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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT OF THE UNFPA COUNTRY OFFICE IN AZERBAIJAN

FINAL REPORT
N° IA/2024-12

23 July 2024

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Country Office in Azerbaijan (the Office). The audit was executed from 29 April to 10 May 2024. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and controls relating to the following areas:

- a) Office Governance – Office management, organizational structure and staffing, and risk management;
- b) Programme Management – Programme planning and implementation and management of non-core funding; and
- c) Operations Management – Human resources management, procurement, financial management, and general administration.

2. The audit covered activities conducted from 1 January 2023 to 31 March 2024, which corresponded to the third year and first quarter of the fourth year of the fifth Country Programme 2021–2025, approved by the Executive Board in its first regular session in 2021, with indicative resources of US\$4.4 million.

3. Expenses covered by the audit amounted to \$1.5 million, executed entirely by UNFPA (no Implementing Partners were engaged by the Office), and funded from core resources (\$1.0 million or 67 per cent) and non-core resources (\$0.5 million or 33 per cent).

4. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditor (The IIA).

Overall audit rating

5. The overall audit rating is **“Satisfactory”**,¹ which means that the assessed governance arrangements, risk management practices, and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues and improvement opportunities identified did not affect the achievement of the audited entity or area’s objectives.

6. The audit provided recommendations to address the following issues: (a) noncompliance with UNFPA’s policy on the use of Service Contracts; and (b) erroneous recording of financial transactions.

¹ See complete set of definitions in Annex 1.

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

Audit ratings by key audit area		
Office Governance		Satisfactory
<i>Office management</i>		<i>Satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Satisfactory</i>
Programme Management		Satisfactory
<i>Programme planning and implementation</i>		<i>Satisfactory</i>
<i>Implementing Partner management</i>		<i>Not applicable</i>
<i>Programme supplies management</i>		<i>Not applicable</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
Operations Management		Satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Some improvement needed</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communication technology</i>		<i>Not assessed</i>
<i>Staff safety and security</i>		<i>Not assessed</i>

Good practice identified

8. The Office was held in high regard by key stakeholders interviewed during the audit due to perceived professionalism and ability to amplify impact by demonstrating commitment to the UNFPA’s mandate and focusing on effective and efficient programme activities relevant to the country context.

Key recommendations Total = 2, high priority = Nil

9. For high priority recommendations, prompt action is necessary to ensure that UNFPA is not exposed to high risks (i.e., where failure to act could result in critical or major consequences for the Organization). No high priority recommendation is presented in this report.

Implementation status of previous OAIS recommendations

10. The Office had not been previously audited by OAIS or the United Nations Board of Auditors.

Management comments and action plan

11. Management accepted all recommendations in the report and commenced their implementation. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Acknowledgement

12. The OAI team would like to thank the Management and personnel of the Office, the Eastern Europe and Central Asia Regional Office, and various Headquarter units for their cooperation and assistance throughout the audit.

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I. AUDIT BACKGROUND

1. Azerbaijan is an upper middle-income country with a population of about 10.5 million.² Azerbaijan's Human Development Index value for 2022 was 0.760 — placing it in the high human development category — with a rank of 89 out of 193 countries and territories.³ The unmet need for family planning for women aged 15-49 in 2023 stood at 9 per cent, and the modern contraceptive prevalence rate stood at 16 per cent.⁴ Azerbaijan is classified as a Tier II programme country in the UNFPA Strategic Plan 2022-2025.⁵ The Office did not receive any programme supplies under the UNFPA Supplies Partnership programme.

2. As set forth in the 2024 OAI Annual Workplan, an audit of the UNFPA Country Office in Azerbaijan was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (promulgated by the Institute of Internal Auditors - IIA), 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 aimed to assess the adequacy and effectiveness of the governance, risk management and controls relating to the following areas:

- a) Office Governance – Office management, organizational structure and staffing, and risk management;
- b) Programme Management – Programme planning and implementation, and the management of Implementing Partners (IP), programme supplies, and non-core funds; and
- c) Operations Management – Human resources management, procurement, financial management, general administration, information and communication technology, and safety and security management.

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

- a) Effectiveness and efficiency of the Office operations;
- b) Conformity of expenses with the purposes for which funds were appropriated;
- c) Safeguarding of assets entrusted to the Office;
- d) The level of compliance with applicable regulations, rules, policies, and procedures; and
- e) Reliability of the Office's financial and operational reporting.

4. The audit covered activities conducted from 1 January 2023 to 31 March 2024, which corresponded to the third year and first quarter of the fourth year of the fifth Country Programme 2021–2025, approved by the Executive Board in its first regular session in 2021, with indicative resources of \$4.4 million.

5. Expenses covered by the audit amounted to \$1.5 million, executed entirely by UNFPA (no Implementing Partners were engaged by the Office), and funded from core resources (\$1.0 million or 67 per cent) and non-core resources (\$0.5 million or 33 per cent).

6. Approximately 38 per cent of the expenses incurred in the period under review corresponded to the UNFPA Strategic Plan's "Policy and Accountability" output. The "Gender and Social Norms" output accounted for 25 per cent, the "Population Change and Data" output for 21 per cent, the "Quality of Care and Services" output for 12 per cent, the "Adolescent and Youth" and the "Humanitarian Action" outputs accounted for 2 per cent respectively.⁶

7. The UNFPA Office in Azerbaijan is in the capital city of Baku. During the period under review and at the time of the audit field mission, the Office was managed by a non-resident Country Director, assisted by Head of Office. The Office had seven approved staff posts - one international and three national professional posts, and three general service posts. Five additional posts were covered under the Service Contract modality.

² Source: <https://www.unfpa.org/data/world-population/KZ>

³ Source: <https://hdr.undp.org/data-center/country-insights#/ranks>

⁴ Source: <https://www.unfpa.org/data/world-population/KZ>

⁵ Tier II comprises programme countries that have met one of the strategic plan's three transformative results.

⁶ Source: UNFPA Dashboard 2.0

II. AUDIT RESULTS

8. The audit results are presented below, by audit area.

A. OFFICE GOVERNANCE

SATISFACTORY

A.1 – OFFICE MANAGEMENT

SATISFACTORY

9. Audit work performed in this area included a review of: (a) the Office's planning process in 2023 and 2024; (b) relevance of the 2023 and 2024 annual management plans, and the level of implementation of activities in 2023; (c) alignment of the 2023 performance plans of key personnel to Office priorities; (d) effectiveness of Management oversight of programme delivery and operational activities; (e) accuracy of the 2023 Office annual report data; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.

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

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

SATISFACTORY

11. Audit work performed in this area included a review of: (a) the alignment of the organizational structure and staffing arrangements with the 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.

12. No reportable matters, other than those noted in section C.1. below, were identified based on the audit work performed in this area.

A.3 – RISK MANAGEMENT

SATISFACTORY

13. As the Office was not one of those risk assessed and selected to participate in the corporate Enterprise Risk Management process for the period under review, audit work performed in this area was limited to interviews with Office Management to gain an understanding of the risks identified by the Office and actions taken to respond to them.

14. No reportable matters were identified based on the audit work performed.

B. PROGRAMME MANAGEMENT

SATISFACTORY

15. The Office was appreciated by key stakeholders interviewed during the audit due to perceived professionalism and ability to amplify impact by demonstrating commitment to the UNFPA's mandate and focusing on effective and efficient programme activities relevant to the country context.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION

SATISFACTORY

16. Audit work performed in this area included: (a) a review of the workplans related to the outputs selected, for the period under review; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as to monitor their implementation by the Office and with various IPs; (c) the review of monitoring reports and other evidence of programme implementation. In addition, the audit reviewed: (a) the alignment of the activities implemented to the CPD; and (b) the level of achievement of the fifth country programme cycle outputs for selected programmatic indicators.

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

B.2 – IMPLEMENTING PARTNER MANAGEMENT

Not Applicable

18. There were no Implementing Partners engaged by the Office during the period under review and, therefore, the area was not tested.

B.3 – PROGRAMME SUPPLIES MANAGEMENT

Not Applicable

19. There were no programme supplies provided by the Office during the period under review and, therefore, the area was not tested.

B.4 – MANAGEMENT OF NON-CORE FUNDING

SATISFACTORY

20. Audit work performed in this area included tests of compliance with donor agreement requirements, interviews with donors, and review of donor reports for timeliness and compliance.

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

C. OPERATIONS MANAGEMENT

SATISFACTORY

C.1 – HUMAN RESOURCES MANAGEMENT

SATISFACTORY

Issue 1 Non-compliance with the UNFPA policy on Service Contracts

22. According to applicable policy⁷ a Service Contract (SC) is intended for engaging individuals for non-core support services in the office that would normally be outsourced to a company, like custodial, security and information technology (IT) services.

23. The policy further specifies that SCs are intended for engaging individuals under the following conditions:

- a) National personnel or others legally authorized to work in the country;
- b) Hiring project personnel where the SC issued is limited to services rendered to the project; and
- c) The services have a defined deliverable that can be completed within a specific time period.

24. Despite meeting all the criteria of a core function, the role of Communication Officer at the Office was performed by a Service Contractor. Specifically, the role was neither linked to an individual project nor limited to a single defined deliverable. Instead, it encompassed a wide range of responsibilities related to the Office’s day-to-day activities, which were essential for effective programme delivery and operations.

25. Office Management indicated the importance of the role but emphasized that use of the contractual modality was dictated by circumstances, without a feasible alternative due to lack of sustainable funding to secure a staff position. According to policy,⁸ exceptions to a human resources policy that is not governed by a staff rule should be authorized by the Director, Division for Human Resources. However, in this instance, explicit authorization was not obtained.

ROOT CAUSE *Guidance: Inadequate supervision at the Office level.*

IMPACT *Long term service under short-term contractual modalities may negatively impact personnel morale especially where individuals are performing core functions.*

⁷ Human Resources: Service Contracts, 7 October 2014.

⁸ Delegation of Authority in matters relating to Human Resources Version 1.2, 28 August 2023

CATEGORY *Compliance.*

Recommendation 1	Priority: Medium
Comply with the policy and procedures governing engagement of Service Contract personnel. Should deviations be necessary, consult and obtain written approval from the Division for Human Resources.	
<u>Manager Responsible for Implementation:</u> Country Director.	
<u>Status:</u> <i>Agree.</i>	
Management action plan:	
The Office’s human resources will be reviewed in light of the new Country Programme Document and next UNFPA Strategic Plan. The necessary policy requirements for funds availability and time required will be carefully reviewed to explore the possibility for aligning contract modalities. Based on the findings of the review, the costs involved and identification of potential funding sources/donor resources for aligning the contract modality will be identified and, as appropriate, explicit approvals sought.	
Estimated completion date: <i>June 2025.</i>	

C.2 – PROCUREMENT

SATISFACTORY

26. Work performed in this area included testing of a sample of 12 procurement transactions executed by the Office for linkage to procurement plans and corresponding workplans, compliance with applicable policies and procedures, and operating effectiveness of controls in the areas of: (a) appropriate approvals and segregation of duties; (b) vendor selection; (c) contract award; (d) contract management; and (e) accurate recording of transaction amounts.

27. No reportable matters were identified based on the audit work performed.

C.3 – FINANCIAL MANAGEMENT

SOME IMPROVEMENT NEEDED

Issue 2 Erroneous recording of financial transactions

28. UNFPA has a defined chart of accounts that all business units are required to follow in recording each transaction. The chart is categorized in a manner to support the Organization’s financial planning, budgeting, and reporting, as well as production of managerial data and performance analyses.

29. Four transactions valued at \$65,000 were misclassified in expenses accounts and posted to incorrect accounting codes. The misclassified transactions related to hiring of individual consultants and payment of daily subsistence allowances for local trips.

Root Cause *Guidance: inadequate supervision at the Office level (ineffective oversight of financial management).*

IMPACT *Erroneous recording of transactions creates a risk of inaccurate financial reporting.*

CATEGORY *Reporting.*

Recommendation 2	Priority: Medium
Implement supervisory review procedures to prevent the erroneous charging of expenses to incorrect account codes.	
<u>Manager Responsible for Implementation:</u> Country Director.	

Status: *Agree.*

Management action plan:

Office Management remains committed to upholding the highest standards of financial management and the necessary supervisory review procedures to prevent charging of expenses to the erroneous account codes will continue to be implemented. Management will continue to work towards improving its processes to prevent similar discrepancies in the future. A meeting will be organized with all staff to discuss the audit finding and the table of account codes shared. Internal control mechanisms will be further strengthened.

Estimated completion date: *January 2025.*

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

30. Work performed in this area focused on the asset management and travel management processes. The audit included a walk-through of the processes and testing of a sample of nine asset-related and seven travel-related transactions for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls.

31. No reportable matters were identified based on the audit work performed.

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY

NOT ASSESSED

32. The area was assessed as low risk during the audit and, therefore, not tested.

C.6 – STAFF SAFETY AND SECURITY

NOT ASSESSED

33. The area was assessed as low risk during the audit and, therefore, not tested.

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,⁹ are explained below:

<ul style="list-style-type: none"> ▪ Satisfactory 		<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"> ▪ Partially satisfactory with 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"> ▪ Partially satisfactory with 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"> ▪ Unsatisfactory 		<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.

⁹ Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

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

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

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

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

GLOSSARY

Acronym	Description
CPD	Country Programme Document
IIA	Institute of Internal Auditor
OAIS	Office of Audit and Investigation Services
SC	Service Contract
UN	United Nations
UNFPA	United Nations Population Fund
US\$	United States Dollars