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## **DIVISION FOR OVERSIGHT SERVICES**

### **DESK AUDIT OF THE UNFPA COUNTRY OFFICE IN BENIN**

**FINAL REPORT**  
N° BEN-101

**9 April 2013**

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## EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed a desk audit of the UNFPA Country Office (the Office) in Benin from 9 April 2012 to 17 February 2013<sup>1</sup>. The audit covered the period from 1 January 2010 to 31 December 2011. Expenditures related to programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances.

### Background

2. Benin is currently in its seventh Country Programme 2009-2013, approved by the Executive Board in 2008 with a total resource allocation of USD 20.3 million for the five year cycle. Total expenditures in the biennium 2010-2011 covered by the desk audit amounted to USD 8.4 million, allocated to 14 projects executed by 16 implementing partners (USD 1.0 million) and by UNFPA (USD 7.4 million)<sup>2</sup>. Approximately 54 per cent of the expenditures were allocated to the sexual and reproductive health component, with a particular emphasis on the quality of reproductive health services, including services for obstetric fistula and the prevention of sexually transmitted infections, HIV and AIDS. Population and development activities accounted for 9 per cent of the expenditures with a focus on population and human rights issues. The gender component accounted for 6 per cent of total expenditures and focused on supporting the legal and socio-economic environment in order to promote gender equity and equality and to eliminate gender-based violence. Management and programme and coordination assistance accounted for the remaining 31 per cent of expenditures.

### Methodology and scope

3. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, which requires 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 analyzing, on a test basis, information that provided the basis for the audit conclusions. The audit included (a) the analytical review of Atlas financial and project management information; (b) the review of selected Office documents, records and reports; (c) the review of documentary evidence supporting programme planning and implementation activities for selected projects; (d) the review of selected financial transactions; and (e) management inquiries on matters arising from the procedures applied. The work was conducted out of Headquarters and no field mission was undertaken.

### Audit rating

4. The audit indicates that, for the period covered, the risk management performance of the Office was **'Partially Satisfactory'**, which means that, overall, governance, risk management and internal control processes were adequately established and functioning well. However, one or more issues were identified that, if not addressed by management, may negatively affect the achievement of the objectives of the Office.

5. Ratings by key audit area are summarized as follows:

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<sup>1</sup> Length due to a 'cas de force' majeure.

<sup>2</sup> Source: COGNOS project monitoring reports.

Audit ratings by key audit area	
<b>Office Governance</b>	<b>Satisfactory</b>
<i>Organizational structure</i>	<i>Satisfactory</i>
<i>Staffing</i>	<i>Partially satisfactory</i>
<b>Programme Management</b>	<b>Partially Satisfactory</b>
<i>Programme planning, implementation and monitoring</i>	<i>Partially satisfactory</i>
<i>National execution (NEX)</i>	<i>Unsatisfactory</i>
<i>Inventory management</i>	<i>Satisfactory</i>
<i>Management of non-core funding</i>	<i>Satisfactory</i>
<b>Operations Management</b>	<b>Satisfactory</b>
<i>Human resources management</i>	<i>Satisfactory</i>
<i>Procurement</i>	<i>Satisfactory</i>
<i>Financial management</i>	<i>Partially satisfactory</i>
<i>General administration</i>	<i>Satisfactory</i>
<i>Information and communications technology</i>	<i>Satisfactory</i>
<i>Security management</i>	<i>Not assessed</i>

### Key findings and recommendations

6. The desk audit identified a high level of compliance with established policies and procedures in the operations area. The Office's organizational structure was well aligned with the Country Programme (CP). Job descriptions were clear, detailed and aligned to the CP. Annual work plans were clear and activities conducted by the Office during the period under review could easily be linked to these plans. Monitoring visits results were well documented and properly followed up by management. The Office used an innovative approach by engaging a micro finance company to manage cash payments in the field.

7. The audit identified areas requiring management attention. There is a need to complete the recruitment of the operations manager position, which has remained vacant since 1 December 2011. Funding to implementing partners must be provided through the Operating Fund Account process, to enable a more effective financial monitoring and ensure that adequate assurance can be obtained about the proper use of the funding; related programme implementation expenditures should be recorded as national execution (NEX) to provide a more accurate depiction of the implementation modalities used by the Office. There is room to improve the timeliness of procurement interventions. Finally, there is a need to enhance the controls over the allocation and recording of expenditures to provide a more accurate measurement of programme delivery and management costs.

8. The audit report includes seven recommendations designed to help the Office address the above matters. Four recommendations were assessed as being of high priority and the other three as being of medium priority.

### Management response

9. The Country Office greatly appreciates the audit conducted by DOS and overall agrees with its findings and recommendations. Effective efforts and actions are underway to address the recommendations included in the report.

10. The DOS team would like to thank the management and staff of the Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

## I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The desk audit covered the period from 1 January 2010 to 31 December 2011. Expenditures related to programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances.
2. The objectives of the desk audit were to:
  - a) Assess the appropriateness of the financial transactions selected for examination in the context of the Office programmatic and operational interventions;
  - b) Assess whether the selected financial transactions were:
    - Completed in compliance with all applicable policies and procedures;
    - Properly authorized; and
    - Accurately recorded and reported;
  - c) Obtain evidence of the operating effectiveness of key controls implemented by the Office to mitigate the risks identified through the procedures applied; and
  - d) Provide concrete and practical recommendations to the Office to improve risk management and control in the areas covered by the desk audit.
3. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, which requires 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 analyzing, on a test basis, information that provided the basis for the audit conclusions. The audit included (a) the analytical review of Atlas financial and project management information; (b) the review of selected Office documents, records, and reports; (c) the review of documentary evidence supporting programme planning and implementation activities for selected projects; (d) the review of selected financial transactions; and (e) management inquiries on matters arising from the procedures applied. The work was conducted out of Headquarters and no field mission was undertaken.
4. The engagement was conducted by a team of DOS internal audit staff, from April 2012 to February 2013<sup>3</sup>. No field visits took place as part of the desk audit. The findings and recommendations resulting from the desk audit were discussed with the Office's management at a telephone exit meeting held on 29 January 2013. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 6 March 2013 and a final management response was received on 25 March 2013.

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<sup>3</sup> The duration of the audit was impacted by a change in auditor-in-charge and the newly assigned auditor-in-charge's extended medical leave.

## II. BACKGROUND

5. Benin is a country located in West Africa, with a population estimated at 9.1 million and a per capita gross domestic product of USD 1,600<sup>4</sup>. The majority of the population is located on the southern coastline of the country. Approximately 47 per cent of the population is younger than 15<sup>5</sup>. The maternal mortality ratio stands at 350 deaths per 100,000 live births, compared to 850 deaths per 100,000 in 2000<sup>6</sup>. Benin has an HIV prevalence rate of 1.2 per cent. The infection rate in urban areas is almost double that in the rural areas. Prevalence is also higher among women, especially pregnant women. Half of the infections occur among people younger than 25<sup>7</sup>.

6. Benin is currently in its seventh Country Programme 2009-2013, approved by the Executive Board in 2008 with a total resource allocation of USD 20.3 million for the five year cycle. Total expenditures in the biennium 2010-2011 covered by the desk audit amounted to USD 8.4 million, allocated to 14 projects executed by 16 implementing partners (USD 1.0 million) and by UNFPA (USD 7.4 million)<sup>8</sup>. Approximately 54 per cent of the expenditures were allocated to the sexual and reproductive health component, with a particular emphasis on the quality of reproductive health services, including services for obstetric fistula and the prevention of sexually transmitted infections, HIV and AIDS. Population and development activities accounted for 9 per cent of the expenditures with a focus on population and human rights issues. The gender component accounted for 6 per cent of total expenditures and focused on supporting the legal and socio-economic environment in order to promote gender equity and equality and to eliminate gender-based violence. Management and programme coordination and assistance accounted for the remaining 31 per cent of expenditures.

7. The UNFPA Office is located in the city of Cotonou. During the period covered by the audit and at the time it was completed, the Office was managed by a Representative assisted by two Assistant Representatives and, through November 2011, by an Operations Manager (this position remained vacant from 1 December 2011 until the date of the audit).

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<sup>4</sup> World Bank indicators.

<sup>5</sup> Information obtained from the Country Programme Document.

<sup>6</sup> Trends in Maternal Mortality: 1990-2010-WHO, UNICEF, UNFPA and the World Bank estimates-2012.

<sup>7</sup> Information obtained from the Country Programme Document.

<sup>8</sup> Source: COGNOS project monitoring reports.

### III. DETAILED FINDINGS

#### A. OFFICE GOVERNANCE

**SATISFACTORY**

##### Good practices identified

8. The audit identified several practices that were in line with established policies and procedures in the area of governance, such as the alignment of the organizational structure to the cluster approach introduced by the mid-term review of UNFPA's Strategic Plan. Office management and staff demonstrated knowledge of programme and operations policies and procedures. Job descriptions were detailed and clear and there was evidence to support that staff were conversant with their assigned roles and responsibilities.

#### A.1 - ORGANIZATIONAL STRUCTURE

**SATISFACTORY**

9. No reportable issues were identified based on the work performed in this area, which included the review of the adequacy of the organizational structure arrangement in place and its alignment to the needs of the Country Programme (CP) delivery and operations management.

#### A.2 - STAFFING

**PARTIALLY SATISFACTORY**

10. Work performed in this area included the review of the number and capability of staff vis-à-vis the needs of CP delivery and operations management, and the proper utilization of staff engaged under the Service Contract (SC) and Special Service Agreement (SSA) modalities throughout the period under review.

##### A need to expedite the recruitment process for the Operations Manager position

11. The audit noted that the position of Operations Manager became vacant on 1 December 2011 and had not been filled as at 25 March 2013. Based on discussions with Office management, the delay in the recruitment process, which was initiated in February 2012, is partially attributable to the workload created by hosting several high level events throughout 2012, including the GPRHCS<sup>9</sup> global meeting, the Regional African Youth Forum, and the Muskoka Initiative Countries Workshop.

IMPACT *The effectiveness of operations may be diminished.*

ROOT CAUSE *Guidelines (Inadequate planning).*

CATEGORY *Strategic.*

#### **RECOMMENDATION 1**

**PRIORITY: HIGH**

*Finalize the recruitment of the operations manager at the latest by 30 April 2013.*

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

<sup>9</sup> Global Programme to enhance Reproductive Health Commodity Security, a key component of UNFPA's family planning strategy.

MANAGEMENT ACTION PLAN:DUE DATE: 30 April 2013

*The recruitment process was delayed due to the office's extraordinary workload in 2012, created by the hosting of several high level meetings and the preparation process for the new programme cycle. The recruitment process is currently at its final stage and will be finalized by 30 April 2013.*

**B. PROGRAMME MANAGEMENT****PARTIALLY SATISFACTORY**Good practices identified

12. The audit identified the following practices fully in line with established policies and procedures and good practices implemented by the Office:

- a) Annual work plans (AWPs) were detailed, contained all the elements required by the applicable programme policies and procedures and were used as an effective project planning, implementing and monitoring tool;
- b) The monitoring and evaluation calendar clearly detailed activities to be executed for the entire CP; and
- c) The Office engaged the services of a local micro-finance company to undertake per-diem payments to stakeholders attending training workshops in the field, reducing the risks associated with cash payments.

**B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING****PARTIALLY SATISFACTORY**

13. During the period under review, the Office implemented 14 projects at a cost of USD 6.9 million, inclusive of Programme Coordination and Assistance (PCA) costs. Work performed in this area included the review of AWPs, monitoring reports and other supporting evidence of programme planning, implementation and monitoring activities for three of these projects with aggregated expenditures of USD 3.8 million. Implementation rates averaged 97 per cent and 95 per cent in 2010 and 2011, respectively.

Programme implementation expenditures were not consistently charged to the appropriate activity codes

14. The audit noted that actual project expenditures were not always charged to the project activity codes to which the project budget was originally allocated. For example, for one of the projects selected for testing, actual expenditures of USD 317,517 were charged to an activity code with no budget allocated in the project management system. Similarly, another activity implemented by the Office with a budget of USD 743,000, reflected actual expenditures of only USD 1,116, with the remaining expenditures incurred coded to various activity lines with no budget allocation. This discrepancy, which is partially caused by an inaccurate initial budget set-up in Atlas, distorts activity level implementation rates and limits the Office's ability to accurately measure the results achieved for each activity.

IMPACT	<i>Activities may not be measured accurately, preventing an effective financial monitoring of programme implementation.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at the Country Office level).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 2****PRIORITY: HIGH**

*Implement supervisory procedures to verify the proper set-up of Atlas budgets and the charging of actual project expenditures to the correct Atlas project activities.*

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Immediate*

*A quarterly budget check will be undertaken to ensure effective availability of resources. Further, a monitoring tool has been put in place to ensure availability of funds and that every activity is being financed under the right activity code.*

**B.2 - NATIONAL EXECUTION (NEX)****UNSATISFACTORY**

15. National execution (NEX) amounted to USD 700,134 and USD 344,685 in 2010 and 2011, respectively; representing programme activities implemented by 16 Government and Non-Governmental Organization (NGO) implementing partners (IPs). Procedures performed in this area included the review of IP capacity assessment reports; cash advances; and certificates of expenditures for the two most significant IPs engaged by the Office, which reported aggregated programme implementation expenditures of USD 292,807 (28 per cent of total NEX expenditures) during the period under review.

16. The audit also included the review of the five NEX audit reports issued during the period under review, covering NEX expenditures amounting to USD 333,000. Four of the audits received unqualified opinions, with one IP receiving an adverse opinion in 2011 relating to unsupported expenditures of USD 14,894. The Office urgently took actions to address the qualification by temporarily suspending funding to this IP and ensuring that appropriate support for the expenditures in question was obtained.

*Funding was provided to implementing partners outside of the NEX / OFA process*

17. During the period 1 January 2010 to 31 December 2012, the Office funded programme implementation activities by the Ministry of Health (MoH) and 15 NGOs outside of the Operating Fund Account (OFA) process. Funding to these IPs was provided based on Memorandums of Understanding (MOUs) signed with these entities and, for four NGOs engaged to deliver obstetric fistula surgery interventions in 2010 and 2011, through contracts for the provision of professional services. The funds provided, which amounted to approximately USD 860,000 (of which approximately USD 572,000 corresponded to programme activities implemented in 2012), were expensed at the time payments were made to the IPs.

18. The payments were authorized through the issuance of purchases orders (POs) to the entities engaged. The activities funded through these payments were reflected as UNFPA direct execution (DEX), understating the true extent of national execution, and were excluded from the

NEX audit process, limiting UNFPA's ability to obtain additional assurance, through the audits, about the proper use of the funding provided. In addition, the practice of recognizing the expenditure at the time the funds were disbursed to the IPs but before the activities funded were executed, diminished the Office's ability to financially monitor the projects.

19. Given the nature of the activities undertaken with the funds provided by the Office, the relationship with the IPs engaged should have been established through the use of Letters of Understanding (LOUs) and AWP, following a well-documented assessment of operational and financial capabilities of the IPs. MOUs should only be used for grants to strengthen the institutional capacities of NGOs, up to a maximum of USD 30,000 per year, and not to engage IPs for programme implementation purposes. Even if management considered the payments made to be grants, for seven of the NGOs engaged they exceeded the above mentioned threshold without seeking approval from the Regional Director, as required in the applicable guidelines. Furthermore, the MOUs signed in 2010 and 2011 did not include relevant clauses related to accounting, reporting and auditing requirements. In addition, the Office used this modality to provide funding to the MoH amounting to USD 121,000 in 2012, although the grant policy clearly indicates that no grants can be paid to government entities.

20. It should be noted that funding to IPs outside of the NEX/OFA process has been identified in the course of audits of other UNFPA offices. The Division for Management Services (DMS) is aware of the problem and is taking steps to implement a more regular monitoring in this area.

IMPACT	<i>Diminished protection for UNFPA in the eventuality of IP performance issues. Understatement of national execution level. More limited assurance about the appropriate use of funds.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at the Country level).</i>
CATEGORY	<i>Compliance.</i>

**RECOMMENDATION 3****PRIORITY: HIGH**

*Implement supervisory controls to ensure that funding to IPs is provided within the NEX / OFA process and that all advances to IPs for UNFPA programme activities are made on the basis of LOUs and approved AWP through the use of FACE forms and subject to OFA procedures and controls.*

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2013*

*The Country Office will immediately comply as per rules and regulations. The appropriate actions will be taken in order to comply with the NEX/OFA process.*

**RECOMMENDATION 4****PRIORITY: HIGH**

*Implement a quarterly review process to identify funding to IPs outside of the NEX/OFA process and ensure that the corresponding IPs are subject to a NEX audit.*

RESPONSIBLE MANAGER: *Director DMS*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:DUE DATE: 31 December 2013

*DMS has performed monitoring in this area as available resources allow. The ability to perform regular monitoring is contingent on the implementation of the continuous monitoring system. Known instances of funding outside of the NEX/OFA process will be referred to the NEX unit for inclusion of the concerned projects / IPs in the NEX audit plan.*

**B.3 - INVENTORY MANAGEMENT****SATISFACTORY**

21. During the period under review, the Office funded activities to enhance the commodity management capacities of the MoH and supplied Sexual and Reproductive Health (SRH) commodities and medical equipment with an investment of USD 1.7 million under the umbrella of the Global Programme to enhance Reproductive Health Commodity Security (GPRHCS). The work performed in this area covered a review of documentary evidence supporting the procurement process and distribution of the commodities and medical equipment. The audit noted that the procurement process was adequately managed and properly documented. The audit also noted that the commodities and medical equipment were adequately received by the Office and distributed in a timely manner. No reportable issues were noted excepting the matter discussed below:

*Pharmaceutical products and medical equipment were procured locally without prior Headquarters approval*

22. The audit noted that during the period under review, although complying with all other applicable procurement procedures relating to SRH commodities and medical equipment, the Office procured pharmaceutical products and medical equipment amounting to USD 36,000 and USD 98,000 respectively, without first seeking the advice and approval from the Procurement Services Branch (PSB) to conduct the local procurement<sup>10</sup>. This approval is required to ensure that procured items are within the mandate of UNFPA and that specifications are appropriate.

IMPACT *Standard specifications and quality of commodities and equipment may be compromised.*

ROOT CAUSE *Guidance (Inadequate supervision at the Country level).*

CATEGORY *Compliance.*

**RECOMMENDATION 5****PRIORITY: MEDIUM**

*Seek approval from PSB for any local procurement of SRH commodities and medical equipment to be included in the 2013 procurement plan and onwards.*

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 30 June 2013

*The office duly notes the recommendation. Once a requisition is created, after a review of the procurement plan, the office will ensure that approval is obtained from PSB.*

<sup>10</sup> UNFPA Policies and Procedures Manual-Procurement Procedures: B3-“Commodities Requiring Headquarters Authorization for Field Level Procurement”-Now Section 4.7.1 in the revised Procurement Procedures effective 1 October 2012.

**B.4 - MANAGEMENT OF NON-CORE FUNDING****SATISFACTORY**

23. Three of the projects implemented by the Office during the period under review, with expenditures amounting to USD 3.0 million, were funded from non-core resources. The audit included the testing of programme planning and implementation activities and compliance with donor agreements' requirements, including expense eligibility and reporting, for one of these projects with aggregated expenditures of USD 2.0 million. No reportable issues were identified based on the audit work performed.

**C. OPERATIONS MANAGEMENT****SATISFACTORY***Good practices identified*

24. The review identified the following practices fully in line with established policies and procedures:

- a) There was a high level of compliance with human resources and procurement policies and procedures; and
- b) Transfers of assets to implementing partners were conducted timely and according to the established asset management policies.

**C.1 - HUMAN RESOURCES MANAGEMENT****SATISFACTORY**

25. Work performed in this area included the analytical review of payroll expenditures (the payroll is managed by UNDP) amounting to USD 2.5 million in the period under review; the analytical review of SC and SSA expenditures, which amounted to USD 484,854 and USD 701,766 in 2010 and 2011 respectively; and the testing, for compliance with the applicable recruitment and compensation policies and procedures and linkage to AWP, of a sample of 10 individual contracts (out of 111 contracts awarded during the period under review, mainly related to a SRH needs assessment undertaken by the Office) representing approximately 20 per cent of the consultancy costs incurred. No reportable issues were identified based on the work performed.

**C.2 - PROCUREMENT****SATISFACTORY**

26. The Office procured goods and services, other than SRH commodities and medical equipment, in the amount of USD 1.8 million during the period under review. Work performed in this area included the review of a sample of 20 high value purchases amounting to USD 516,333, for compliance with policies and procedures in the areas of bidding, vendor selection, procurement committee review and approval and contract award as well as linkages to AWP. The majority of purchases during the period related to the procurement of goods and services for population and development activities (printing of articles and publications) and reproductive health services (training material), as well as project vehicles. The audit noted one issue relating to the procurement of vehicles in 2011, as detailed below:

Late purchase of vehicles in 2011

27. The audit noted the purchase of two vehicles, at a cost of USD 147,000<sup>11</sup> in December 2011. Per the procurement plan, these vehicles were scheduled to be procured in June 2011. The Office did not proactively monitor the execution of the procurement plan, as a result of which the vehicles were ultimately procured by the end of December 2011 and received in March 2012. The corresponding expenditure was recognized on 22 December 2011, at the time payment was issued to UNOPS, although the vehicles had not been received. Under the then applicable UNFPA accounting standards, the payments should have been accounted for as an advance instead of as expenditure.

IMPACT	<i>Programme results may be diminished due to the late receipt of goods and services. Programme implementation expenditures are overstated.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 6****PRIORITY: MEDIUM**

*Monitor the procurement plan and project AWP's to ensure that procurement activities are timely executed, and account for advances to vendors as a prepayment, in accordance with the guidance issued by the Finance Branch.*

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 April 2013*

*The office has taken note of the above recommendation. The procurement plan of the year 2013 will be monitored in order to ensure timely implementation as soon as resources are made available for a given year.*

**C.3 - FINANCIAL MANAGEMENT****PARTIALLY SATISFACTORY**

28. Work in this area included the review of the accuracy, authorization and proper processing of journal entries (JEs), accounts payable vouchers (APVs) and accounts payable journal vouchers (APJVs) and the coding of transactions to the correct account and fund codes. The audit identified one compliance issue noted below:

*Some costs were not consistently allocated to the projects they benefit*

29. The audit noted that a disproportionate part of the cost of USD 40,000 incurred in 2011 for the purchase of computer equipment for general office use was charged to a Gender project funded from core resources, although the equipment was allocated for use by programme staff working on other projects implemented by the Office, including those funded from non-core resources.

<sup>11</sup> All-terrain vehicle cost is inclusive of equipment required to meet minimum security standards and freight charges.

30. The audit also identified premise alterations costs amounting to USD 3,800 that were evenly distributed among two of the projects implemented by the Office, instead of being allocated based on a more systematic measure such as staff numbers or programme expenditures.

31. It should be noted that the guidance on direct charging of costs that will be issued before the start of the new budget cycle (2014 - 2017) will help address the problem raised by the audit.

IMPACT *True project implementation costs may not be accurately measured.*

ROOT CAUSE *Guidelines (Lack of adequate policies and procedures at the Office level).*

CATEGORY *Compliance.*

**RECOMMENDATION 7**

**PRIORITY: MEDIUM**

*In collaboration with the Finance Branch, implement a more systematic and fair method for allocating office and indirect costs to programme and management projects.*

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 April 2013*

*All common expenditure cost are now being shared between management and programme budget based on the number of staff supported by each project budget. The Office has determined a systematic and fair method for allocating office and indirect cost to the cost sharing ration among projects. An internal memorandum has been prepared in this respect.*

**C.4 - GENERAL ADMINISTRATION**

**SATISFACTORY**

32. Work performed in this area focused primarily on the testing of travel expenditures, which amounted to USD 919,000 during the period under review, and the asset management process. A major part of travel costs corresponded to Daily Subsistence Allowance (DSA) payments amounting to approximately USD 330,000 made in connection with the SRH needs assessment undertaken by the Office in 2010, as well as DSA payments aggregating approximately USD 300,000, made to counterparts attending training workshops presented in 2011 using the services of a local micro-finance company engaged by the Office to reduce the risks associated with cash payments.

33. The audit included (i) testing a sample of 15 individual travel transactions and DSA payments amounting to USD 92,432 for appropriateness of business purpose, authorization, and proper calculation and recording; (ii) the walk-through of the process followed to authorize, review and record the DSA payments made through the micro-finance company; and (iii) the testing of a sample of seven payment reports issued by the micro-finance company for a total of USD 66,288 for proper review and authorization. Work performed on the asset management process focused on compliance with the asset management policies and procedures. No reportable issue was found as a result of the work performed.

**C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY**

**SATISFACTORY**

34. Work in this area was limited to the review of the annual Atlas access rights review, which was completed in a timely manner, and the review of Atlas access profiles. No reportable issues were identified based on this work.

**ANNEX 1****Definition of Audit Terms****A. AUDIT RATINGS**

Effective 1 January 2010, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP use revised harmonized audit rating definitions, as described below:

- **Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** - Internal controls, governance and risk management processes were either not established or functioning well. The issues were such that the achievement of the objectives of the audited entity could be seriously compromised.

**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.

### C. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities 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 recommendations, 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**

AM	Asset Management
AWP	Annual Work Plan
APJV	Accounts Payable Journal Voucher
CO	Country Office
COGNOS	Corporate reporting system used by UNFPA
CP	Country Programme
CRC	Contracts Review Committee
DMS	Division for Management Services
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditures
GPRHCS	Global Programme to Enhance Reproductive Health Commodity Security
HQ	Headquarters
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
JE	Journal Entry
LOU	Letter of Understanding
LCRC	Local Contracts review Committee
MoH	Ministry of Health
NEX	National Execution
NGO	Non-governmental organization
OFA	Operating Fund Account
PO	Purchase Orders
PSB	Procurement Services Branch
SC	Service Contracts
SRH	Sexual and Reproductive Health
SSA	Special Service Agreements
TD	Technical Division
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USD	United States Dollars