



United Nations Population Fund

Ensuring Reproductive Rights for All

OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT OF
THE UNFPA COUNTRY OFFICE
IN PAPUA NEW GUINEA**

FINAL REPORT

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Papua New Guinea (the Office), covering the period from 01 January 2015 to 31 December 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 primarily to: (a) the last year of the fifth Country Programme 2012 – 2015,¹ approved by the Executive Board in its second regular session of 2011, with indicative resources of USD 14.6 million; and (b) the first year of Programme's two-year extension which was approved by the Executive Board in 2015. The extension was to align the Programme with the Government of Papua New Guinea's Medium Term Development Plan, which was extended from 01 December 2015 to 31 December 2017, with additional indicative resources of USD 8.8 million.

3. Expenses incurred in the period under review covered by the audit amounted to USD 9.0 million, executed by eight implementing partners (USD 4.5 million) and by UNFPA (USD 4.5 million), funded from core resources of USD 4.4 million and non-core resources of USD 4.6 million. In addition, the audit covered the procurement of printing services by the Office in 2017 amounting to USD 0.5 million. Approximately 57 per cent of the expenses incurred in the period under review correspond to the Population and Development component. The Reproductive Health and the Gender components accounted for 34 and 5 per cent of expenses, 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 4 per cent of expenses.² A large component of UNFPA's implemented activities corresponded to the Demographics Health Survey at an estimated total cost of USD 7.5 million covering the 2016 and 2017 fiscal period.

Demographics Health Survey project

4. The Demographics Health Survey is a key project implemented by a national government partner to provide good quality and timely national and sub-national health and population data, which can be used for policy formulation, development planning and tracking of results. The survey aims to provide baseline indicators for the country's Sustainable Development Goals by generating data on maternal mortality, infant and child mortality, fertility, contraceptive knowledge and use, maternal and child health, and gender by paying greater attention to sub-national analysis. Particularly in the context of Papua New Guinea, having up-to-date and representative data on national and sub-national population and health-related data is critical for evidence-based planning and policy development.

5. There have been two previous Demographics Health Survey projects implemented in Papua New Guinea in the past - the first in 1996 and the second in 2006. The current project, the third in the series, commenced its preparatory activities in August 2016 with the actual enumeration starting in October 2016. The survey was initially planned to conclude its data collection phase in December 2016 and complete the data analyses and preliminary reporting of findings phase by 30 June 2017. A number of challenges encountered during the survey period, however, caused certain aspects of project implementation to be delayed. For example, the initial project start-up delayed for three months mainly due to: (a) an ineffectual project management structure that hindered effective communication, coordination, reporting and monitoring; (b) human resource capacity issues; and (c) complex operational and administrative arrangements set up to provide a range of financial management and logistical support services. The challenges necessitated a revision in the project completion timeline to April 2018.

6. The Demographics Health Survey project is funded by one donor and the corresponding funds, in the amount of USD 7.5 million, were provided to the Office through the Papua New Guinea United Nations Country Fund, with UNFPA as the Participating UN Organization to provide project execution support in the areas of financial management and logistical services. The project reported a total expense of USD 3.7 million for the year to 31 December 2016 against a planned budget of USD 4.8 million. By September 2017, the project had recorded a total expense of USD 6.0 million (80 per cent of total earmarked funds).

¹ In Papua New Guinea, UNFPA has a Common Country Programme Document with both UNDP and UNICEF.

² Source: Cognos budgets and expenditures by programme cycle output reports

Methodology and scope

7. 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.

8. 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

9. The overall audit rating is '**Not Effective**', which means that the assessed controls were not adequately established or not operating effectively to provide reasonable assurance that the objectives of the Office should be achieved. Issues identified by the audit could seriously compromise the achievement of the objectives of the Office. Urgent management action is required to ensure that the identified risks are adequately mitigated.

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

Audit ratings by key audit area		
Governance		Not effective
<i>Office management</i>		<i>Major improvement needed</i>
<i>Office structure and staffing</i>		<i>Not effective</i>
<i>Risk management</i>		<i>Not effective</i>
Programme management		Not effective
<i>Programme planning and implementation</i>		<i>Not effective</i>
<i>National Execution</i>		<i>Not effective</i>
<i>Inventory management</i>		<i>Not in audit scope</i>
<i>Management of non-core resources</i>		<i>Not in audit scope</i>
Operations Management		Not effective
<i>Human resources management</i>		<i>Some improvement needed</i>
<i>Procurement</i>		<i>Major improvement needed</i>
<i>Financial management</i>		<i>Not effective</i>
<i>General administration</i>		<i>Major improvement needed</i>
<i>Information and communication technology</i>		<i>Not in audit scope</i>
<i>Security</i>		<i>Not in audit scope</i>

Key findings and recommendations

11. Overall, the audit report includes 17 high priority and 5 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 22 recommendations, 4 are of strategic nature; 11 are operational; 3 refer to compliance matters; 2 pertain to both compliance and operational matters; and 2 to both reporting and operational matters.

12. The audit identified several material internal control weaknesses in the in-scope areas, which hampered the effectiveness and efficiency of Office activities and safeguarding of assets entrusted to the Office. The weaknesses created an opportunity for financial irregularities and ultimately resulted in a USD 3.2 million budget overrun (expenses incurred but not paid) and a USD 2.6 million over-expenditure (expenses paid in excess of budgeted amounts) in 2016. Any potential proscribed practices identified based on the audit work performed were referred to the OAS Investigations Branch for further analysis. Accordingly, no specific mention of the identified matters is made in this report to respect the integrity of the investigation process.

13. The Office acknowledged the risks identified and committed, through a detailed plan, to immediately address the various challenges reflected in this report. During the course of audit fieldwork, between May and September 2017, the Office initiated several corrective actions to strengthen its internal control and improve its management processes, procedures and systems. Further, for those recommendations indicated as implemented by the Office when responding to this report, OAS will review these as part of its recommendation follow-up.

Strategic level

14. The Office needs to enhance its annual planning processes and review the organizational structure, resources and staffing capacity required to effectively manage and support programme delivery so that the Demographics Health Survey project stays on track to achieve its stated objectives.

15. The Office should re-engage with the Demographics Health Survey National Steering Committee to strengthen project governance processes and enhance oversight, by improving coordination, communication mechanisms, and reporting relationships with all project stakeholders. Management oversight over project delivery needs strengthening in order to adequately monitor project risks.

Operational level

16. The Office needs to intensify its efforts to conduct appropriate competency-building programs for staff to alleviate knowledge and skill gaps. Procedural guidelines on work planning processes, internal communication, reporting, documentation of meetings, and follow-up mechanisms to systematically prioritize agreed actions and improvement opportunities should all be strengthened. Additionally, the Office needs to update and formalize its fraud and operational risk assessment by establishing a systematic approach to identifying and mitigating risks.

17. Resource planning and management processes need to be significantly improved to ensure that financial commitments are made, and expenses incurred, strictly in accordance with agreed workplans and funds availability. Therefore, detailed and well documented workplan costing sheets should be maintained to improve budgetary monitoring activities, and workplan budgets aligned to the corresponding project implementation plans in order to enhance accountability and ownership of fund management.

18. Regular monitoring of the Implementing Partner's programme and financial activities is recommended, to track implementation progress and report on funds utilization more effectively. This will provide Management with the necessary oversight over project implementation and proper use of project funds, and also assist project managers in timely identifying causes of implementation challenges.

19. Significant improvement is needed to strengthen accounting and supervisory control procedures for transaction verification and to check for accuracy, validity and completeness of financial data processed in Atlas. This will help prevent the charging of expenditures to erroneous activity, fund and account codes. Additional measures are also required to institute stringent verification of financial transactions to timely detect and resolve any irregularities arising.

Compliance level

20. The Office should initiate immediate remedial contractual steps to review and initiate recovery, from the Implementing Partner and suppliers, of ineligible and/or unsupported expenses amounting to USD 2.0 million. Further, the Office needs to regulate the use of cash payments in compliance with the UNFPA policy on Project Cash Advances, improve the management of payments to suppliers and enumerators by exploring safer options for transferring funds to remote project locations, and formally institute recovery of all outstanding and unliquidated balances.

Reporting level

21. The Office needs to periodically reconcile and adjust, as necessary, personnel leave records to timely identify discrepancies and enhance accuracy and completeness of those records. Further, the Office should establish controls to enhance accurate recording of value-added tax.

Management response

22. The Office team would like to thank the OAS team for its audit work. We welcome the findings and agree with all the recommendations in the report. The Office appreciates the thorough audit review of its governance, programme management and operations management processes and is pleased to state that it has already taken substantial steps to proactively implement the proposed recommendations. The Office will continue to collaborate with the relevant Headquarters units and the Asia and Pacific Regional Office, and will initiate regular follow-up actions to address the issues identified by the audit.

23. The OAS team would like to thank the Management and personnel of the Office, of the Asia and Pacific Regional Office, and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered activities implemented by the Office in the period from 01 January 2015 to 31 December 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 assess whether governance arrangements, risk management practices and internal control processes over UNFPA's operations in Papua New Guinea were adequately established and operating effectively to provide reasonable assurance on the achievement of the Office objectives in the following categories:

(a) Effectiveness and efficiency of operations:

- i. Achievement of operational and financial performance goals;
- ii. Conformity of expenses with the purposes for which funds were allocated;
- iii. Safeguarding of assets against loss and misappropriation; and
- iv. Regularity of the receipt, custody, expenditure, accounting and reporting of financial resources.

(b) Compliance with UNFPA's regulatory framework, as established in its legislative mandates, rules, regulations, policies and procedures; and

(c) Reliability of financial accounting and reporting.

3. The processes and activities reviewed were selected using a risk-based approach, ensuring adequate coverage of individually significant and high risk transactions, as well as representative samples of other transactions. Staff payroll expenses were excluded from the scope of the audit as they are managed by another United Nations organization on behalf of UNFPA, which relies on the internal controls implemented by that organization.

4. Procedures applied as part of the audit included: (a) an analytical review of Atlas financial information related to the Office processes and activities; (b) walk-throughs of the in-scope processes; (c) observation of activities and inquiries of Office Management and staff; (d) a review and examination of supporting documents, records and other documentary evidence related to the in-scope activities and corresponding internal controls; (e) inquiries of Office suppliers, of Management, of Implementing Partners, of staff at other United Nations (UN) organizations; and (f) inquires of Management on matters arising from the procedures applied.

5. The engagement was conducted by a team of OASIS audit specialists, supported by international individual consultants. The audit started on 02 March 2017. A first field mission took place from 19 April to 31 May 2017. Preliminary findings and recommendations were discussed with the Office Management at an exit meeting held on 30 May 2017. A second field mission took place between 29 August and 22 September 2017. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 15 January 2018. A final Management response was received on 21 February 2018.

II. BACKGROUND

6. UNFPA started working in Papua New Guinea in 1996. A lower middle-income country, Papua New Guinea is home to one of the world's most ethnically diverse populations with 7.3 million people, comprising over 850 ethnic groups, many of whom speak distinct languages. The population's high levels of ethnic heterogeneity, geographical dispersion (over more than 600 islands) and largely rural disposition pose considerable challenges to service delivery, translating into unusually high logistical and supply management costs. As a result, many Papua New Guineans lack access to basic services such as water, sanitation, health and other social services. More than 85 per cent of the population is classified as rural,³ often in areas of difficult access, which represents a complex challenge for health care and social services delivery.

7. The Country Programme aims to improve the quality of and access to maternal, newborn, child and adolescent health services, including sexual and reproductive health. Papua New Guinea has a high maternal mortality ratio at 733 per 100,000 live births. About 88 per cent of maternal deaths are due to the lack of skilled birth attendants and unavailability of essential life-saving medicines. With a high total fertility rate (4.4 per cent), low coverage of skilled birth attendance (40 per cent), low contraceptive prevalence rate (24.1 per cent for modern methods), high unmet need for family planning (30 per cent for women) and concentrated HIV epidemic prevalence of 0.8 per cent (highest in the Pacific), achieving universal access to reproductive health services remains challenging.

8. The activities covered by the audit correspond primarily to: (a) the last year of the fifth Country Programme 2012 – 2015,⁴ approved by the Executive Board in its second regular session of 2011, with indicative resources of USD 14.6 million; and (b) the first year of Programme's two-year extension which was approved by the Executive Board in 2015. The extension was to align the Programme with the Government of Papua New Guinea's Medium Term Development Plan, which was extended from 01 December 2015 to 31 December 2017, with additional indicative resources of USD 8.8 million.

9. Expenses incurred in the period under review covered by the audit amounted to USD 9.0 million, executed by eight implementing partners (USD 4.5 million) and by UNFPA (USD 4.5 million), funded from core resources of USD 4.4 million and non-core resources of USD 4.6 million. In addition, the audit covered the procurement of printing services by the Office in 2017 amounting to USD 0.5 million. Approximately 57 per cent of the expenses incurred in the period under review correspond to the Population and Development component. The Reproductive Health and the Gender components accounted for 34 and 5 per cent of expenses, 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 4 per cent of expenses.⁵ A large component of UNFPA's implemented activities corresponded to the Demographics Health Survey at an estimated total cost of USD 7.5 million covering the 2016 and 2017 fiscal period.

Demographics Health Survey project

10. The overarching goal of the extant United Nations Development Assistance Framework (UNDAF) is 'to support Papua New Guinea in accelerating the achievement of the Millennium Development Goals (MDG)'. The Demographics Health Survey (DHS) project contributes to three UNDAF clusters namely '*Governance for equitable development*', '*Social justice, protection and gender equality*', and '*Access to basic services*'. The statistics highlighted in paragraph 7 make the need to have up-to-date and representative health-related data on national and sub-national populations critical for evidence-based planning and policy development.

11. There have been two previous DHS projects implemented in Papua New Guinea in the past - the first in 1996 and the second in 2006. The current project, the third in the series, commenced its preparatory activities in August 2016 with the actual enumeration starting in October 2016 and aims to provide baselines for indicators for the country's Sustainable Development Goals – especially Goals 3, 4, and 5 – by generating data on maternal mortality, infant and child mortality, fertility, contraceptive knowledge and use, maternal and child health, and gender at both national and sub-national levels.

³ Based on 2014 Census

⁴ In Papua New Guinea, UNFPA has a Common Country Programme Document with both UNDP and UNICEF.

⁵ Source: Cognos budgets and expenditures by programme cycle output reports

12. The DHS project is primarily implemented through the National Statistical Office (NSO), which is, in turn, supported by Provincial Government Survey Coordinators based in 22 provinces, and covers 800 survey clusters with approximately 19,200 households. The project is funded by one donor and the corresponding funds, in the amount of USD 7.5 million, were provided to the Office through the Papua New Guinea UN Country Fund, with UNFPA as the Participating UN Organization to implement the project. Additional details on the DHS project and its structure are included in Annex 1 to the report.

13. The UNFPA office in Papua New Guinea is located in the city of Port Moresby. During the period under review, the Office was managed by a Representative, until his rotation to another UNFPA field office in September 2016. A new Representative assumed duty as from October 2016. Both the former and the incumbent Representatives were assisted by an Assistant Representative, an International Programme Coordinator (until April 2017), an International Operations Manager, a National Operations Manager and three National Programme Officers.

III. DETAILED FINDINGS

A – OFFICE GOVERNANCE

NOT EFFECTIVE

Good practices identified

14. The Office acknowledged the issues identified in this report and committed, through the preparation of a detailed plan, to address the challenges facing the DHS project's governance and oversight arrangements resulting in a gradual improvement in processes during the audit field missions.
15. The audit identified the following good practices in the area of governance, in line with established policies and procedures:
- a) One of the good practices implemented by the Office during the course of the audit fieldwork was recognizing the need for, and acting upon, reorganizing and restructuring the DHS project management team to facilitate interactions with the IP and other key stakeholders at the leadership, technical and operational levels. In particular, the relationship between the Office and the IP improved significantly to help address implementation issues and challenges; and
 - b) The Office also strengthened the project's organizational structure, with more project-dedicated staff under the supervision of the DHS Operations Manager; standard operating procedures and administrative checklists to guide project operations and the remaining field enumeration activities; and a Technical Adviser to provide quality assurance.

A.1 – OFFICE MANAGEMENT

MAJOR IMPROVEMENT NEEDED

16. Audit procedures performed in this area included the review of: (a) the Office planning process in 2016; (b) the relevance of the Office 2016 annual management plan and the implementation level of its activities; (c) the alignment of performance plans of key personnel to Office priorities; (d) the effectiveness of management oversight over programme delivery and operational activities; (e) the accuracy of the Office 2016 annual report; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.
17. The following matters requiring Management attention were identified based on the audit work performed.

Enhance annual planning through the Strategic Information System

18. Based on its in-depth review of two outputs (Output 1 – “*Improve MNCH and SRH services for women and adolescents*” and Output 3 – “*Achieve with equity the MDG*”), the audit identified opportunities to improve the relevance and usefulness of the Office annual plan that was developed using the ‘*myResults*’⁶ application. Performance indicators included in the 2016 annual plan and the corresponding workplans were not always captured and reported correctly, limiting the Office ability to reliably measure results. For example, all 42 performance indicators for the outputs of the DHS project, along with key milestones for the quarterly and annual targets, were not recorded and tracked in the Strategic Information System (SIS) and could therefore not be used effectively for monitoring and reporting purposes. In some instances, incorrect baseline and target references were used to measure and report results. In at least two cases, baselines and milestone indicators for the outputs tested were misaligned to targets in the 2016 Office annual plan and staff performance plan indicators. Further, the use of qualitative factors to report on quantifiable indicators without specifying targets increased complexity and subjectivity in reporting results.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>Management's accountability for and ability to plan and track progress towards the achievement of expected results may be diminished.</i>
CATEGORY	<i>Strategic</i>

⁶ Part of the SIS for reporting programmatic results.

RECOMMENDATION 1**PRIORITY: HIGH**

To allow the Office to track progress towards achieving its annual targets, reflect all relevant outputs and indicators in the annual workplans in the Strategic Information System, with clear and well-documented baselines, targets and milestones that are aligned to the Office annual plans and staff performance plans.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: September 2018

Office Management has already initiated a number of actions to capture the relevant DHS output and performance indicators in the 2018 workplans and in the Strategic Information System as part of the Office's defined outputs. A retreat will be organised in early 2018 and a session on results-based planning and performance management is being planned to provide guidance to all staff implementing the new Country Programme 2018 – 2022.

Develop a plan to implement improvement recommendations

19. Several oversight⁷ and programmatic assessment⁸ missions to the Office identified a number of improvement opportunities during the period under review. The missions helped the Office identify risks, as well as operational improvements and good practice standards, with the aim of enhancing internal control and programme delivery. In spite of this, the Office did not develop action plans to implement the resultant recommendations and proposed good practices. For example, the Office did not develop any action plan to implement key recommendations from the Harmonized Approach to Cash Transfer (HACT) assurance plan, i.e. the micro-assessment report issued in December 2015 and the HACT audit report issued in April 2017. As a result, the audit team observed recurrent controls gaps that could have been mitigated or resolved had the recommendations and good practices been implemented. Although progress in implementing them has been slow, there is a clear effort by the Office to move more swiftly.

20. Similarly, the audit noted the absence of mechanism to follow up on prioritized tasks, workflows and deadlines – which created a “reactionary” operating mode rather than proactively responding to programme and operational issues. Starting in December 2016, the Office regularly conducted weekly management and quarterly staff meetings to facilitate day-to-day planning and share status updates on business matters. Through the meetings, the Office was able to identify challenges requiring critical action. However, minutes of the meetings did not allow for timely follow-up of actions to their completion in that they did not clearly and systematically: (a) rank agreed actions in accordance with their significance and criticality for better prioritization of resources; (b) detail actions that required follow-up by the responsible parties; (c) provide timelines for completing proposed actions; and (d) provide for status updates on actions to confirm progress in subsequent meetings.

ROOT CAUSE *Guidance (inadequate supervision at Office level).*

Missed opportunities for improvement and increased risk of control gaps.

IMPACT *The effectiveness and efficiency of programme delivery and operational activities may be negatively impacted.*

CATEGORY *Operational*

RECOMMENDATION 2**PRIORITY: HIGH**

Develop a time-bound and costed action plan and take proactive steps, through systematic monitoring and follow-up, to track implementation of audit recommendations and good practices, as necessary, so as to promptly address ineffective controls, identified risks, and process failures.

⁷ Audit performed by the (a) the NEX auditor Moore Stephens LLP (March 2017) and (b) the UN Board of Auditors “Audit Observation Memorandum” issued in November 2016

⁸ Numerous support missions by: (a) The Asia and the Pacific Regional Office; and (b) A Micro-assessment report presented by Moore Stephens LLP for a key Implementation Partner dated 22 December 2015

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2018*

The Office will develop a consolidated and costed action plan to implement recommendations from key monitoring missions and HACT assurance missions to manage risks and improve controls. Further, the Office will improve and monitor progress through weekly meetings. The Office’s Programme Coordinator will closely monitor the implementation status and progress.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

NOT EFFECTIVE

21. At the time of the audit fieldwork, the Office had a total of 12 approved posts, including 3 international posts and 9 national posts, and an additional 14 posts filled by contract personnel.

22. Audit work performed in this area included a review of: (a) the alignment of the Office organizational structure and personnel arrangements with the requirements for Office programme delivery 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.

23. The following matters requiring Management attention were identified based on the audit work performed.

Align the organizational structure and staffing to better support the Demographic Health Survey project

24. The Office programme size increased significantly, from USD 2.9 million in 2015 to USD 6.1 million in 2016 (41 per cent increase), mainly due to implementation of the DHS project. The Office staff complement, however, remained largely unchanged in the same period.

25. Due to its size and complexity, the DHS project was initially designed, in September 2016, to have a dedicated team at the Office. However, by the time project implementation activities scaled up significantly in November 2016, only 50 per cent of the established positions had been filled owing to challenges in identifying suitable candidates. In particular, the International Operations Manager position, intended to provide key support to project planning and implementation, remained vacant until April 2017.

26. To cope with increased project activity and staff shortage, the Office augmented and realigned its capacity through a combination of short-term missions by staff from other UNFPA Country Offices, as well as the use of consultants on detailed assignments at the onset of the project implementation phase. The sudden increase in programme size and in attendant transaction volume also necessitated frequent shifts in roles and responsibilities of existing staff to accommodate both DHS and overall Country Programme delivery needs – adding complexity to programme and operational delivery.

27. Further, the audit noted that at the beginning of the current Country Programme, the Office adopted the “direct payment” implementation modality for all its IPs. The decision to adopt the modality was supported by a HACT assessment of the IP implementing the DHS project; however, the assessment did not extend to the 22 provincial level implementers, resulting in a lack of visibility of the level of effort that would be required of Office staff in implementing the modality. In addition, the decision did not take into consideration the Office’s capacity to undertake and absorb the attendant additional workload. From its interview of project staff, the audit noted a recurrent mention of heavy workload, especially in light of the limited Office staffing capacity and increased transactional processes.

28. The existing structure and staffing arrangements, combined with the significant delays in establishing the DHS project management team and in recruiting personnel, were insufficient to effectively and efficiently deliver on both the DHS project and the Country Programme 2012 -2017. At the time of the audit field missions, a comprehensive human resources assessment of the Office was underway ahead of the new Country Programme 2018-2021.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office, Regional and Headquarters level). Resources: (Lack of or insufficient human resources).</i>
IMPACT	<i>The effectiveness and efficiency of the programme and operational delivery is diminished.</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 3

PRIORITY: HIGH

Taking into consideration the new Country Programme and projects, align the Office organizational structure and skills set to match needs, workloads and resources.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Representative, with support from the Division of Human Resources

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2019

A team led by the regional Human Resources Strategic Partner will begin the alignment process to determine the Office’s organizational structure for the new Country Programme in February 2018. Implementation of the realignment’s recommendations will be completed by June 2019.

Address staff competency gaps impacting programme delivery and operations

29. During the period under review, the Office’s activities and its performance, were persistently affected by significant personnel skills and competency gaps. Discussions held with key staff members revealed a lack of awareness of UNFPA policies and procedures, as well as of routine programme management and operational work practices and procedures.

30. In addition, records of individual staff performance assessments maintained by the Office showed that many staff members did not complete all the required mandatory training courses, including those related to ethics, integrity and anti-fraud; harassment, sexual harassment and abuse of authority in the workplace; Internal Control Framework certification; and Procurement Level I. Further, none of the programme personnel, including those assigned to the DHS project, had completed the recommended results-based management basics training.

31. The lack of requisite skills and competencies in the Office, especially in running a project as complex as DHS, is one of the main causes of the issues noted in this report. The audit notes that, as from April 2017, the Office made an effort to address staff competency gaps that are in line with individual staff development plans. This is an important development in view of the repeated identification of staff capability issues as key priority areas for the Office.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Resources: (insufficient human resources – skills and inadequate training).</i>
IMPACT	<i>The Office performance may be negatively impacted by staff capacity gaps.</i>
CATEGORY	<i>Compliance Operational</i>

RECOMMENDATION 4

PRIORITY: HIGH

Complete any outstanding mandatory courses by all personnel concerned and promote completion, by programme staff, of the recommended results-based management training.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: July 2018

The Office will develop a training plan to include both mandatory and recommended results-based management courses for its staff. The plan will help track timelines and the status of completion of the required training courses for each staff member.

RECOMMENDATION 5

PRIORITY: HIGH

With support from the regional Human Resources Strategic Partner, intensify efforts to conduct appropriate competency-building programs for Office staff to alleviate knowledge and skill gaps. A training program should be developed to better deploy skills and competencies, learning activities, and transfer of skills and knowledge through on-the-job learning.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Representative, with support from the Division of Human Resources

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2018

A capacity-building plan will be developed and implemented with support from the regional Human Resources Strategic Partner.

A.3 – RISK MANAGEMENT

NOT EFFECTIVE

32. Audit work performed in this area consisted of the review of the latest Office strategic and fraud risk assessment and of the process followed in identifying and assessing risks and controls, and the actions taken to mitigate significant residual risk. Work performed also included a review of the status of implementation of action plans developed by the Office to address risks.

33. Based on the audit work performed in this area, the audit noted the following matter that needs Management attention.

Establish a systematic approach to identifying and mitigating risks

34. In 2016, the Office completed its strategic and fraud risk assessment under the umbrella of the corporate Enterprise Risk Management (ERM) process, using the functionality provided by the 'myRisks' application, which is part of the SIS.

35. Fraud and operational risk identification and mitigation controls in the areas of financial and operations management were either incorrectly assessed or did not operate effectively. The Office did not adopt a systematic process to timely identify and prioritize fraud and operational risks in an environment affected by external factors such as the political or governmental set-up involving provincial and regional actors, an ineffective public procurement system, limited access to the banking system in remote areas outside the capital city, government electoral activities, and use of unconventional business practices such as a requirement by suppliers for full advance payment for goods and services before delivery and issuance, by the Office, of manual work orders outside of Atlas to initiate the acquisition of goods and services. Further, the Office neither developed action plans to address or mitigate identified risks, nor regularly tracked prioritized tasks and workflows. The Asia and Pacific Regional Office and Headquarters initially expressed concern over ineffective management of programme funds, both by the Office and IP, in December 2016; yet this did not prompt the Office to seek guidance or strengthen its risk management practices and procedures to maximize efficiency in the use of resources. Additional concerns were raised by both the Regional Office and Headquarters between February and April 2017.

36. The gaps noted in the risk assessment process are partially attributable to unclear risk management guidelines and lack of "how to" guidance to standardize and coordinate risk assessment, prioritization and mitigation risk actions. The matter is currently the subject of ongoing discussion with senior management at Headquarters and refinements/improvements are expected to the ERM process.

ROOT CAUSE *Guidance (inadequate supervision at Office level).*

IMPACT *The ability to timely and properly identify and address risks is impaired.*

CATEGORY *Strategic*

RECOMMENDATION 6

PRIORITY: HIGH

With support from the Asia and Pacific Regional Office and Headquarters, and leveraging on the 2018 ERM process, perform a more rigorous and systematic process for risk identification and assessment of controls, taking into consideration, inter alia, the OAI findings in this report, with clearly documented action points to address identified risks and track the implementation thereof.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Representative, with support from the Directors, APRO and Division for Management Services

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: July 2018

The Office, with support from the Asia and Pacific Regional Office and the Pacific Sub-Regional Office, will conduct an extensive assessment to identify risks and required mitigation action plans for the 2018 risk management process. A workshop will be organised and the Office will engage an external facilitator to help the Office identify and determine its programme and operation risk profile. The Division for Management Services will also support the Office's efforts in finalising its 2018 strategic and fraud risk assessment process.

B – PROGRAMME MANAGEMENT

NOT EFFECTIVE

Good practices identified

37. It was noted during the two audit missions of April and September 2017 that the Office strengthened its programme management processes, procedures and systems, including those critically important to the implementation of the DHS project. All good practices and risk mitigation measures set in place could be considered for replication by other offices:

- a) The Office coordinated with the project's National Steering Committee (NSC) to streamline its governance processes and arrangements in order to discharge its oversight responsibilities more effectively in monitoring performance and project implementation activities in accordance with project plans and timelines. Detailed project management arrangements are described in Annex 1;
- b) The Office developed guidelines and standard operating procedures to support DHS delivery, in the process standardizing and operationalizing some new project administrative procedures. It is acknowledged that the guidelines and standard operating procedures will require further improvement and effort to implement; and
- c) The Office improved its programmatic quality assurance processes to focus on data completeness, accuracy and consistency of completed survey questionnaires.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION

NOT EFFECTIVE

38. During the period under review, the Office implemented activities related to seven outputs of the fifth Country Programme 2012 – 2015 at a cost of USD 8.3 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 95 per cent in 2015 and 78 per cent in 2016, measured based on budgets allocated in Atlas.

39. Activities were implemented directly by UNFPA, with actual expenses of USD 3.8 million (45 per cent of programme implementation expenses in the period under review) and financial implementation rates of 96 per cent in 2015 and 59 per cent in 2016. A large part of the expenses related to UNFPA's implemented activities corresponded to training events, travel, and staff salaries.

40. Activities were also implemented by eight IPs engaged by the Office, with related expenses of USD 4.5 million (55 per cent of programme implementation expenses), and financial implementation rates of 98 per cent in 2015 and 79 per cent in 2016. Section B.2 of the report provides further details on IP-implemented activities. Programme implementation activities during the period under review were funded from core resources of USD 3.7 million and non-core resources of USD 4.6 million.

41. A large component of UNFPA's programme activities corresponded to the DHS project, which accounted for almost 63 per cent of total expenses incurred in 2016. The DHS project reported a total annual expense of USD 3.7 million against a planned budget of USD 4.8 million in 2016. By the end of September 2017, the project recorded a total expense of USD 6.0 million or 80 per cent of total earmarked funds for the project. Preparatory activities for the project started in August 2016 while actual enumeration activities began in October 2016. The survey was initially planned to conclude the data collection phase by the end of December 2016 and complete the data analysis and preliminary findings phase by 30 June 2017. A number of challenges encountered during the survey period, however, caused certain aspects of project implementation to be delayed. For example, the initial project start-up was delayed for three months, mainly due to: (a) an ineffectual project management structure that hindered effective communication, coordination, reporting and monitoring; (b) implementation capacity issues; and (c) complex operational and administrative arrangements set up to provide a range of financial management and logistical support services. The challenges necessitated a revision in the project completion timeline to April 2018. As mentioned in paragraph 12, further details on the DHS project and its structure are included in Annex 1 to the report.

42. Audit work performed in 'programme management' covered 11 projects implemented, including the DHS one, with aggregate expenses of USD 5.1 million during the period under review (61 per cent of programme implementation expenses). It included: (a) a review of project workplans; (b) an assessment of the process followed to prepare, cost and approve workplans, as well as monitor their implementation by both the Office and the IPs; and (c) a review of workplan progress reports, standard progress reports, monitoring reports and other evidence of programme implementation.

43. Based on the audit work performed in this area, the audit identified the following issues that need Management attention.

Strengthen governance, management oversight, communication and coordination processes in the DHS project

44. The review of project agreements, minutes of key project governing bodies' meetings i.e. the NSC and its two functional committees - the Project Management Committee (PMC) and Technical Support Services, and project progress reports revealed several issues requiring immediate attention.

Governance

45. The DHS project organization structure centralized, at the national level, strategic and operations management, as well as the provision of support services while, for practical reasons, most operational decision-making and project implementation were decentralized to the provincial Government level. Further, the project governance documents did not clearly define responsibilities, accountability processes, delegated authority, reporting requirements, and other intended interactions between parties, at both national and provincial levels - adversely affecting the effectiveness and efficiency of managing project activities.

46. The situation was further exacerbated in that the Office signed an implementing partner agreement and annual workplans with the IP mandated to collect demographic data at the national level. As mentioned in the above paragraph, most enumeration activities were carried out by the provincial Governments through an established administrative structure over which the IP at national level had no formal supervisory authority owing to a lack of direct contractual relationship between either the Office or the IP, and the provincial Governments. This created difficulties – for both the Office and the IP – to monitor project implementation effectively and to get, from the provincial Governments, binding commitments to implement and report on the project.

Management oversight and coordination

47. It was unclear from the review of NSC, PMC and the Technical Support Committee minutes whether project governance meetings, discussing, inter alia, project progress, were scheduled at intervals prescribed in project documents, or whether they had the required level of representation from the Office. While it was evident that several meetings took place during the period under review, the Office maintained minutes for only six of them. Further, meeting notifications for the functional committees were, in most cases, sent directly to individual staff members at the Office, without a mechanism to coordinate attendance.

48. In addition, the project governing bodies did not establish coordination mechanisms to oversee project delivery and ensure consistency in the approach taken by the project implementers in all 22 provinces. Further, there was no mechanism to ensure proper follow-up of recommendations and decisions taken by the project governance bodies. For example: (a) a decision requiring the provision of periodic financial reports on fund commitments and cash acquittals was not implemented, with no evidence of follow-up; and (b) a decision to mobilize additional funds to bridge an initial shortfall of USD 2.3 million and monitor procurement activities undertaken by the provincial Governments when the project funding position deteriorated was also not implemented.

Performance monitoring and reporting

49. Regular reporting on the performance to the project's governance bodies was primarily centred on routine operational issues, such as cash acquittals and payment of expenses, with little or no evidence of discussion of strategic and coordination matters regarding project implementation and progress made against key milestones, as defined in the project plan. For instance, the project document specified several key performance indicators for tracking throughout the project's life-cycle. However, there was no evidence that the indicators and related targets were monitored to ensure that the project stayed on course and to ascertain whether the targets were met. Further, monthly status reports and quarterly workplan progress reports were not prepared during the period under review, as required by applicable policy.

Communication strategy

50. The project documents and corresponding standard operating procedures did not include a communication strategy. As a result, the flow of information between the Office, the IP, and the provincial level Governments was inconsistent and not always timely – adversely affecting the Office ability to respond, in a timely manner, to operational challenges as they arose. For example, the approved budget allocations and ceilings, as well as fund management guidance notes clarifying implementation modalities, reporting requirements, and oversight and monitoring responsibilities, were not communicated to all project implementers. This resulted in cost overruns in 2016, with expenses exceeding the planned budget by approximately USD 1.4 million or 154 per cent for key activities implemented by provincial Governments under two outputs: (a) Output 2.4 – “*Training of provincial field offices*”; and (b) Output 2.5 – “*Urban field operations*”.

51. Conversely, the flow of information from the provincial level to the IP at national level and the Office was intermittent, making the review and validation of payment claims and cash acquittals submitted by the provincial Governments difficult. In particular, the audit noted that project staff at the IP did not have a clear understanding of project activities in the provinces due to lack of formalized reporting relationships and channels. The absence of information flow was also evident at the national level where, for example, prior to August 2016, details of additional project funding (in-kind and extra-budgetary estimated at USD 0.7 million) provided by various donors directly to the IP were not, despite several requests by Office staff, made available for the Office to manage, diminishing the Office’s financial oversight as fund manager of the project and increasing the risk of double-dipping from the project’s various funding streams.

ROOT CAUSE	<i>Guidelines (lack of or inadequate policies and procedures). Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>The effectiveness of project delivery and operations may be diminished.</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 7**PRIORITY: HIGH**

Define the key reporting requirements for monitoring project performance and develop an action plan to strengthen: (a) project governance and oversight by reengaging the DHS National Steering Committee; (b) project coordination and communication mechanisms; and (c) the system for tracking the Committee’s deliberations, decisions and recommendations.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

The Office concurs with the observation and has already taken measures to strengthen project governance processes and oversight mechanisms. One of the key measures initiated by the Office is a high level of engagement with the Implementing Partner, Government counterparts and the National Steering Committee, as a way of encouraging key stakeholders to take more proactive and collaborative actions to address project implementation challenges.

The Office is also assisting the Implementing Partner to strengthen its coordination efforts with the relevant provincial administration offices for a more effective implementation and monitoring of project activities. The Office will institute a follow-up system to track the National Steering Committee’s deliberations, decisions and recommendations.

Significantly enhance resource management activities

52. The Office did not maintain an effective resource management process during the period under review. The audit revealed significant issues in planning and budget formulation, resource monitoring and reporting, which may be indicative of staff capacity gaps and affected the achievement of the DHS project’s intended results.

Planning & budget formulation

53. Budgetary inputs and resource requirements for key project activities were not documented in sufficient detail at the onset of the project with workplan budgets prepared at a highly summarized output level, providing little or no information on the budgeting assumptions and methods used. Workplan budgets were not systematically estimated and supported by detailed budget costing sheets. Further, there was no evidence of procurement planning and needs assessment by the IP to feed into the budgets, and specification of the procurement methods to be used for goods and services especially in field locations, basically placing procurement decisions at the discretion of the provincial implementers.

54. The initial project budget of USD 10.5 million was reduced to USD 7.4 million through five revisions, which were effected without documented explanations or justifications for the changes. In some instances, budget reallocations or increments were made to accommodate items not initially included in the approved budgets without proper approval or documentation. As a result, the 2016 and 2017 workplan budgets adopted by the Office were significantly mismatched to the corresponding funding proposal budgets.

55. The frequent budget adjustments with little or no explanation or documented trail limited Management’s ability to effectively manage and control expenses – diminishing the effectiveness of the budgets as a control mechanism.

Resource monitoring and reporting

56. Budget analyses to identify low implementation, inefficiencies and performance issues – e.g. through expense analyses for key project activity lines, or actual-to-budget variance analysis and reconciliation of actuals to workplans – were not regularly prepared and reported on hindering effective budget monitoring and leading to an over-expenditure of approximately USD 2.6 million.

57. The audit notes that in March 2017, the Office coordinated a joint technical mission with the Asia Pacific Regional Office and other project stakeholders to review the survey data collection methodology, adjust the completion plan and associated budgets, with the aim of developing a catch-up plan to address underfunding issues and capacity challenges. The mission report⁹ identified a budget shortfall of USD 2.6 million to complete the remaining activities of the DHS project, of which USD 1.6 million was made available by UNFPA leaving a funding gap of USD 1.0 million (USD 0.8 million in 2017 and USD 0.2 million in 2018). The Office, through its Country Programme mid-year review, reprogrammed USD 312,483 from other programmes to cover part of the gap. The Government of PNG initially pledged approximately USD 300,000 towards bridging the gap but was unable to meet the commitment due to financial constraints. The main donor to the DHS project made a formal request, in September 2017, for the Office to mobilize additional resources to finance the funding gap. By December 2017, the Office was able to mobilize funds amounting to USD 890,000 to meet the funding shortfall and complete the project’s field operations, data processing, reporting, printing and dissemination.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Resources (insufficient human resources/inadequate training).</i>
IMPACT	<i>The effectiveness of the budget as a monitoring tool is diminished.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 8 **PRIORITY: HIGH**

Enhance the resource management process for more effective resource planning, budget formulation and monitoring through the use of structured budget costing templates that provide a sufficient level of detail based on clearly documented inputs, units, rates, and budget assumptions used, proper review, approval and documentation of budget reallocations and changes, and accurate costing and matching of funding proposal and workplan budgets.

⁹ A Case for the Completion of the Demographic and health Survey (DHS) in PNG, 2017

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*STATUS: *Agree*MANAGEMENT ACTION PLAN:DUE DATE: *February 2018*

The Office has already implemented this recommendation by introducing a budget control system and tools to enable an effective resource planning and monitoring of workplan budget before funds are allocated and committed in Global Programming System. The Office also notes that the budget shortfall of USD 2.6 million was actually unabsorbed expenses incurred by the IP due to unplanned work extensions of field enumeration. The resultant delays escalated the overall cost and contributed to the funding challenges highlighted above. With the adoption of more stringent financial management controls, the Office has been able to reduce the funding shortfall to USD 1.4 million to ensure that the project's necessary field enumeration activities are completed.

B.2 – NATIONAL EXECUTION**NOT EFFECTIVE**

58. National Execution (NEX) expenses amounted to USD 4.5 million (54 per cent of total programme implementation expenses), corresponding to activities implemented by five Government IPs and three non-governmental organizations, with financial implementation rates of 98 per cent in 2015 and 75 per cent in 2016. Per the available general ledger information, NEX expenses corresponded primarily to printing services, travel and learning events (USD 4.0 million or 89 per cent of NEX expenses).

59. IP audits performed in 2016 covered three of the eight IPs engaged by the Office, with aggregated expenses of USD 3.8 million (96 per cent of total NEX expenses in 2016). Out of the three IP audits conducted, one received a qualified audit opinion and the remaining two received unqualified audit opinions. Ineligible expenses were reported in all three audit reports, for an aggregate amount of USD 15,434 (0.4 per cent of the total audited amount).

60. Audit work performed in this area included the review of: (a) the IP 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 Fund Authorizing and Certificate of Expenditure (FACE) forms and direct payment requests; (d) the controls used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities in the period under review. The audit also conducted visits to the IP engaged to implement the DHS project, with the objective of developing an appropriate understanding of: (a) its overall control environment as pertains to UNFPA-funded programme activities; (b) the controls exercised over financial transactions for significant the more expense categories; and (c) the processes followed in the preparation and authorization of the FACE forms and workplan progress reports submitted to the Office. The visits also included inquiries of the IP about its work experience with UNFPA.

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

*Enhance the monitoring of project implementation activities**Monitoring calendar and plan*

62. The Office did not have a project monitoring calendar and plan specifying, e.g. locations and dates of planned monitoring visits, responsible personnel, and the activities and results to be monitored. Although the Office devised a monitoring framework for the DHS project, the framework primarily focused on high-level outputs with insufficient detail to enable an effective monitoring process.

63. Further, due to the staffing situation (see paragraphs 24-28), project staff did not consistently undertake planned monitoring activities. Monitoring visits were ad-hoc in nature and undocumented for all but one; there was no evidence that UNFPA standard monitoring checklists or other documented verification procedures were used. For example, the only documented monitoring visit conducted during the period under review was solely to collect transaction source documents, such as invoices; there was no evidence of any other monitoring activities undertaken, e.g. the review of project activity reports submitted by the IP or site visits conducted by Office staff.

Financial monitoring of IP activities

64. The Office performed little IP financial monitoring during the period under review. Verification of payment vouchers submitted by the IP was limited; so was that of FACE forms and Direct Payment Request¹⁰ forms prepared by IPs, which presented multiple instances of incompleteness, inaccuracies and errors, and were, in most cases, submitted late, creating backlogs for the processing of payments to suppliers under the direct payment modality. A walk-through of the direct payment and cash acquittal process revealed that FACE forms were often reconstructed by Office staff, on an ex post-facto basis, sometimes with no supporting documentation, in order to make payments.

65. Further, several project activities were carried out without recording them in Atlas project activity codes or linking them to agreed workplans. As a result, periodic project financial reports or analyses were either not prepared or reconciled to agreed workplans. In most cases, requests for direct payments were not made in accordance with approved allocations within the workplans and there was no process to validate that payments made were for approved activities or within the allocated budgets.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Resources (insufficient human resources – skills and numbers).</i>
IMPACT	<i>Programmatic and financial management issues may not be timely identified and remediated, potentially adversely affecting the achievement of project results or the use of funding for its intended purpose.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 9 **PRIORITY: HIGH**

Develop and implement a monitoring plan and calendar to include both programmatic and financial monitoring activities developing, as necessary, appropriate tools and checklists.

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>Representative</i>	<u>STATUS:</u> <i>Agree</i>
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> <i>December 2018</i>

The Office will develop and implement an operational and monitoring plan for its sixth Country Programme.

RECOMMENDATION 10 **PRIORITY: HIGH**

Strengthen financial monitoring activities of implementing partner workplans through: (a) closer monitoring of IPs' compliance with reporting requirements; (b) more thoroughly reviewing FACE forms and payment requests; and (c) implementing review and supervisory controls to prevent the charging of erroneous activity, fund and account codes.

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>Representative</i>	<u>STATUS:</u> <i>Agree</i>
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> <i>June 2018</i>

The Office will monitor Implementing Partner compliance with reporting requirements as part of the newly developed Country Programme monitoring plan. Staff and Implementing Partner trainings were conducted throughout 2017 to clarify: (a) the direct payment process; (b) cash acquittal procedures; (c) reporting requirements; and (d) the adequacy of supporting documentation. All direct payment requests and FACE forms are now reviewed by both the programme and operations teams to ensure accuracy, appropriateness and completeness. Further, a compliance checklist was developed to ensure receipt of all supporting documents before payment.

¹⁰ Forms used by IPs to request payments on their behalf under the direct payment implementation modality.

C. – OPERATIONS MANAGEMENT

NOT EFFECTIVE

Good practices identified

66. The audit wishes to acknowledge the efforts and initiatives undertaken by the Office following the audit field mission in May 2017 to proactively strengthen financial assurance and address the high fiduciary risks identified in this report. These include: (a) more stringent validation and verification control procedures requiring supporting documentation to validate expenses against planned budgets and (b) stringent budget and financial verification as part of the Office’s cost containment strategy and to assess the accuracy and completeness of financial records, efficiency of operation processes and effectiveness of internal control in the project.

C.1 – HUMAN RESOURCE MANAGEMENT

SOME IMPROVEMENT NEEDED

67. The Office incurred staff payroll costs amounting to USD 0.4 million during the period under review. In addition, the Office made use of contract personnel and engaged 11 individuals under individual consultancy contracts and another 3 under service contracts for management activities and programme delivery and support, incurring related costs in the amount of USD 320,546. At the time of both audit field missions, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

68. Work performed in this area included an analytical review of payroll and contract personnel costs and the testing of a sample of three individual consultancies awarded by the Office at a cost of USD 70, 582, 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. Audit procedures applied also included a review of the Office’s leave management process.

69. No reportable matters were identified based on the audit work performed in this area, with the exception of the following one.

Use Atlas to manage leave and other personnel absences

70. The Office did not maintain complete and accurate leave records during the period under review. For all 10 staff members selected for testing for the month of January 2017, the audit noted differences ranging between 1 and 13 days between leave balances per the staff annual attendance cards maintained by the Office leave monitor and leave balances in Atlas. Leave records were not systematically maintained and approved in Atlas. At the time of the audit field mission, the Office was in the process of strengthening leave management controls, including the introduction of daily attendance records and a monthly reconciliation of attendance with information in Atlas.

71. The audit notes that Atlas records form the basis for calculating staff members’ leave and pay entitlements, as well as the accrual of UNFPA leave liabilities. The use of Atlas for leave absence management was, therefore, made compulsory under the applicable policy.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>The IPSAS¹¹ leave accrual is misstated for financial reporting purposes and inaccuracies in recording of leave balances may result in overpayments and/or underpayments of the corresponding entitlements.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 11

PRIORITY: MEDIUM

Reconcile leave balances recorded in Atlas to the records maintained by the leave monitor and update Atlas balances, as appropriate; raise awareness of relevant staff on the need to exclusively use Atlas eServices to manage leave absences, and closely monitor compliance thereof.

¹¹ International Public Sector Accounting Standards

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*STATUS: *Agree*MANAGEMENT ACTION PLAN:DUE DATE: *April 2018*

The Office has improved the leave management process by introducing monthly timesheets in 2017 to record attendance. The Human Resources focal point was also trained to properly reconcile leave balances in Atlas. As a result, leave management activities and records were timely reconciled for all staff before the end of 2017. Further, a web-based tool was introduced to monitor staff movements and availability during official work hours.

C.2 – PROCUREMENT**MAJOR IMPROVEMENT NEEDED**

72. During the period under review, the Office locally procured goods and services at a cost of USD 2.4 million. The most significant categories of goods and services procured corresponded to training events and meetings (USD 0.20 million), services provided by companies (USD 0.12 million), and consultancy services (USD 0.11 million).

73. Audit work performed in this area included the review of a sample of 30 local purchase transactions from the period in scope, made at a cost of USD 0.3 million (13 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,¹² 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.

74. Audit work also included: (a) a review of the procurement planning process; (b) a review of the management of charges for services provided by other UN organizations; (c) analyses of price trends and benchmarking of prices paid for selected goods and services procured; and (d) verification of the registration status and banking details of vendors engaged by the Office, as well as physical visits to vendor premises or telephone calls to verify their existence and clarify concerns pertaining to the procurement transactions in which they participated.

75. From its review of the 30 procurement transactions, the audit revealed exceptions indicative of issues in the procurement process and lack of compliance with applicable policies and procedures, as discussed below.

Enhance the effectiveness of local procurement of goods and services through redesigning the procurement process, including rotation of procurement responsibilities, capacity-building and increased managerial supervision

Procurement capacity

76. At the time of the first audit field mission, no individual in the Office involved in procurement activities had completed the recommended procurement certifications offered by the Chartered Institute of Procurement and Supplies (CIPS). At the same time, the Office did not effectively utilize existing procurement knowledge and skills, as a staff member with Advanced Level CIPS certification and some experience with the Procurement Services Branch (PSB) and on-the-job procurement training was not assigned any procurement responsibilities or duties.

Procurement needs identification and specifications

77. Based on a walk-through of the procurement process, the audit noted that the Office did not have a defined process for needs identification and specification in the context of programmatic planning and workplan preparation. As a result, procurement requisitions prepared during the period under review did not contain clear specifications of the goods or services to be purchased and, in several cases, could not be directly linked to approved workplans or the Office operational needs. Further, purchase requisitions were often forwarded to Office Management for approval without the necessary supporting documents indicating the programmatic or operational need and specification, making difficult informed approval decisions, as highlighted in paragraph 53 above.

¹² Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

Procurement planning

78. The Office did not prepare procurement plans during the period under review. This often resulted in late requests for procurement, sometimes requiring staff members to send procurement needs and specifications directly to suppliers without going through the formal requisitioning process in an effort to meet procurement timelines. In 804 instances of procurement transactions, amounting to USD 804,275, the lead times between requisitioning and receipt of goods and services were just two days, exemplifying rushed procurement processes. The lack of procurement plans also denied requisition approvers a basis for estimating quantities and prices, and determining the solicitation methods to be applied and timelines for purchasing goods and services.

Bid solicitation and assessment

79. None of the 30 local procurement transactions tested were above the USD 50,000 policy-specified threshold requiring the use of formal methods of solicitation. However, the bid solicitation and assessment processes followed were not properly documented. For example, the Office was unable to secure the requisite minimum number of three responsive bids for nine local procurement transactions made at a total cost of USD 21,292. In these cases, the Office documented the reasons and provided justifications by way of notes-to-file which, however, did not bear evidence of Office Management’s review or approval. Similarly, the bid assessment process in place did not ensure best value-for-money as contract award decisions for all 30 transactions tested were not adequately documented and supported to demonstrate a fair and transparent process.

Receiving and inspection

80. There was no documented evidence of receipt and verification of quantity, condition, quality and other relevant attributes of goods and services procured by the Office against the corresponding requisition and purchase order specifications. Further, the policy-recommended receiving and inspection forms were neither prepared nor used during the period under review.

Vendor management

81. The Office did not have a process for vetting prospective suppliers invited to submit procurement bids and quotes, e.g. regarding satisfactory past performance or ascertaining whether they were not prohibited from conducting business with UNFPA.

82. Further, the Office did not make use of long-term agreements (LTA) during the period under review. The Office procured travel services amounting to USD 0.4 million from two suppliers without entering into LTAs or leveraging on other UN organizations’ LTAs, which typically ensure a reliable supply for goods and services that are requested on a regular basis, at the lowest possible prices.

	<i>Guidance (inadequate supervision at Office level).</i>
ROOT CAUSE	<i>Resources (Lack of or insufficient resources: financial, human, or technical resources and Inadequate training)</i>
IMPACT	<i>The effectiveness and efficiency of the procurement process, its transparency and fairness, as well as the ability to obtain value-for-money, may be impaired.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 12**PRIORITY: MEDIUM**

Enhance the effectiveness of procurement activities and compliance with the procurement procedures requirements (including those related to needs assessment, planning, requisitioning, bid solicitation, assessment, contract award and receiving and inspection) by:

- (a) Designing a procurement plan at the beginning of the year that captures all the office requirements based on a robust needs assessments process that includes both operational and programme needs;*
- (b) Building the procurement capacity of operations staff directly involved in procurement activities, as well as programme staff responsible for defining procurement needs and specifications; and*
- (c) Implementing supervisory controls to monitor compliance with UNFPA procedures for procurement activities executed under UNFPA's responsibility and to ensure that procurement processes are fair and competitive.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

A number of controls and process improvement have been developed to strengthen the procurement process. A robust procurement planning was introduced in 2017 to better support and monitor procurement activities in the Office. The procurement operation has also been strengthened with a number tools developed such as the Standard Procurement Procedures checklist and templates, enhanced supervision, improved segregation of duties, and strengthened monitoring controls. These tools will help clarify accountabilities and ensure adequate compliance with the established procurement processes and procedures. Confirmation of receipt of procured goods will be by means of proper receipt and inspection report forms.

C.3 – FINANCIAL MANAGEMENT**NOT EFFECTIVE**

83. During the period under review, the Office processed 2,409 payment vouchers for a total of USD 8.9 million, in relation to the direct payment modality, and another 546 journal vouchers to make accounting adjustments.

84. Work performed in this area included the review of: (a) the Office financial management capacity; (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.

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

Improve accounting data recording through capacity-building of staff and enhanced supervision

86. The Office did not maintain effective accounts payable controls during the period under review, as evidenced by the number of exceptions identified below. The audit noted pervasive gaps in misclassification of expenses in project and fund codes. Out of 461 vouchers selected for testing, 164 (amounting to USD 2.5 million) were charged to incorrect expenditure codes. For example, USD 388,929, incurred in relation to learning workshops, was booked as travel, fuel, and 'other materials and goods' expenses. Further, all vouchers reviewed were not appropriately marked upon payment to mitigate the risk of duplicate payments.

87. Difficulties in detecting and correcting accounting gaps were mainly due to weak supervisory controls and a segregation of duties structure made ineffective by a lack of coordination between programme and operations management staff, itself exacerbated by an unclear division of roles and responsibilities, sometimes resulting in lack of ownership or accountability for carrying out functions. Monitoring checklists, introduced by the Office in September 2016, to ensure that payment requests submitted by IPs were properly verified and approved before payment, were not used effectively as control tools.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>The effectiveness financial operations may be impaired.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 13**PRIORITY: HIGH**

Strengthen review and supervisory controls and provide training to all relevant personnel to validate and verify that financial transactions are recorded in the correct accounts.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2018*

The Office has taken a number of actions to address this recommendation. Financial reviews and supervisory controls to validate and verify payments have been strengthened through the implementation and application of the Accounts Payable policy in April 2017. New templates and control checklists were established to supplement existing controls. Further, Office staff members participated in a webinar on "Correct Expense Account Codes" conducted by the UNFPA Finance Branch in November 2017.

Strengthen accounts payable validation and approval controls

88. As previously mentioned, the DHS project incurred an over-expenditure of USD 2.6 million in 2016. The project also accumulated long outstanding payments amounting to USD 1.2 million owed to suppliers but not approved by the Office because of delays in submitting the related payment requests by the IP. The audit noted several matters, discussed below, which did not provide adequate assurance that project funds were always used for the intended purposes or that value-for-money was achieved.

Unapproved and/or inadequately supported expenses

89. The audit was unable to validate 59 payment vouchers for project expenses amounting to USD 346,886, where relevant documentation to support approval for payment of the related expenses was neither available nor provided to the audit team for review. The payments were cash advances made to IP staff and expensed by the Office immediately upon transfer, instead of recording them as receivables until accounted for by the recipients. The cash advances remained unsupported at the time of the second audit field mission and the Office initiated recovery of the balances. As discussed in paragraph 96 below, additional cash transfers amounting to USD 283,900 made to both Office and IP personnel remained either unaccounted for or inadequately supported at the time of the second audit field mission.

90. The review of approval and payment processes for IP-incurred expenses by the audit revealed that 150 payment vouchers with a value of USD 2.0 million were noncompliant with the applicable IP procurement procedures in that there was no evidence that: (a) requests for quotation were sent to at least three bidders; (b) quotations received were evaluated to ensure best value-for-money; and (c) single sourced suppliers were selected from a valid roster. Office staff did not identify or notice these issues when making payments on behalf of the IP.

91. Twenty-nine payments amounting to USD 218,362 were made based on either proforma invoices or photocopies of invoices, instead of original supporting documents. Another 28 payments amounting to USD 559,295 were made based on supporting documents that had handwritten alterations or revisions made by unidentified individuals involved in project implementation, or on documents created ex post facto and backdated. In two of the cases, the audit noted overpayments totalling USD 64,188 made to suppliers during the period under review with the amounts remaining unrecovered at the time of the second audit field mission. Further, the audit identified one instance where a single invoice was used to make duplicate payments amounting to USD 5,282.

Use of incorrect modality to disburse funds to an IP

92. Funds amounting to USD 251,000 were, in four instances, disbursed to an IP through the issuance of purchase orders and, therefore, not subjected to applicable HACT assurance processes; thereby limiting UNFPA's ability to obtain assurance about proper use of the funds. In addition, the disbursements were made without verifying or validating the foregoing activities implemented by the IP, contrary to applicable policy requirements.

Ineligible expenses

93. Further, the audit noted 23 payments amounting to USD 688,842 made by the Office in relation to activities implemented by an IP that were not planned or budgeted for under the corresponding approved workplans – making the expenses ineligible. The payments were for accommodation costs, travel allowances, vehicle hire and printing services.

Root causes of the exceptions identified

94. The issues discussed above were a consequence of a combination of factors, including: (a) lack of due diligence and financial discipline on the part of Office personnel to safeguard project assets and resources; (b) the absence of a clearly defined budgeting process; (c) lack of managerial supervision to ensure budgetary control and discipline and absence of appropriate ‘checks-and-balances’ controls; (d) heavy reliance on administrative staff unfamiliar with project activities who were authorized to verify and validate payment requests from the IP; (e) potential financial irregularities, which were reported to the OAIS Investigations Branch for further analyses.

	<i>Guidance (inadequate supervision at Office level).</i>
	<i>Guidelines (lack of or inadequate Office policies and procedures).</i>
ROOT CAUSE	<i>Human error (unintentional mistakes committed by staff entrusted to perform assigned functions)</i> <i>Intentional (Intentional overriding of internal controls).</i>
IMPACT	<i>Increased risk of fraud, financial irregularities, and erroneous payments.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 14

PRIORITY: HIGH

Implement appropriate review and supervisory procedures to verify project financial transactions and monitor payments, including the accuracy, completeness, and authenticity of the attendant supporting documents.

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

MANAGEMENT ACTION PLAN: DUE DATE: *July 2018*

The Office will implement regular monitoring and supervision to ensure that financial transactions are correctly recorded and competed with appropriate supporting documents before payment is effected. A checklist was developed to track Atlas approvals and authorization. Additionally, all payment vouchers will be certified and validated by the Office’s International Operations Manager before they are sent to the Representative for final approval.

RECOMMENDATION 15

PRIORITY: HIGH

Institute immediate remedial contractual steps to review and initiate recovery of all ineligible and unsupported expenses.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2018*

The Office will continue to review the above transactions and initiate appropriate remedial contractual steps to recover the abovementioned ineligible and unsupported expenses. In 2017, the Office raised concerns and officially communicated issues of excess payments to the Implementing Partner and the National Steering Committee. Recovery of some of the expenses is still in progress.

In the meantime, to avoid any future excess payments, the Office has established a payment checklist for Implementing Partners where the satisfactory delivery and receipt of goods and services are first checked and confirmed before the Request for Direct Payment forms are approved for final payment.

RECOMMENDATION 16**PRIORITY: HIGH**

Increase fraud risk awareness of Office personnel and train both programme and operations personnel as regards key policy and procedural matters in processing financial transactions.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

The Office will organize a workshop to raise awareness of fraud risks, business ethics and internal control before the end of 2018.

Improve management of cash payments to suppliers and enumerators

95. Large cash transfers amounting to USD 1.2 million were made to 10 Office staff and 4 IP personnel to make cash payments to suppliers and enumerators at remote project sites. The audit is of the view that large payments at remote project implementation sites could, to the extent possible, be made using more secure means such as the 'Kundu Pei' electronic banking system, which also leaves a sufficient audit trail of transactions.

96. Further, approximately USD 576,000 or 48 per cent of the cash transfers were made under the DHS project and expensed immediately upon transfer to the personnel instead of recording them as receivables until fully accounted for. Of this amount, USD 165,100 remained unaccounted for and USD 118,800 was inadequately supported at the time of the first audit field mission.

97. Office Management explained that, owing to an underdeveloped infrastructure with limited banking facilities and cash transfer systems within the country, this was a common method of transferring funds to beneficiaries and participants for project activities held in remote locations. The audit noted that the Office stopped the practice in February 2017, and was in the process of assessing the risks associated with other viable options and solutions in order to comply with the UNFPA Project Cash Advance policy and guidelines. As a recommendation has already been provided with regard to recovery of ineligible and unsupported balances (see Recommendation 15 above), it is not repeated here.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Guidelines (inadequate Office policies or procedures).</i>
IMPACT	<i>Increased security risk to individuals entrusted with large cash amounts. Increased risk of financial loss to UNFPA.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 17**PRIORITY: HIGH**

Explore options for transferring funds to remote locations using third party money transfer service providers such as banks, with proper safeguards for the submission of accountabilities and financial reports that provide sufficient trail of payments made.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

The "Kundu Pei" electronic banking system was established for the DHS project in 2017 to ensure all transactions are recorded using the correct chart of accounts. This system is regularly used and monitored by both programme and operations staff members. Further, the Office has started initiating third-party payments through the UN Operations Management Team payment system to better manage cash transfer risks.

Establish accounting controls over recording and recovery of VAT

98. Goods and services procured directly by UNFPA and its IPs for the implementation of its programmes are exempt from value-added tax (VAT) at the standard 10-per-cent rate. VAT is typically paid upfront to suppliers and claimed from the Internal Revenue Commission through the submission of applications for refund. The audit noted that the Office did not prepare periodic reconciliations of recoverable VAT account balances in a timely manner as required by the applicable guidelines for proper tracking and recovery. As a result, as of May 2017, out of a possible reimbursable amount of USD 248,375, only claims for USD 178,770 had been made to the Internal Revenue Commission. The audit was unable to verify if the balance of USD 69,605 was still reimbursable or time-barred under local VAT regulations as the related tax invoices were not available for review. Further, 17 transactions with aggregate recoverable VAT amounts of USD 28,262 were not recorded in the VAT account. Another 13 transactions with an aggregate value of USD 12,829 were incorrectly recorded as recoverable because the corresponding invoices were either missing or did not fulfil local tax legislation requirements for qualification as tax invoices.

99. The audit noted that none of the VAT claims submitted by the Office to the Internal Revenue Commission during the period under review were reimbursed. Office Management explained that the problem of delayed reimbursements affected all UN organizations in the country.

ROOT CAUSE	<i>Guidance (inadequate supervision at the Office). Other (factors beyond the control of UNFPA).</i>
IMPACT	<i>Diminished resources are available for programme implementation purposes.</i>
CATEGORY	<i>Reporting Operational</i>

RECOMMENDATION 18 **PRIORITY: MEDIUM**

Reconcile and assess recoverability of the unclaimed VAT balances and implement supervisory controls to ensure that (a) VAT paid is recorded in the recoverable VAT account; (b) recoverable account balances are timely reconciled and (c) reimbursement claims are submitted to tax authorities in a timely manner.

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

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

This recommendation was implemented in 2017. The Office has recovered all previous years' VAT and has been regularly providing updates to the UNFPA Finance Branch of its VAT status. Currently, there are no pending VAT issues.

RECOMMENDATION 19 **PRIORITY: MEDIUM**

In collaboration with the United Nations Country Team, institute a dialogue with local tax authorities on the reimbursement of outstanding VAT claims.

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

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

This recommendation was implemented in 2017. The Office is working closely with the United Nations Country Team through the UN Operations Management Team to address VAT issues with the local tax authority.

C.4 – GENERAL ADMINISTRATION **MAJOR IMPROVEMENT NEEDED**

100. Work performed in this area focused on travel and asset management processes at the Office.

101. Travel expenses incurred by the Office during the period under review amounted to USD 0.5 million primarily in relation to local travel for programme monitoring purposes. In view of the lower audit risk level, audit work performed in the area of travel included a walk-through of the travel process and the testing of a sample of five travel-related transactions for Office staff amounting to approximately USD 5,000 for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of daily subsistence allowances.

108. The audit notes that physical space constraints in the Office may have significantly contributed to the filing situation. The premises occupied by the Office appeared insufficient to accommodate all personnel and secure the filing of documents, an observation to which Management concurred.

ROOT CAUSE	<i>Guidelines (inadequate Office policies or procedures). Guidance (inadequate supervision at the Office level).</i>
IMPACT	<i>Validity of the project activities and transactions undertaken by the Office may not be established.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 21

PRIORITY: MEDIUM

Establish an effective filing system that secures and facilitates easy retrieval and safeguarding of relevant official documents and records.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

Urgent steps have been taken to establish an effective filing system. Throughout 2017, the Office initiated a number of filing clean-up exercises to centralise and safeguard important financial files, official documents and records. The Office has also expanded its premises to resolve the physical space issues highlighted in the report. As a result of all efforts made during 2017, the Office has been able to put in place an effective, secure and easy-to-retrieve filing system.

RECOMMENDATION 22

PRIORITY: HIGH

In coordination with Facilities and Administrative Services Branch, explore options for more conducive Office premises and work space to accommodate an effective filing system and other Office needs.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Representative, with support from the Chief, Facilities and Administrative Services Branch

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

This recommendation was implemented in November 2017. With the now expanded office space, the Office is now able to provide adequate and conducive work space for its personnel.

ANNEX 1 – DEMOGRAPHIC HEALTH SURVEY OF PAPUA NEW GUINEA

Background

1. The DHS project aims to help the NSO produce valid, reliable and representative national and subnational data, among others, on infant and child mortality, adult mortality, fertility, contraceptive knowledge and use, maternal and child health indicators, and gender-based violence. Such data are fundamental to the development of sound national and subnational evidence-based policies, to aid effective planning and service delivery, and to monitor and evaluate of performance by service providers and development projects and programmes. Two DHS projects were previously conducted in Papua New Guinea, the first one in 1996 and the second one in 2006. The present one is the third in the series and aims to provide baselines for indicators for the country's Sustainable Development Goals indicators by generating data on maternal mortality, infant and child mortality, fertility, contraceptive knowledge and use, maternal and child health, gender, including at provincial level.
2. The project is aligned to the PNG Vision 2050; the PNG Development Strategic Plan 2010-2030; the Mid-Term Development Strategy 2010-2030; and the National Strategy for Responsible Sustainable Development. At the macro level, the project supports UNDAF 'to accelerate the achievement of the Millennium Development Goals' (MDGs). Of the four activity clusters addressed in the UNDAF, the project contribute in particular to UNDAF Cluster (1) 'governance for equitable development'. It promotes the achievement of the Sustainable Development Goals (SDGs), particularly SDG 3 (ensure healthy lives and promote well-being for all ages), SDG 4 (ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all), and SDG 5 (achieve gender equality and empower women and girls). Particularly in the context of Papua New Guinea, as highlighted in paragraph 7, having up-to-date and representative data on national and sub-national population and health-related data is critical for evidence-based planning and policy development.

Project strategy

3. The project's main intended outputs are a high quality DHS timely implemented and completed, and strengthened national capacity for the production and dissemination of quality disaggregated data on population and development issues that allows for mapping of demographic disparities and socio-economic inequalities, and for programming in humanitarian settings. The process is expected to result in a final survey report that contains comprehensive, valid, and reliable national and subnational data, among others, on infant and child mortality, adult mortality, fertility, contraceptive knowledge and use, maternal and child health, and gender-based violence in the home.
4. The project's contributions to downstream capacity development are most evident in the training and development it aims to deliver to NSO staff in relation to data collection and analysis and report writing; and in the NSO systems and procedures it aims to develop for data entry, transmission, collation, analysis, and presentation. UNFPA supports the DHS project given its strong experience in data for development accrued worldwide. UNFPA is also well placed to promote awareness of the DHS results and, thereby, facilitate their use as bases for policy development and planning and the design and management of development projects and programmes. This will constitute an important contribution to upstream capacity development.

Project management structure, arrangement and support

5. The project is implemented primarily through the NSO with support from the Provincial Survey Coordinators in 22 provinces, to cover 800 survey clusters with approximately 19,200 households.
6. The project management arrangements and technical and other support comprise the following:
 - a) **Strategic oversight** – The NSC is responsible for the strategic management of the project and provision of overall quality assurance and oversight to the project. It also facilitates project activities within the Government. Membership of the committee comprises senior Government representatives from the Department of National Planning and Monitoring, the National Department of Health, NSO and other Government agencies, UNFPA, the Department of Foreign Affairs and Trade of the Government of Australia, the University of PNG, the National Research Institute, the National Aids Council, and other donor representatives.

- b) **Quality assurance and NSC support** - Technical support to the NSC is provided by a User Advisory Group. Management of DHS operations and responsibility for project implementation falls on a formally constituted Project Management Committee (PMC), which receives technical support from a well-credentialed international contractor with expertise and extensive experience in the field.
- c) **Implementation and operations** – A PMC is established by NSO. The PMC reports to the NSC. NSO has established formal management arrangements for project activities, which include a project manager, NSO/DHS team leaders, and the PMC, which the project manager chairs. The committee membership comprises the project manager, a number of NSO/DHS team leaders, the ICF country manager, and a UNFPA representative. Project execution and fiduciary duties are carried out by UNFPA, which also provides a range of financial management and logistical support services to the project.
- d) **Procurement** – The procurement of goods and services follows the Government of Papua New Guinea’s procurement rules. UNFPA receives all payment requests from NSO and reviews them for compliance with the Government rules before payments are made. In its review process, UNFPA is required to take into account best value-for-money and competitive bidding. Major procurements are vetted by the PMC before submission to UNFPA. Title (i.e., ownership) to all goods procured for the DHS project is vested in the NSO.

Project implementation and delivery

7. The DHS project is funded by one donor and the corresponding funds, in the amount of USD 7.4 million, were provided through the Papua New Guinea UN Country Fund, with UNFPA as the Participating UN Organization to implement the project by providing project execution, financial management and logistical support.

8. Preparatory activities started in August 2016 while the enumeration began in October 2016. The survey was initially planned to conclude the data collection phase by end of December 2016 and complete the data analysis and preliminary findings by 30 June 2017. However, several challenges encountered during the initial start-up period, which commenced three months later than planned, delayed certain aspects of project implementation activities. This was mainly caused by a web of ineffective project management setup, implementation capacity issues, and a complex operational and administrative arrangement that provides range of financial management and logistical support services.

9. In March 2017, the Office coordinated a joint technical mission to review the survey data collection methodology, completion plan and associated budget with the aim of developing a catch-up plan to address under-funding issues and capacity challenges. A revised completion plan was developed, with the project completion date rescheduled to April 2018.

10. As at 31 December 2016, the project had reported a total annual expense of USD 3.7 million against its planned budget of USD 4.8 million. By 19 December 2016, only a third of the sampled clusters had been completed with two-third of the available funds spent. By the end of September 2017, the project recorded a total expense of approximately USD 6.0 million or 80 per cent of total earmarked funds for the project. As at September 2017, approximately USD 6.0 out of the USD 7.4 million total budget had been utilized for preparatory and administrative activities, training of enumerators, field work activities, and data cleaning and processing for some of the data collected from 50 per cent of the total 800 clusters surveyed.

ANNEX 2 – 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:

<ul style="list-style-type: none"> ▪ Effective 		<p>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.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area’s objectives.</p>
<ul style="list-style-type: none"> ▪ Some improvement needed 		<p>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.</p> <p>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.</p>
<ul style="list-style-type: none"> ▪ Major improvement needed 		<p>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.</p> <p>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.</p>
<ul style="list-style-type: none"> ▪ Not effective 		<p>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.</p> <p>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.</p>

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 RECOMMENDATIONS

Recommendations 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
APRO	Asia and the Pacific Regional Office
CIPS	Chartered Institute of Procurement and Supplies
COGNOS	UNFPA's Management Reporting System
COSO	Committee Of the Sponsoring Organization of the Treadway Commission
DHS	Demographic Health Survey project
ERM	Enterprise Risk Management
FACE	Funding Authorization and Certificate of Expenditure
HACT	Harmonized Approach to Cash Transfer
INTOSAI	International Organization of Supreme Audit Institutions
IP	Implementing Partner
LTA	Long Term Agreement
MDG	Millennium Development Goal
NEX	National Execution
NSC	National Steering Committee
NSO	National Statistical Office
OAIS	Office of Audit and Investigation Services
PMC	Project Management Committee
PSB	Procurement Services Branch
SDG	Sustainable Development Goal
SIS	Strategic Information System
UN	United Nations
UNICEF	United Nations Children's Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UN-RIAS	United Nations Representatives of Internal Audit Services
USD	United States Dollars
VAT	Value Added Tax