarterly milestone; and each output indicator was assigned a baseline, target and source; (iii) each output indicator was assigned a responsible team, working on and tracking the achievement of the annual targets and of the related quarterly milestones; and (iv) outputs assigned were adequately reflected in the concerned staff annual performance plans developed using the Performance Appraisal and Development (PAD) system;

b) The Office established a Staff Capacity Development Committee to ensure that proper training is given to newly recruited personnel, and to refresh and enhance knowledge of existent personnel. At the beginning of each year, the Committee conducts a training needs assessment that provides the basis for the Office annual training plan; and

c) Performance appraisal and development activities reflected a high completion rate.

A.1 – OFFICE MANAGEMENT	SOME IMPROVEMENT NEEDED

18. Audit procedures performed in this area included the review of: (a) the Office planning process in 2016; (b) the relevance of the 2016 annual management plan and the implementation level of activities in 2015; (c) the alignment of the 2016 performance plans of key personnel to the Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2015 annual report data; and (f) the level of familiarization of Office personnel with the UNFPA policies and procedures.

19. Based on the work performed, the audit identified one matter that requires Management attention.

Improve the use of the Strategic Information System to monitor progress towards achievement of planned results

20. The Office did not consistently use the Strategic Information System[7] (SIS) to report progress towards achievement of planned results on a quarterly basis, as required by the SIS results reporting process. SIS was used to report and monitor progress as from the third quarter of 2015. Progress as regards the establishment of set milestones was not reported by the Office in previous quarters in 2015, nor in the first quarter of 2016. Progress reporting was, however, timely completed for the second quarter of 2016.

21. Per SIS data, 17 out of 89 milestones defined for the second quarter of 2016 were reported as not achieved. The audit noted that the reasons for under-performance and the actions planned to address their root causes were not systematically documented in the appropriate SIS fields.

ROOT CAUSE	*Resources: Inadequate training* *Guidance: Lack of supervision at the Office level.*
IMPACT	*Limited ability to timely identify and address performance issues*
CATEGORY	*Operational*

[7] The Strategic Information System is the tool used by UNFPA to plan, track and report annual programme and operational activities and programme results

RECOMMENDATION 1	***PRIORITY: MEDIUM***

With support from the Regional Office and from the Programme Division, conduct training sessions on the use of the Strategic Information System to plan, monitor and report on Office activities and programme results, and implement supervisory controls to ensure that progress towards achievement of planned results is reported on a quarterly basis.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Director, ESARO and the Director, Programme Division* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *December 2017*

The Country Office, in consultation with the Programme Division and the Regional Office, will conduct a training and design a follow-up mechanism of the SIS quarterly milestones report to make sure that the root causes for targets that were not achieved are properly documented and an action plan is prepared to address the issue. The Regional Office is committed to providing capacity building to the Office though training on SIS/myResults.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING	**SOME IMPROVEMENT NEEDED**

22. At the time of the audit field mission, the Office had 49 approved staff posts, including 7 international and 19 national professional posts, 23 general service posts, and an additional 16 posts filled by contract personnel.

23. Audit work performed in this area included the review of: (a) the alignment of the organizational structure and personnel arrangements with the requirements for the delivery of the Office programme and operational activities; (b) the use of proper contractual modalities; (c) the effectiveness of the performance planning and appraisal process; and (d) the relevance and sufficiency of staff development activities conducted during the period under review.

24. Based on the work performed the audit noted the following two matters that need Management attention.

Promptly review the Office structure

25. A re-profiling exercise was undertaken in April 2016, with support from the East and Southern Africa Regional Office (ESARO), to align the Office human resources to the eighth Country Programme July 2016 – June 2020 delivery requirements. The alignment process implementation would mainly result in the creation of a Resource Mobilization and Partnership Specialist position, as well as an increase in the number of Regional Programme Officers tasked with managing programme implementation in regions. At the time of the field audit work, the alignment proposal had yet to be approved by ESARO. The delayed recruitment of the Resource Mobilization and Partnership Specialist may have contributed to the Office inability to achieve its resource mobilization targets (see paragraph 73 of the report).

26. Based on discussions with Office Management, limited financial resources is the main reason for the delay in approving the new Office structure. It should be noted that a broader organization-wide structural review, including all business units, is underway.

ROOT CAUSE	*Resources: Insufficient financial resources*
IMPACT	*Lack of alignment of the Office structure and personnel to programme and operations needs adversely affect the achievement of results.*
CATEGORY	*Strategic*

RECOMMENDATION 2	***PRIORITY: HIGH***

Promptly review the Office structure with focus on resource mobilization capacity.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Director, ESARO, with support from the Director, Division for Human Resources — STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Regional Office recommended in the restructuring report, that the Country Office needs a dedicated Resource Mobilization/Partnership and External Relations Specialist (ICS10) position. It also recommended that the resource mobilization capacity in the Country Office be strengthened by including elements in the TOR of all relevant staff. This is being considered within the context of the global structural review of the Organization.

Improve personnel capacity through training

27. The Office annual training plan, developed based on the training needs assessment developed by the previously mentioned Staff Capacity Development Committee, could be improved by indicating the estimated cost and funding source for each planned training.

28. The audit noted that, due to budgetary constraints, the training plan was not consistently implemented, and that the cost of the training activities undertaken was predominantly funded from core resources, reflecting a lack of compliance with the cost recovery policy requirements to avoid undue burden on core resources. The audit also noted that mandatory trainings were not fully complied with. Management was aware of this issue and has taken action to address it – which improved the level of compliance with security training requirements. However, the level of completion with other mandatory trainings was still insufficient at the time of the field audit mission.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.* *Resources: Insufficient financial resources.*
IMPACT	*Capacity gaps may adversely impact programme delivery.* *Cross-subsidization of non-core funded activities from core resources, at a time of diminished core funding, originates additional financial constrains for the Fund.*
CATEGORY	*Operational.*

RECOMMENDATION 3 ***PRIORITY: MEDIUM***

Enhance the annual training plan to reflect estimated costs and funding sources, ensuring a fair allocation of training costs to programme funding sources; raise personnel awareness of the need to complete all mandatory trainings, and closely monitor compliance thereof.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

The Office has conducted a training needs assessment for 2017 that included the respective costs and sources of funding. The Office has submitted its costed learning plan for 2017 to the Regional Human Resources Strategic Partner for consideration and approval of funding from the Division for Human Resources.

A.3 – RISK MANAGEMENT — MAJOR IMPROVEMENT NEEDED

29. Audit work performed in this area consisted of the review of the latest fraud and operational risk assessments completed by the Office at the time of drafting the report; the process followed for identifying and assessing risks, and the actions undertaken to mitigate them.

30. Based on the work performed the audit noted the following matter that needs Management attention.

Improve the use of the Strategic Information System to manage risks

31. The 2015-2016 cycle risk assessment, including fraud risk assessment, was initiated in the '*myRisks*' application (which is a part of SIS), but was not finalized. The assessment included a list of risks identified, along with assigned criticality for each of them. However, due to system limitations, the Office Management was unable to document in the system the action points planned to address identified risks. This system issue has been addressed at the time of writing this report. The 2016-2017 cycle risk assessment, which had not been initiated at the time of the field audit mission, was completed in December 2016 and was, therefore, not reviewed by the audit.

32. Based on enquiries of Office and implementing partner (IP) personnel, the audit noted that, during the period under review, the Office did not undertake any activities to raise the awareness of its personnel and or IPs on proscribed practices[8] that could affect the Office's programme activities, the minimum controls required to prevent or detect them, and the tools and processes in place to report related allegations. Similarly, the audit could not identify any activities undertaken to increase fraud awareness among programme beneficiaries and suppliers, particularly as regards the tools and processes to report issues and allegations.

33. The audit acknowledges that the limitations of the corporate Enterprise Risk Management (ERM) framework, a matter that has already been brought to the attention of Headquarters (HQ) Management by OAIS, may have impacted the Office ability to develop an adequate fraud risk response.

ROOT CAUSE	*Guidelines: Inadequate risk management process.*
IMPACT	*Limited ability to timely and properly identify and address risks.*
CATEGORY	*Strategic.*

RECOMMENDATION 4	***PRIORITY: HIGH***

Timely complete the annual strategic and fraud risk assessments, with clearly documented action points to address identified risks; and increase fraud risk awareness of both Office and implementing partner personnel as well as that of programme beneficiaries and suppliers.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Director, Division for Management Services*	STATUS:	*Agree*
MANAGEMENT ACTION PLAN:	DUE DATE:	*April 2018*

The 2016-17 Office risk assessment was timely completed with enhanced 'myRisks' tool for adding justification (i.e. action points) and action plan for critical and high risks. Management will perform periodic monitoring and updating of assessed risk levels which will be documented in the Microsoft Excel version of the risk assessment report.

The Office, in consultation with the Division for Management Services, will organize risk awareness sessions to all concerned stakeholders including implementing partners. Further, whenever the Office has an opportunity to interact with suppliers or beneficiaries, it will make an effort to explain the UNFPA standards on fraudulent and other proscribed practices.

B. PROGRAMME MANAGEMENT — SOME IMPROVEMENT NEEDED

Good practices identified

34. The audit identified the following good practices in the area of programme management, which could be considered for replication by other Country Offices:

a) The Office developed a comprehensive IP training package, detailing training areas and modules, the duration of each module, and target groups; and

b) Supplementing the functionality of the corporate 'Shipment Tracker System', the Office developed an in-house tool for tracking shipments of commodities procured through the Procurement Services Branch (PSB) based in Copenhagen, Denmark, from the point of arrival up to warehousing.

[8] Corrupt, fraudulent, collusive, coercive, unethical and obstructive practices

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION — SOME IMPROVEMENT NEEDED

35. Activities implemented by the Office during the period under review, with related expenses covered by the audit of USD 21.0 million, corresponded to 10 outputs of the fourth year of the seventh Country Programme 2012 – 2015 and its six-month extension through 30 June 2016.

36. The Office programme activities focused on six out of nine regions of the country and the city of Addis Ababa. Activities were implemented by UNFPA, with related expenses of USD 9.6 million (46 per cent of programme implementation expenses in the period under review) and financial implementation rates of 76 per cent in 2015, and 61 per cent as at 30 June 2016 (78 per cent as at 31 December 2016). The relatively low financial implementation rate is the result of a slow pace of liquidation of UNFPA contribution to the sector-wide approach (SWAP) in Ethiopia, since 2009. Unliquidated SWAP advances amounted to USD 2.1 million as of December 2015 (USD 1.4 million as at December 2016). A large portion of the expenses related to UNFPA-implemented activities corresponded to personnel and facilities costs and the procurement of inventory.

37. Activities were also implemented by 43 IPs engaged by the Office, with related expenses of USD 11.4 million (54 per cent of programme implementation expenses in the period under review) and financial implementation rates of 94 per cent in 2015 and 46 per cent as at 30 June 2016 (99 per cent as at 31 December 2016). Section B.2 of the report provides further details on IP-implemented activities. Programme implementation activities were funded from core resources of USD 8.1 million and non-core resources of USD 12.9 million.

38. Audit work performed in this area focused on four outputs with aggregate expenses of USD 12.4 million during the period under review (59 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for both 2015 and 2016; (b) an assessment of the process followed to prepare, cost and approve the workplans; (c) the review of monitoring reports and other evidence of programme implementation; and (d) site visits to seven facilities delivering reproductive health services funded by the Office. In addition, the audit reviewed: (a) the alignment of the activities implemented to the Country Programme documents; (b) the level of achievement of the seventh programme cycle outputs for the selected programme component; and (c) the process followed to develop the eighth Country Programme.

39. Based on the audit work performed in this area, the audit noted the following matters that need Management attention.

Improve the quality of baselines and targets for output indicators, and their indicative resources

40. The review of the eighth Country Programme Document, the seventh Country Programme Performance Summary,[9] and the 2015 commodity availability survey, with focus on output indicators related to Reproductive Health programme component, revealed a limited achievement of several seventh programme cycle goals, as detailed in Table 1 below.

Table 1: Comparison of targets to actual results achieved for some outcome and output indicators

Country Programme Indicators	Baseline	Initial Country Programme Targets	Country Programme Extension targets	Results Achieved
Outcome indicator – Percentage of births attended by skilled birth attendants	18%	60%	-	15%
Outcome indicator – Contraceptive prevalence rate	32%	65%	-	36%
Output indicator – Percentage of service delivery points that have at least three life-saving drugs for mothers and newborns	65%	100%	50%	51%[10]

[9] As part of the development of the new Country Programme, the Office prepared a Country Programme Performance Summary for submission to the Executive Board alongside the Country Programme Document

[10] Reported result corresponds to the revised definition of the indicator (i.e. percentage of service delivery points that have at least seven life-saving drugs for mothers and newborns)

Country Programme Indicators	Baseline	Initial Country Programme Targets	Country Programme Extension targets	Results Achieved
Output indicator – Percentage of service delivery points that experienced no contraceptive stock-outs[11]	90%	100%	25%	8%[12]
Output indicator – Percentage of health facilities that provide basic emergency obstetric and neonatal care and comprehensive emergency obstetric and neonatal care	51%	84%	54 health facilities	100 health centers and hospitals
Output indicator – Percentage of service delivery points that provide fistula repair	3%	25%	2,081 fistula cases repaired	1,347 fistula cases repaired

41. The Office inability to achieve programme objectives could be explained by an over-ambitious target setting, as well as the reduction in core resources allocated to the Office: out of initially proposed regular resources of USD 7.7 million in 2015 and USD 10 million in 2016, the Office was allocated USD 6.5 million – 85 per cent, and USD 5.2 million – 52 per cent, in 2016 and 2015, respectively.

42. Management was aware of the over-ambitious targets reflected in the seventh Country Programme, and provided the audit with a draft revised results and resources framework which was, however, not formally approved and adopted. As previously shown in Table 1, targets set for the six-month Country Programme extension through June 2016 were revised to more realistic levels. More realistic targets were also reflected in the eighth Country Programme July 2016-June 2020. In view of the improvements noted, no recommendation is provided as regards the process followed for setting programme targets.

43. The audit also noted issues with the quality of baselines defined for some eighth Country Programme output indicators. Particularly, for output indicator 'percentage of service delivery points offering modern contraceptives', and output indicator 'percentage of service delivery points with life-saving maternal and reproductive health medicines', the results of the draft commodity availability survey were used to set the baselines. However, these baselines were not updated upon receipt of the final survey report, resulting in targets being below baselines. Similarly, for output indicator 'number of institutions with capacity to incorporate population variables in planning and development frameworks', targets were below the achievement reported in the country performance summary. The Office Management attributed the issue to ambiguity in the indicator definitions and provided evidence of work-on-progress definition of all output indicators included in the eighth country programme.

44. Further, the audit noted two instances of misalignment between the eighth Country Programme and the UNDAF. For UNDAF output indicator 13.2.1 'Availability of comprehensive disaggregated national household surveys/census and their dissemination through accessible and functional electronic based platforms', indicative resources for UNFPA interventions is USD 50 million, compared to indicative resources of USD 17.8 million for the entire 'population and dynamics' component of the Country Programme. No corresponding output indicator was included in the Country Programme Document for UNDAF output indicator 3.2.2 'Number of Disaster Risk Management units at federal and regional level with effective commodity tracking and reporting system', for which indicative resources for UNFPA interventions amounted to USD 23 million.

45. Finally, the audit noted that, during the period under review, programme performance was tracked solely on an annual basis, using the functionality provided by SIS. The Office did not systematically and continuously track performance on an entire programme cycle basis, including through the use of the corporate country programme planning matrix for monitoring and evaluation template. Ad-hoc data collection was performed for the purpose of reporting on specific programme sectors, mainly to comply with donor requirements. It should be noted that starting from 2017, SIS included a new functionality that would allow continuous monitoring of progress against each programme output indicator on a programme cycle basis.

[11] No stock-out of any of the offered contraceptives

[12] Reported result corresponds to the revised definition of the indicator (i.e. percentage of service delivery points that experienced no contraceptive stock-outs for the last six months)

ROOT CAUSE	*Guidelines: Inadequate planning.* *Guidance: Lack of supervision at country office level.* *Resources: insufficient financial resources.*
IMPACT	*Diminished ability to monitor and achieve expected programme results.*
CATEGORY	*Strategic*

RECOMMENDATION 5 — **PRIORITY: HIGH**

Expedite completion and implementation of the document used to define output indicators and use SIS/myResults new functionality to track programme results on a programme cycle basis.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *December 2017*

The Office has noted the recommendation and will address it through an effective utilization of the SIS new functionality, allowing tracking and monitoring of programme results on programme-cycle basis.

RECOMMENDATION 6 — **PRIORITY: MEDIUM**

As deemed necessary, revise the Country Programme Document results and resources framework for better alignment to the UNDAF and to accurately reflect baselines, targets and resources for the two identified output indicators.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, in consultation with the Director, Programme Division, the Director, ESARO and Government counterparts* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *December 2017*

The Office will initiate communications with the Regional Office and the Programme Division and seek their guidance on available possibilities to accurately reflect the Country Programme Document baseline, targets and resources for the two output indicators.

Also, the Office will communicate officially to the Resident Coordinator, to inform that the UNDAF figures on the UNFPA contribution to the two concerned outputs are incorrect and will provide the right figures in the same communication. The Office will improve the alignment of the Country Programme Document with the UNDAF whenever an opportunity, such as a UNDAF review, will occur.

B.2 – NATIONAL EXECUTION — SOME IMPROVEMENT NEEDED

46. National Execution (NEX) expenses amounted to USD 11.4 million (54 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 20 non-governmental organizations (NGO) and 23 Government IPs, with financial implementation rates of 94 per cent in 2015 and 46 per cent as at 30 June 2016 (99 per cent as at 31 December 2016).

47. Per the available general ledger information, NEX expenses corresponded primarily to training and learning costs (USD 2.6 million – 23 per cent of NEX expenses); travel costs (USD 2.5 million – 22 per cent of NEX expenses); contract personnel salaries (USD 1.8 million – 16 per cent of NEX expenses); procurement of inventory (USD 1.0 million – 9 per cent of NEX expenses); and office and communication costs (USD 1.0 million – 9 per cent of NEX expenses).

48. NEX audits performed in 2016 covered 20 of the 43 IPs engaged by the Office, with aggregated expenses of USD 8.3 million (83 per cent of total NEX expenses in 2015). All 20 NEX audits conducted received unqualified audit opinions. Operating Fund Account (OFA) balances, representing the funds transferred to IPs for activities not yet implemented, averaged (excluding the unliquidated SWAP advance) USD 3.9 million quarterly in 2015, and amounted to USD 0.9 million and USD 3.7 million as at 31 December 2015 and 30 June 2016, respectively (USD 0.1 million as at 31 December 2016).

49. Audit work performed in this area included the review of (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by IPs through the use of FACE forms; (d) the controls implemented over the OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities, for IPs engaged by the Office with aggregated programme implementation expenses of USD 3.9 million (approximately 34 per cent of NEX expenses) in the period under review.

50. The audit also visited and conducted meetings with four of the IPs engaged, with the objective of developing an appropriate understanding of (a) their overall control environment as pertains to UNFPA-funded programme activities; (b) the controls over financial transactions for significant expense categories; and (c) the process followed for the preparation and authorization of the FACE forms and workplan progress reports submitted to UNFPA. The visits also included inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication and the barriers and other factors potentially impacting the effectiveness of programme implementation.

51. Based on the work performed in this area, the audit noted the following matters that require Management attention.

Improve documentation of workplan budgets and revisions

52. The audit was not provided with the detailed calculations and other documents supporting cost estimates and budgets for the 2015 and 2016 workplan activities for the four IPs selected for testing. It should be noted that according to the policy relating to the preparation and management of workplans, the IP should prepare and propose to UNFPA detailed cost estimates of inputs for each activity. Further, the policy recommends that detailed cost estimates be annexed to the workplan and uploaded to the Global Programming System (GPS) to facilitate programmatic and financial planning and management. Programme managers for the IPs selected for testing asserted that workplan budgets were supported by detailed cost estimates. However, supporting documentation was not systematically filled, and thus, could not be made available for audit review.

53. Further, the audit noted that documentation supporting workplan revisions (e.g., notes to file and exchange of letters) were not systematically uploaded to GPS.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office Level.*
IMPACT	*Workplan activity budgets may not be accurate* *Loss of budgeting process trail may diminish the ability to perform budget monitoring.*
CATEGORY	*Operational.*

RECOMMENDATION 7 — ***PRIORITY: HIGH***

Systematically collect, review and upload in the Global Programming System the documentation supporting workplan budgets and workplan revisions, in order to enable a more effective financial monitoring.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *December 2018*

The Office will implement this recommendation with partners and ensure that all supporting documentation is systematically collected, reviewed and uploaded in GPS.

Raise Implementing Partner awareness on the need to maintain detailed documentation supporting UNFPA-funded expenses

54. Two of the IPs visited by the audit did not maintain complete fixed asset registers and missed some fixed asset identification information such as identification number, location, source of fund, and custodian. Consequently, the audit was unable to validate the list of UNFPA funded assets, including the verification of their physical existence and condition. This issue was also reported by the NEX auditors.

55. Further, during its site visits and through review of supporting documentation for selected expenses, the audit noted that for some IPs, training attendance and payment sheets did not contain details relating to recipient identification and contact details, to enable the validation of daily subsistence allowances and other payments made.

ROOT CAUSE	*Guidance: Inadequate supervision at the Country Office level.*
IMPACT	*Inability to validate expenses and account for assets funded by UNFPA may lead to funds and assets being used for unintended purposes.*
CATEGORY	*Operational.*

RECOMMENDATION 8 ***PRIORITY: MEDIUM***

Raise the awareness of implementing partners on the need to maintain detailed documentation supporting UNFPA-funded expenses and fixed assets, including all required details to allow for a validation and verification process; systematically assess, as part of the HACT-related periodic spot-checks, compliance with this requirement.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office will communicate the concern to the Government coordinating body, to raise awareness among the IP to ensure relevant documents are available for validation and verification. Furthermore, the Office will include, as part of the HACT-related periodic spot checks, the need for maintening detailed supporting documentation.

Enhance financial monitoring of partners' implemented activities

56. The Office relied heavily on the NEX audits for the financial monitoring of IP-implemented activities in 2015. With the launch of the corporate HACT process in 2016, the Office developed a HACT assurance plan, including full audits of some IPs and spot-checks for others. However, while planned assurance activities were in line with corporate HACT guidelines, it is the audit view that spot-checks could be extended to those IPs for which audits are planned, to allow timely identification and response to potential issues.

57. Further, the audit noted that the developed HACT assurance plan was not implemented as scheduled. Out of the 15 spot checks planned for August 2016, only four were completed by the time of the audit field mission. It was noted that the Office subsequently revised its assurance plan and had completed by March 2017, 24 out of the planned 27 spot-checks.

58. In view of the improvement in this area, no audit recommendation is raised.

ROOT CAUSE	*Guidance: Inadequate supervision at the Country Office level.*
IMPACT	*Limited ability to timely identify and address potential issues.*
CATEGORY	OPERATIONAL.

B.3 – INVENTORY MANAGEMENT **SOME IMPROVEMENT NEEDED**

59. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of approximately USD 14.3 million, with funding provided mainly by the UNFPA Supplies programme, for which Ethiopia is one of the 46 priority countries. The inventory supplied consisted mainly of contraceptives (USD 9.9 million) and pharmaceutical products (USD 2.9 million), procured by PSB on behalf of the Office. The reproductive health commodities were mainly stored at and distributed from the warehouses of the Federal Ministry of Health Pharmaceuticals Fund and Supply Agency.

60. Audit work performed included the review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied in 2015 and 2016 at a cost of approximately USD 11.8 million (83 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) procurement planning, requisitioning and ordering; (b) custom clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA's possession); (d) handover of the inventory to IPs; (e) distribution to intended beneficiaries; and (f) monitoring. For locally procured commodities, audit work also included a review of the related procurement processes.

61. Audit work performed also included site visits to: (a) two warehouses managed by a Government IP and the World Food Programme (WFP) warehouse (used to store reproductive health and dignity kits); and (b) seven service delivery points to: (i) verify the receipt of commodities procured by UNFPA; (ii) assess the warehouse controls in place and reliability of the inventory records; (iii) test the distribution of commodities by tracing a sample of deliveries across the supply-chain; and (iv) verify commodity availability and stock-out levels at the warehouses and service delivery points visited.

62. The audit also included a review of the results of the 2015 'National Health Facility Assessment on Reproductive Health Commodities and Services' in Ethiopia, according to which almost all surveyed facilities were offering at least three or five contraceptive methods (depending on the level of care) on a regular basis. Further, the assessment revealed relatively low level of stock-outs for the most supplied contraceptives (i.e. injectables, oral pills, male condoms, implants and intrauterine devices).

63. From the sample testing and visits, the audit found the following matters that needed Management attention.

Strengthen the monitoring activities related to health facilities visits

64. The review of four travel summary reports related to visits undertaken by the Office personnel to health facilities during the period under review indicated that these reports did not include specific findings, recommendations and corresponding action plans related to reproductive health commodities availability. Instead, high level write-ups were prepared, noting mainly the challenges faced by the facilities and improvements noted compared to the previous visit. Further, the process followed to select the facilities to be visited and which specific activities to undertake during these visits (e.g. reviewing commodities availability and stock-outs) were not clearly articulated.

ROOT CAUSE	*Guidelines: Absence of written procedures to guide staff in performing their functions.*
IMPACT	*Absence of a structured way to select and conduct monitoring visits to health facilities and address the monitoring visits findings may negatively impact the effectiveness of undertaken actions.*
CATEGORY	*Operational.*

RECOMMENDATION 9 ***PRIORITY: MEDIUM***

Prepare a monitoring schedule of visits to health facilities, indicating the persons, dates and main purpose of the visits; systematically document visits findings, recommendations and corresponding action plans; and monitor on a continuous basis the implementation of the developed schedule and action plans.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office has noted the recommendation and will develop a monitoring schedule in collaboration with the Government counterpart. The Office, together with the Government counterpart, will develop a mechanism to follow up the findings and recommendations, including documentation of the same.

Improve the physical and financial protection of inventory

65. The Office maintained stocks of reproductive health and dignity kits and other relief supplies at the WFP warehouse. Upon visit to the warehouse, the audit noted that fire extinguishers were four months past their service schedule, which may affect their ability to operate effectively and safely in case of fire. Further, the audit noted that the Office neither communicated to PSB the amount and kind of inventory held, for the purpose of its inclusion in the scope of the corporate inventory insurance coverage, nor purchased local insurance coverage.

ROOT CAUSE	*Guidance: Inadequate supervision at the Country Office level*
IMPACT	*Increased inventory exposure to loss and damage.*
CATEGORY	*Operational*

RECOMMENDATION 10 **PRIORITY: MEDIUM**

Urgently communicate with the warehouse custodians and ensure that the fire prevention and extinction mechanisms are fully serviced as per schedule; as well as ensure proper insurance coverage of inventory maintained under Office control through the corporate insurance mechanism or locally contracted insurance.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

The Office will communicate with the warehouse custodians to ensure that the fire prevention and extinction mechanisms are fully serviced as per schedule. Furthermore, the Office will arrange for inventory insurance coverage.

B.4 – MANAGEMENT OF NON-CORE FUNDING — MAJOR IMPROVEMENT NEEDED

66. Programme implementation expenses funded from non-core resources amounted to USD 12.9 million (62 per cent of total programme expenses) in the period under review. Of this amount USD 3.7 million corresponded to funding from the Reproductive, Maternal, Newborn and Child Health Fund administered by UNFPA on behalf of participating United Nations Organizations; USD 1.7 million to funding provided by one donor in support to the joint UNFPA/UNICEF programme on rights-based approach to adolescent and youth development; USD 1.5 million to funding provided by another donor to support the project on prevention and management of gender-based violence; and USD 1.4 million to funds contributed by one donor for the implementation of the project for sexual and reproductive health rights and support to South Sudan refugees and surrounding host communities in the Gambella region. The remaining contributions were provided primarily by UNFPA Supplies, to enhance reproductive health commodity security, and by the Maternal Health Thematic Trust Fund.

67. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for three major co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the new cost recovery policy. Inquiries of representatives of two major donors were made to obtain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements.

68. Based on the audit work performed, the audit noted the following matters that require Management attention.

Limit requests for no-cost extensions

69. The Office requested no-cost extensions for 6 out of 11 co-financing agreements expiring in 2015 and 2016. In one case, the extension was requested three days before the agreement end-date, and approved only one day before the end-date. While the no-cost extensions were, for the most part, a consequence of factors beyond the control of the Office, they are generally negatively perceived by donors. It should be noted that the 2015 Office management plan did not include any output or quarterly milestone tracking the use of non-core funding. The 2016 management plan included such an annual output, albeit without relevant quarterly milestones.

ROOT CAUSE	*Guidelines: Inadequate planning.* *Guidance: Inadequate supervision at the Office level.*
IMPACT	*Perceived inability to properly plan, budget and implement programme activities that may diminish the Office's ability to mobilize additional resources.*
CATEGORY	*Operational.*

RECOMMENDATION 11	***PRIORITY: MEDIUM***

Limit requests for no-cost extension through better planning of programme activities and continuous monitoring of the status of utilization of non-core resources. When justified, timely discuss and submit to donors no-cost extension requests.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office will utilize, to the extent possible, resources in the originally agreed timeline. In cases where no cost extension is required, requests to donors will be placed on time. The Office Management will review the status of non-core resources periodically and take actions in a timely manner.

Timely submit required reports to donors

70. In general, the Office complied with co-financing agreement reporting requirements. However, the audit noted that in all three co-financing agreements selected for testing, reports were submitted after due dates, with delays ranging from one to two months.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Perceived inability to timely report on the use of funds may diminish the Office ability to mobilize/receive additional resources and impact programme delivery.*
CATEGORY	*Compliance.*

RECOMMENDATION 12	***PRIORITY: MEDIUM***

Closely monitor compliance with reporting requirements in the corporate Donor Agreement Report Tracking System to ensure timely submission of reports to donors as per agreements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office has taken note of the recommendation and Management will put in place a monitoring mechanism for due dates of donor reports from DARTS, to make sure reports are submitted on time.

Strengthen the quality assurance of project proposals

71. Based on audit enquiries and the review of a sample of two donor funding proposals, the audit noted inconsistencies in the costing of proposals, as well as limited compliance with the cost recovery policy in terms of inclusion of all direct costs associated with the implementation of planned programme activities. In particular, occupancy costs such as, rent and telephony costs, administrative costs, and direct support costs, were consistently missing in funding proposals.

ROOT CAUSE	*Resources: Inadequate training* *Guidance: Inadequate supervision at the Office level*
IMPACT	*The continued cross-subsidization of non-core funded activities by core funds, at a time of diminished core funding, may impair the Funds' financial sustainability.*
CATEGORY	*Operational*

RECOMMENDATION 13	***PRIORITY: MEDIUM***

Raise awareness of involved staff on the need to comply with the cost recovery policy and strengthen the quality assurance of proposals for donor funding, to ensure a consistent inclusion of all costs required for implementing planned activities, including occupancy, administrative, and direct support costs.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office will prepare a briefing session on the cost recovery policy in relation to proposal development. The Office will also prepare a checklist of the main elements of cost recovery to be included in proposals.

Discontinue the practice of charging custom clearance costs to 'UNFPA Supplies' fund code

72. In reviewing the expenses related to 'UNFPA Supplies' activities, the audit noted that storage and custom clearance costs amounting USD 34,642 were charged to the 'UNFPA Supplies' fund code. The guiding principles for 'UNFPA Supplies' work planning in 2015 for 2016 specifically highlighted that custom clearance costs were ineligible for funding and could not be covered by 'UNFPA Supplies' budgets.

ROOT CAUSE	*Guidance: Inadequate supervision at the Country Office level.*
IMPACT	*Donor funds being used for unintended purposes.*
CATEGORY	*Compliance.*

RECOMMENDATION 14 ***PRIORITY: MEDIUM***

Periodically (quarterly) generate and review charges to non-core fund codes to verify and enforce compliance with funding eligibility requirements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

The Office has taken note of the recommendation and will identify regular resources to pay for custom clearance fees. The Office will generate reports periodically to make sure that 'UNFPA Supplies' funds are not charged for custom clearance fees.

Strengthen the Office resource mobilization capacity

73. The Office was unable to achieve its 2015 annual plan targets related to resource mobilization, related to: (a) the number of funding sources (actual of 8 compared to a target of 10), and (b) the number of new partnerships established (none established compared to a target of two).

74. In addition, out of a target of non-core resources for 2016 of USD 30.0 million, the Office mobilized USD 2.8 million, i.e. less than 10 per cent of its target.

75. With support from ESARO, the Office developed a 'Resource Mobilization and Partnership Strategy' and made considerable efforts to mobilize resources for the new Country Programme, with strong focus on the upcoming population census. These efforts did not, however, yield substantial results. It should be noted that, as part of aligning the Office human resources to the new Country Programme requirements, it is expected that a new position of Resource Mobilization and Partnership Specialist be created – that would strengthen the Office resource mobilization capacity. A recommendation was issued to expedite the completion of the human resources alignment process (see paragraph 25). Accordingly, no additional audit recommendation is raised here.

ROOT CAUSE	*Resources: Lack of technical resources.*
IMPACT	*Limited ability to achieve programme objectives.*
CATEGORY	*Operational.*

C. OPERATIONS MANAGEMENT — SOME IMPROVEMENT NEEDED

Good practices identified

76. The audit identified the following good practices in the area of operations management which were in line with established policies and procedures:

a) The Office maintained well organized personnel files, with comprehensive documentation for contract personnel selection and assessment, and detailed documentation supporting payments and reimbursements;

b) There was a high level of completion of vendor performance assessment; and

c) Valued-added- tax reimbursable balances were reconciled on a monthly basis.

C.1 – HUMAN RESOURCES MANAGEMENT — EFFECTIVE

77. The Office incurred staff payroll costs amounting to USD 3.7 million during the period under review. In addition, the Office made use of contract personnel and engaged seven individuals under service contracts and another 50 under individual consultant contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 0.6 million. At the time of the audit fieldwork, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

78. Work performed in this area included the analytical review of payroll and contract personnel costs; a walk-through of payroll reconciliation controls with UNDP; and the testing of a sample of 10 individual consultancies awarded by the Office at a cost of USD 0.1 million (17 per cent of the costs incurred in the period), for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for five staff members hired during the audit period; and testing of 30 payments of staff benefits and entitlements amounting to approximately USD 0.1 million.

79. No reportable matters were identified based on the audit work performed in this area.

C.2 – PROCUREMENT — MAJOR IMPROVEMENT NEEDED

80. During the period under review, the Office locally procured goods and services at a cost of USD 2.7 million. The most significant categories of goods and services procured corresponded to inventory (USD 0.8 million); rent of Office premises (USD 0.4 million); office supplies, printing services and publications (USD 0.2 million); and training costs (USD 0.2 million).

81. Audit work performed in this area included the review of a sample of 27 local purchases made at a cost of USD 0.5 million (29 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,[13] and policies and procedures; and operating effectiveness of controls in the areas of: (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving, as well as the review of the procurement planning process. The audit also reviewed a sample of three local purchase made in 2014 for a total cost of USD 0.4 million.

82. Based on the work performed in this area, the audit noted the following matters that require Management attention.

Improve compliance with procurement policies and procedures

83. The audit noted multiple deviations from procurement policies and procedures affecting 21 out of the 27 procurement transactions tested, including: (a) three instances where procurement catalog items were procured without prior PSB clearance (USD 89,856), and at prices significantly higher than those per the catalog; (b) five instances where the standard request for quotation (RFQ) template was not used (USD 121,751); (c) nine instances (USD 252,810) where the minimum tender period of two weeks was not respected (tender period ranging from 6 to

[13] Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

11 days); (d) one instance (USD 40,584) where no competition was undertaken to award a contract; and (e) one instance (USD 38,769) where two out of three bids received were submitted by suppliers that did not have adequate licenses.

84. The audit also noted that all bids for three procurements mentioned in paragraph 83 (a) above were submitted by the same three suppliers. The analysis of the bids submitted revealed that the two unsuccessful bidders shared the same business address. Upon visiting the address indicated in the bids, the audit concluded that both of them were most likely submitted by the same bidder, raising significant concerns about whether there was effective competition. This matter has been referred to the OAIS Investigations Branch for further analysis.

85. Additionally, the Office incurred additional costs of USD 45,000 for the procurement of three vehicles in 2015 and four ambulances in 2014, due to procurement planning issues.

86. It should be noted that most of the procurement transactions referred above were undertaken for humanitarian interventions.

ROOT CAUSE	*Guidelines: Inadequate planning.* *Guidance: Inadequate supervision at the Country Office level.*
IMPACT	*Limited ability to achieve best value for money and higher exposure to reputational risks.*
CATEGORY	*Compliance.*

RECOMMENDATION 15 — ***PRIORITY: HIGH***

Raise the awareness of relevant staff on the need to better plan procurement activities, to strictly comply with applicable procurement procedures, and closely monitor compliance thereof.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

To address the reported issue, the Office has planned the following actions:

- *An awareness session on procurement activities will be conducted to all concerned staff;*
- *A memo shall be sent from the Representative to staff, informing them that any goods not in the procurement plan shall not be procured and that any urgent procurement shall have to be approved by the Representative; and*
- *The Office procurement plan shall be developed on time every year and reviewed quarterly at Programme meetings.*

Improve the cost effectiveness of procurement activities

87. The audit noted an excessive use of air transportation for internationally-procured goods. While the goods procured were used primarily for humanitarian interventions, the use of air transportation did not always contribute to a reduction in lead time before distribution to IPs and beneficiaries, due to the long time spent for completion of custom clearance procedures. The average lead time for the 10 items procured internationally and which were air-transported was approximately 50 days, including two instances where goods were delivered to partners more than three months after arrival at the airport.

88. Further, the audit noted that the standard lead time defined in the long-term agreement (LTA) signed between WFP and the custom clearance service provider, leveraged by UNFPA to procure clearance services, was not always complied with. According to the LTA, before submitting invoices, the service provider is required to provide summary reports of delays, as well as the basis for invoicing and reimbursable storage costs. The audit noted, however, that this documentation was neither submitted by the service provider nor requested by the Office.

89. Finally, the audit noted one instance of delayed custom clearance of ocean-transported goods which originated additional costs of USD 30,000 (approximately 150 per cent of normal fees).

ROOT CAUSE	*Guidance: Inadequate supervision at Office level*
IMPACT	*Limited ability to achieve cost effectiveness in procurement activities*
CATEGORY	*Operational*

RECOMMENDATION 16 ***PRIORITY: HIGH***

Raise the awareness of involved staff on the need to improve the cost effectiveness of procurement activities and closely monitor compliance with custom clearance lead time and documentation requirements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

To address the reported issue, the Office has planned the following actions:

- *Organize a learning session to raise the awareness of staff on the need to improve cost effectiveness; and*
- *The Clearing Agent shall always be asked to provide a written report for any delays in clearing goods as well as for the basis for invoicing and reimbursable storage costs.*

C.3 – FINANCIAL MANAGEMENT — EFFECTIVE

90. Work performed in this area included the review of: (a) the financial management capacity of the Office; (b) the authorization and proper processing of financial transactions; (c) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; (d) the operating effectiveness of controls over the accounts payable and payments process; (e) the value-added tax control arrangements in place; (f) the budget management process; and (g) the effectiveness of the financial management accountability process.

91. No reportable matters were identified based on the audit work performed in this area.

C.4 – GENERAL ADMINISTRATION — EFFECTIVE

92. Work performed in this area focused on the travel and asset management processes.

93. Travel expenses incurred by the Office during the period under review amounted to USD 0.5 million. Audit work performed in the area of travel included a walk-through of the travel process and the testing of a sample of 73 travel-related transactions amounting to approximately USD 0.1 million (23 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures and operating effectiveness of the controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of DSA.

94. Procurement of assets in the period under review amounted to USD 0.4 million. As at 31 March 2016, the Office held 110 in-service fixed asset items with a net book value of USD 0.1 million. The largest fixed assets categories include vehicles and information technology equipment. Audit work performed in this area was limited to a walk-through of the asset management process, in view of the lower audit risk level of the area.

95. No reportable matters were identified based on the audit work performed in this area.

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,[14] are explained below:

Effective	The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.
Some improvement needed	The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.
Major improvement needed	The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
Not effective	The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

Guidelines: absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

Guidance: inadequate or lack of supervision by supervisors

- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by Headquarters

Resources: insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

Human error : un-intentional mistakes committed by staff entrusted to perform assigned functions

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

[14] Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories are used:

- **High** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
- **Medium** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic** High level goals, aligned with and supporting the entity's mission
- **Operational** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage
- **Reporting** Reliability of reporting, including fulfilling accountability obligations
- **Compliance** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

GLOSSARY

Acronym	Description
Atlas	UNFPA's ERP (Enterprise Resource Planning) system
ERM	Enterprise Risk Management
ESARO	East and Southern Africa Regional Office
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfer
HQ	Headquarters
IP	Implementing Partner
LTA	Long Term Agreement
NEX	National Execution
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
PSB	Procurement Services Branch
RFQ	Request for Quotation
SIS	Strategic Information System
SWAP	Sector Wide Approach
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USD	United States Dollars
WFP	World Food Programme