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**OFFICE OF AUDIT AND INVESTIGATION SERVICES**

**AUDIT OF  
THE UNFPA COUNTRY OFFICE  
IN SOMALIA  
PHASE I – OPERATIONS MANAGEMENT ACTIVITIES**

**FINAL REPORT**

N° IA/2017-01

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## EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of operations management activities (Phase I) at the UNFPA Country Office in Somalia (the Office), covering the period from 1 January to 31 December 2015. Operations management activities pertaining to other periods were covered by the audit, as appropriate. A subsequent audit (Phase II), which was under way at the time of preparing this report, covers the Office governance, including risk management, and programme management activities.

### Background

2. The activities covered by the audit correspond primarily to the last year of the second Country Programme 2011 – 2015, approved by the Executive Board in its second regular session of 2010, with indicative resources of USD 27.2 million. Total expenses incurred by the Office during the period under review were USD 23.4 million, funded from core resources of USD 5.2 million and non-core resources of USD 18.2 million. Expenses covered by the audit amounted to USD 9.3 million, corresponding to human resources, procurement, and general administration costs incurred by the Office in the period under review, funded from core resources of USD 4.4 million and non-core resources of USD 4.9 million.

3. During the period under review, the Office implemented several large programme components operating from four different physical locations (a main office located in Kenya and three offices in Somalia), in a fragile and complex environment with multiple significant challenges for an effective delivery of programme and operational activities.

### Methodology and scope

4. 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 foundation for the audit conclusions.

5. The scope of this audit included the review of the Office human resources management, procurement, financial management and general administration processes, and focused on assessing whether internal controls established in those areas were adequately designed and operating effectively to provide reasonable assurance on the achievement of the Office objectives relative to: (a) effectiveness and efficiency of operations; (b) compliance with UNFPA’s regulatory framework; and (c) reliability of financial accounting and reporting.

### Audit rating

6. 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.

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

Audit ratings by key audit area	
<b>Operations Management</b>	<b>Not effective</b>
<i>Human resources management</i>	<i>Not rated</i>
<i>Procurement</i>	<i>Not effective</i>
<i>Financial management</i>	<i>Not effective</i>
<i>General administration</i>	<i>Not effective</i>

Key findings and recommendations

8. The audit identified several material internal control weaknesses in the in-scope areas, which hampered the effectiveness and efficiency of the Office activities and the safeguarding of the assets that were entrusted to the Office. These weaknesses created the opportunity for financial irregularities and ultimately resulted in the USD 2.05 million financial deficit as at 31 December 2015 which was identified by the new Office Management team upon entry on duty.

9. The impact of the internal control design and operating effectiveness issues identified was exacerbated by a weak control environment at the Office, characterized by unclear delegation of authority guidelines; capacity gaps; inadequate planning; communication, coordination and interpersonal relationship issues; lack of effective and sustained leadership as a result of extended vacancies in key Management positions (these issues will be included in a separate report to be issued following completion of Phase II of the audit); as well as limited support and oversight from the Arab States Regional Office and Headquarters (covered in the audit reports for the Arab States Regional Office and the Chad Country Office).

10. Overall, the audit includes 16 recommendations, all of them of high priority, referring to strategic, operational and compliance matters, designed to help the Office address the issues identified and improve its operations. Of the 16 recommendations, 4 are of strategic nature; 10 are operational; one refers to both operational and compliance matters; and another one to both operational and reporting matters. One of the recommendations is jointly addressed to the Office, the Arab States Regional Office and the Division for Human Resources, and another one jointly addressed to the Representatives of the Kenya and Somalia Country Offices. In addition, support from Headquarter units, such as the Procurement Services Branch, will be needed for the implementation of several recommendations.

11. Issues affecting the Office governance and programme management, which contributed to the situation discussed in this report, and the related recommendations, will be included in the Phase II audit report.

12. Further, any exceptions or “red flags” indicative of potential proscribed practices identified based on the audit work performed were referred to the OAI Investigations Branch for further analysis. No specific mention is made in this report to respect the integrity of the investigation process.

*Strategic level*

13. The Office needs to improve significantly its resource planning and management process, to ensure that (a) funding proposals and workplan budgets are accurate and in compliance with the requirements of the cost recovery policy, i.e. inclusive of all costs – including those of a non-discretionary nature such as security – required to implement the activities funded; and (b) financial commitments are made and expenses incurred strictly in accordance with funds availability and charged to the appropriate project and fund codes. Also, programmatic interventions and procurement required should be carefully assessed for relevance and value-for-money considerations before any financial commitments are made.

14. In addition, there is a need to improve coordination and communication between the Office programme and operations teams through the development of clear standard operating procedures and definition of service levels. Segregation and rotation of duties could be strengthened, which would also provide developmental opportunities for Office personnel. Interpersonal relationship issues should be addressed through teambuilding and other appropriate activities.

15. Further, the Operations Management team capacity should be increased to align it to the demands of implementing a large programme in a complex and challenging environment, operating from four different locations.

*Operational and compliance level*

16. The effectiveness of local procurement activities should be significantly strengthened through process redesign, staff rotation, capacity building, and increased managerial supervision, to ensure that the activities are undertaken in compliance with the UNFPA procurement principles of transparency, fair completion and best value-for-money. Of paramount importance is the implementation of a more effective procurement planning process to enhance coordination between the programme and operations teams, as well as of a control process to ensure that procurement transactions are only executed with duly incorporated and reputable vendors.

17. Financial commitments should be timely reflected in Atlas, through issuance of requisitions and purchase orders, before they are communicated to vendors and implementing partners.
18. Accounts payable controls need to be enhanced to ensure that all payments are rigorously validated and authorized. The travel management process needs strengthening to ensure that travel is undertaken only when there is a valid programmatic and operational purpose, in compliance with applicable policies and procedures, and contracted in a cost-effective manner. In addition, controls should be implemented to ensure that telecommunication services are used in a cost-effective manner and by authorized personnel only, and that telecommunication providers' invoices are rigorously analysed so that they reflect only valid and authorized charges.
19. Further, the Office should review costs incurred in relation to construction work undertaken in Mogadishu and recover outstanding balances owed to it by another United Nations organization.

*Reporting level*

20. The Office needs to implement supervisory procedures to prevent the charging of expenses to erroneous activity, fund and account codes – such that financial reporting can be used as a useful monitoring tool on a continuous basis.

Management response

21. Management agrees with the recommendations as contained in this report and has developed an action plan to implement them. It should be noted that a large number of measures were already put in place in the course of 2016 to address the issues identified by the audit. This includes the introduction of a number of tools (described under the management responses to the specific recommendations), aimed at strengthening internal control and increasing the effectiveness and efficiency of operations at the Office. In addition, the Internal Consulting Group, an interdivisional team of experts comprising representatives from various Headquarter divisions and the Arab States Regional Office, was engaged to offer advice on, inter alia, how to strengthen the operational capacity of the Office. A leadership plan on the implementation of the measures and actions proposed by the Internal Consulting Group was developed and is being implemented.
22. The OAIS team would like to thank the Management and personnel of the Office, of the Arab States Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

## I. OBJECTIVES, SCOPE AND METHODOLOGY

1. This Phase I audit (the audit) covered the Office activities in the period from 1 January to 31 December 2015 in the following operations management areas:<sup>1</sup>
  - a) Human resources management;
  - b) Procurement;
  - c) Financial management; and
  - d) General administration (travel, asset management, common services and facilities management).
2. Operations management activities pertaining to other periods were covered by the audit, as appropriate.
3. A subsequent audit (Phase II), which was under way at the time of preparation of this report, will cover the Office governance and programme management activities.
4. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to assess whether internal controls in the in-scope areas 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;
  - 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.
5. 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.
6. 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 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 and of staff at other United Nations (UN) organizations; and (f) inquiries of Management on matters arising from the procedures applied.
7. The engagement was conducted by a team of OAI audit specialists, supported by local and international consultants, as well as staff from an external audit firm. The audit started on 1 April 2016. A field mission took place from 03 May to 03 June 2016. Preliminary findings and recommendations were discussed with the Office Management at an exit meeting held on 24 May 2016. Comments and clarifications provided by Management thereafter were reviewed over the following months and were reflected in a draft report submitted to the Office Management on 27 December 2016. A final Management response was received on 6 February 2017.

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<sup>1</sup> The in-scope activities cover Section C of a standard Country Office audit report; hence, this report reflects this numbering convention. The phase II audit will cover Section A (Office governance) and Section B (Programme management activities).

## II. BACKGROUND

8. Activities implemented by the Office under Somalia's second Country Programme 2011-2015, approved by the Executive Board in its second regular session of 2010, with indicative resources of USD 27.2 million, were managed from a main office located in the city of Nairobi, Kenya, and three decentralized offices located in the cities of Mogadishu, Garowe and Hargeisa, in Somalia.

9. Total expenses incurred by the Office during the period under review were USD 23.4 million, corresponding to activities executed by UNFPA (USD 9.3 million) and by 35 implementing partners engaged by the Office (USD 14.1 million), funded from core resources of USD 5.2 million and non-core resources of USD 18.2 million. Expenses covered by the Phase I audit amounted to USD 9.3 million, corresponding to human resources, procurement, and general administration costs incurred by the Office in the period under review, funded from core resources of USD 4.4 million and non-core resources of USD 4.9 million.

10. During the period under review, the Office implemented a large programme, in a fragile, complex and challenging context, operating under a weak control environment, resulting from: (a) a decentralised structure that functioned with unclear delegation of authority guidelines; (b) insufficient programmatic and operational capacity; (c) communication, coordination and inter-personal relationship issues; (d) lack of effective and sustained leadership; and (e) limited support and oversight from the Arab States Regional Office and Headquarters.

11. The Office performance was hampered by extended vacancies in the key management positions of Representative and International Operations Manager (IOM). The Representative position became vacant on December 2014, following the transfer of the incumbent to another UNFPA Country Office, and remained frozen through January 2016. During this period, the Office activities were managed by two different Officers-in-Charge (OIC), who performed this role for short periods of time, and by a Deputy Representative, seconded from another United Nations organization on 15 July 2014. A new Representative assumed duty on 07 January 2016. The IOM position remained vacant for the most part of 2015, following the secondment of the incumbent on detailed assignment to the Arab States Regional Office, from February to September 2015, and his subsequent reassignment to a new duty station as from September 2015. A new International Operations Manager assumed duty on 28 December 2015.

12. The above conditions, coupled with weaknesses in the resource and operations management processes, as detailed in Section III of this report, originated a financial deficit of approximately USD 2.05 million as at 31 December 2015 (details are provided in Table 1 under paragraph 85). This arose mainly from the procurement of goods and services without making budgetary commitments in Atlas or securing the funds required to settle the obligations incurred. The deficit was identified and reported by the new Representative and IOM shortly after they assumed duty at the Office. An extraordinary allocation of core resources was provided to the Office at the beginning of 2016 to cover the deficit incurred.

### III. DETAILED FINDINGS

#### C. – OPERATIONS MANAGEMENT

**NOT EFFECTIVE**

##### C.1 – HUMAN RESOURCES

**NOT RATED**

13. During the period under review, the Office incurred payroll expenses amounting to USD 3.5 million. In addition, the Office made use of contract personnel and engaged 26 individuals under the Service Contract and Individual Consultant modalities, for management and programme delivery activities, incurring related expenses in the amount of USD 2.6 million. At the time of the audit field mission, the payroll for both staff members and Service Contract holders was managed by UNDP.

14. In consideration of the results of the engagement-level audit risk assessment, work performed in this area was limited to: (a) a review of selected recruitment processes at the Office; (b) a review of the authorization and rationale for certain salary increases granted in 2015; and (c) an analytical review of rates paid to personnel engaged under Service Contract and Individual Consultant modalities in the period 2013 to 2016, including their benchmarking to those paid by the UNFPA Kenya Country Office.

15. Additional follow-up work will be undertaken as regards certain matters identified based on the limited audit work performed in this area, on account of which no rating is provided in this report.

##### C.2 – PROCUREMENT

**NOT EFFECTIVE**

16. During the period under review, the Office locally procured goods and services at a cost of approximately USD 3.8 million, issuing a total of 1,513 purchase orders. The most significant categories of goods and services procured corresponded to events and meetings (USD 1.5 million) and consultancy services (USD 0.4 million). In addition, the Office procured goods at a total cost of approximately USD 0.5 million through UNFPA's Procurement Services Branch (PSB), located in Copenhagen, Denmark, consisting primarily of fixed assets for office use. The majority of the procurement transactions were executed at the main office in Nairobi.

17. Audit work performed in this area included the review of 74 local procurement transactions made at a cost of USD 0.9 million for: (a) linkage to the corresponding workplans; (b) compliance with the UNFPA procurement principles,<sup>2</sup> policies and procedures; as well as (c) operating effectiveness of controls in the areas of: (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving. All the local procurement transactions reviewed by the audit were executed at the main office in Nairobi, Kenya.

18. 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 processes they participated in.

19. The following matters in need of Management attention were identified based on the work performed.

*Enhance the effectiveness of local procurement of goods and services through redesign of the procurement process, staff rotation, capacity building and increased managerial supervision*

20. From its review of procurement transactions undertaken during the period under review, the audit revealed multiple exceptions indicative of issues in the procurement process and lack of compliance with applicable policies and procedures. These have prevented the Office from achieving value-for-money and adequately safeguarding its assets, as discussed below.

<sup>2</sup> Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

*Procurement capacity*

21. The Office did not have designated qualified procurement officers, either at the main office in Nairobi or the sub-offices in Somalia. None of the staff involved in procurement activities had completed the recommended procurement certifications offered by the Chartered Institute of Procurement and Supplies (CIPS), even though funding for that purpose had been provided by PSB in previous years.

22. In addition, PSB did not conduct a procurement capacity assessment and/or advisory mission to the Office in recent years, and no Office personnel had been seconded to PSB for on-the-job training and capacity development purposes.

23. An analysis of purchase orders raised in 2015 and 2016 revealed a considerable workload for the personnel involved in procurement activities at the main Office in Nairobi. For example, one staff member processed 650 purchase orders in 2015 and 469 through 30 November 2016. While the sub-offices generally issued comparatively lower numbers of purchase orders, these related to less complex procurements and averaged 300 per year at each sub-office. The high workload has impacted the effectiveness of procurement activities and contributed to some of the issues noted.

24. In an effort to improve its effectiveness, the Office reviewed the distribution of operational tasks, including those related to procurement, in October 2014. The audit noted, however, that the proposed redistribution did not take hold as planned until the new Office Management came in early 2016.

*Procurement needs identification*

25. The audit noted several instances of poor programmatic planning that resulted in multiple late requests for procurement that have contributed to policy compliance deviations and/or prevented the achievement of value-for-money.

26. For example, the list of participants for a seminar held in a neighboring country was provided to the operations team, for purposes of payment of daily subsistence allowances (DSA), only three days before the seminar started. From the correspondence reviewed, it would appear that the venue for the seminar had also not been confirmed at the time.

27. In a second case, the need for a venue for another seminar was communicated to the operations team two days before the start date which had been agreed with the concerned Government partner, leading to frantic efforts to obtain quotes by telephone to meet the procurement need.

28. As another example, the audit noted that storage and demurrage costs amounting to USD 40,000 related to the procurement of equipment and commodities could have been avoided with better planning. Shipment documents were received at the Mogadishu sub-office in late October 2015 and were only provided to the operations team in Nairobi in February 2016, 119 days after the arrival of the goods at port, with an urgent payment request following the receipt of the invoice for accumulated storage and demurrage costs.

29. Late requests like those exemplified above have contributed to workload peaks affecting the personnel involved in procurement activities, compliance deviations – given the need to take expedient action to address the needs communicated, and relationship issues between operations and programme staff.

*Procurement planning*

30. The Office did not prepare a comprehensive procurement plan for the period under review. The audit noted that two procurement transactions, for a total of USD 20,000, were not included in the 2015 procurement plan presented for review. Further, the 2015 procurement plan did not include precise details, such as dates/timelines, possible solicitation methods to be used by planned action and personnel responsible therefor.

*Procurement specifications*

31. Specifications for goods or services to be procured were unclear and lacked sufficient detail. In at least two transactions amounting to USD 4,000, the specifications provided were insufficient for vendors to provide informed quotations.

*Bid solicitation*

32. No clear explanations were provided as to how vendors invited to submit quotes were shortlisted. It should be noted that most procurement transactions during the period under review fell below the USD 50,000 policy-specified threshold requiring the use of formal methods of solicitation.

33. Further, certain vendors were recurrently invited to bid for the provision of a variety of services. In one instance, the list of vendors suggested by the procurement request originator for video production services and printing of booklets at a cost of USD 9,000, was inexplicably changed by the operations team to a different set of vendors, leading to a contentious exchange of communications between the concerned programme and operations staff.

34. Solicitation of quotes for the procurement of a venue for a data editing training workshop held in Entebbe, Uganda, at a cost of USD 93,000, was limited to a group of related hotels owned by the same company. It is unclear why the request for quotation was limited to that group only. The staff who handled the procurement transaction indicated that offers were solicited from these hotels only as the owner of the company offered to facilitate issuance of visas to Somali nationals attending the event, an assertion that was not documented in the procurement file and that the audit could not verify otherwise. The audit noted a second similar case in relation to the procurement of a venue for the Office annual retreat in 2014, at a cost of approximately USD 14,000, where solicitation of quotes was also limited to a group of related companies.

35. In addition, no evidence of competitive bidding was provided for the procurement of a venue for a Gender-Based Violence capacity-building training held in Nairobi, Kenya, at a cost of approximately USD 27,000. No evidence of competitive bidding, or documented justification for single sourcing, was provided for five other procurement transactions relating to events and meetings, amounting to USD 10,000. In another case, email communications reviewed indicate that the request for quotation was drafted after delivery and payment for the service.

*Lead time for bid submission*

36. The audit noted four instances where lead times for bid submission were shorter than the minimum two-week period required by policy.

37. In the first instance, relating to the procurement of the venue for the data editing training workshop (mentioned in paragraph 34), a period of three days was allowed for bidders to respond to the request for quotation. Per the applicable policies, a formal method of solicitation, i.e. an invitation to bid, should have been used, with international competition, including advertisement in the United Nations Global Market Place, and a minimum three-week solicitation period. In the other instances – corresponding to the procurement of venues for an analytical report-writing workshop held in Entebbe, Uganda, at a cost of USD 27,000; a Midwifery Education Workshop held in Nairobi, Kenya, at a cost of USD 16,000; and brochures and banners at a cost of USD 5,662 – only two to seven days were allowed for bidders to respond.

38. These instances further exemplify gaps in programmatic procurement needs identification, as outlined in paragraph 25, that impact the competitive bidding process. These activities should have been planned and communicated to the operations team early enough to allow sufficient lead times for the submission of bids by prospective vendors.

*Bid receipt*

39. There were no controls in place to prevent the risk of manipulation of bids received. The Office did not use a dedicated email account for electronic bid submissions, or a tender box for hard-copy bids. Bids were submitted directly to a staff member, who was later actively involved in their evaluation and in recommending the contract-awards.

40. Further, the contents of the 'Bid Opening Record' forms in use were not adequate, as they did not record the date, number of pages, and value of bids received. For one of the transactions selected for testing, the date of the bid submitted by a vendor was subsequent to the date of the 'bid opening record' form.

*Bid assessment*

41. The bid assessment process in place during the period under review did not ensure best value-for-money from procurement activities.

42. Some contracts were awarded to vendors that received the highest technical scores, instead of the lowest minimally technically compliant offers which would have been a better criteria given the specialized nature of the goods and services procured. The ability to further analyze awards made on this basis was limited by lack of clear specifications in the corresponding requests for quotation, as noted in paragraph 31.

43. The rationale underlying the scores assigned to certain offers was not clearly documented in the ‘Bid Opening Record and Sample Viewing’ forms used for procuring goods based on the physical review of samples. In one instance, which resulted in the award of a contract of USD 13,500, the criteria used for assessing the offer was not specified, making it impossible to understand the basis of the scores awarded. In at least two other procurements reviewed with a combined value of USD 9,500, quality assessments were not documented and it was impossible to ascertain whether all bidders’ samples were reviewed because the Office did not maintain attendance logs and minutes evidencing that vendors actually attended the meetings and presented samples.

44. In addition, the procurement, at a cost of USD 28,000, of goods for which samples were not required (i.e., ‘off-the-shelf’ products) was not awarded to the lowest bidders. Justification for the awards was not properly documented, as either the quotes analyses had not been properly completed and signed by the evaluators, or the quotes received from the vendors were not maintained on file.

*Contract award*

45. The information included in ‘Request for Goods/Services’ forms to initiate procurement processes and award the resulting contracts was created outside of Atlas and not adequate to inform an appropriate review and authorization of purchase requests and contract award decisions.

46. In addition, the audit noted several instances where the ‘Request for Goods/Services’ forms were approved by budget owners who did not have the appropriate Atlas approval rights. For example, three transactions, each in excess of USD 5,000, for the procurement of dignity kits, folders and payment of fees, totaling USD 38,000, were approved by staff with Atlas Level 1 approval rights (i.e., approval of transactions below the USD 5,000 threshold). It should be noted that, as mentioned in paragraph 50, many requisitions and purchase orders were raised in Atlas on an *ex post-facto* basis – i.e., the approval of the transactions by the designated staff members was only obtained after contract award and receipt of the goods and services procured. Further, in several cases, evidence of proper verification and approval of the requests was absent.

47. Further, contract awards to one vendor for meeting venues in excess of USD 100,000 were not submitted for review and approval to the Headquarters Contracts Review Committee, as required by applicable policy.

48. Four instances, totaling USD 223,000, were found where vendors were engaged without establishing an appropriate contractual relationship. Mobile telephony services were contracted based on a long-term agreement awarded by another UN organization without signing a memorandum of understanding with the vendor and the concerned UN organization, as required by the applicable policies and procedures. In the remaining cases, relating to airfreight transportation of drugs, customs clearance services, travel services and hiring of accommodation space for international staff in Mogadishu, it was unclear how the vendors were selected and how the Office ensured that the best value-for-money was received, as no justifications for the awards were made available.

49. It should be noted that an internal procurement committee constituted by Management in October 2014 did not operate in practice throughout the period under review. Management decided in May 2016 to reinstate this committee, albeit with participation of some of the personnel directly involved in procurement activities – which constitute a conflict of interest and hinders the oversight which the committee should provide.

*Ex post-facto requisitions and purchase orders*

50. For 17 of out of the 74 procurement transactions reviewed, with a total value of USD 103,000, requisitions and purchase orders were created in Atlas after receipt of the corresponding goods and services procured and/or vendor invoices, instead of at the time of contract award.

51. The practice of not timely committing funds at the time contracts were awarded, by raising Atlas requisitions and purchase orders, contributed to the significant financial deficit accumulated by the Office at the end of 2015. This issue is further discussed under the Financial Management section of this report.

*Vendor management*

52. Eight out of 11 vendors sampled for review of vendor profiles either did not have the required mandatory documentation on file or had incomplete documents. Five of the vendors did not have bank details and addresses listed in the Atlas vendor master file. Three vendors reviewed had incorrect physical addresses, and all 11 vendor registration forms reviewed had incomplete information with no evidence of review by the Office before setting up the related vendor profiles in Atlas.

53. Further, six Kenya-based vendors, with which the Office transacted for approximately USD 90,000 during the period under review, either did not have Personal Identification Numbers (PIN) or were operating under individual's, as opposed to company, PINs. Further, the invoices issued by these vendors did not bear Value-Added Tax (VAT) registration numbers. The PIN is a key requirement for the registration of companies in Kenya and the display of a VAT registration number on an invoice is essential for establishing its validity for legal tax purposes. One of the vendors without a PIN visited by the audit declined to provide its registration documents.

54. One vendor provided inconsistent physical address information in quotations and invoices submitted to the Office for the same transaction. A visit by the audit to these addresses revealed that they were occupied by different companies with no knowledge of the vendor. Further, the audit was unable to locate one vendor at the physical address specified in its profile; the occupants of the listed address were not aware of the vendor's existence.

55. Finally, the performance of 6 out of the 11 sampled vendors was not evaluated, as required by the applicable policies and procedures.

*Root causes of the exceptions identified*

56. The issues discussed above are a consequence of a combination of factors, including: (a) poor programmatic and operational planning of procurement needs; (b) poor communication between programme and operations personnel; (c) lack of procurement capacity at the Office, both in terms of staff numbers and requisite skills, partly as a result of lack of training; (c) process design flaws; (d) unintentional mistakes committed by staff entrusted to perform procurement activities; (e) lack of supervisory controls; and, in some cases, (d) intentional overriding of internal controls.

	<i>Guidelines (inadequate Office policies and procedures).</i>
	<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>
	<i>Human error (unintentional mistakes committed by staff entrusted to perform assigned functions).</i>
	<i>Intentional (intentional overriding of internal controls).</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>
	<i>Compliance.</i>

**RECOMMENDATION 1****PRIORITY: HIGH**

Enhance the effectiveness of procurement activities and enforce compliance with the procurement procedures requirements (including those related to requisitioning and ordering; bid solicitation and assessment; and contract award) by:

- (a) Redesigning the procurement process, including segregation of duties, access to Atlas, and the various forms and tools to be used;
- (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;
- (c) Implementing appropriate supervisory controls, including the review of contract award decisions by a Local Contracts Review Committee, comprising individuals with the required capabilities and who are not directly involved in procurement process activities or, where appropriate, routing submissions to the Chief, Procurement Services Branch for review and endorsement; and
- (d) Ensuring that Atlas requisitions and purchase orders are timely created and authorized by appropriate individuals.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: Representative, with support from the Chief, Procurement Services Branch

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2017

The Office put in place a number of measures in 2016, including reconstituting the Office Internal Procurement Committee (to be superseded by a joint Procurement Committee – see the management response to Recommendation 3) and introducing a series of tools to enhance the effectiveness of procurement and enforce compliance with procurement procedures (including a filing system for purchase orders, a contract management tool, and a roster of suppliers).

To further address this recommendation, the Office will enhance the operations management capacity in accordance with the advice of the Internal Consulting Group (ICG), an interdivisional team of experts comprising representatives from various Headquarter divisions and the Arab States Regional Office, by implementing a new Office structure upon approval of the proposed organigram. The proposed structure includes adequate operations staffing based on a review of segregation of duties across the four sub-offices, including Atlas profiles, and ensures compliance with the Integrated Control Framework.

The Office and PSB will ensure that all the tools required to enhance the effectiveness of procurement and enforce compliance with procurement procedures are in place and that operations and programme staff are trained.

The management will use the services of the UNDP CAP to provide appropriate controls over procurement. This will provide independent oversight by another UN agency. Such an arrangement is also encouraged by donors who would like to see more collaborative procurement between UN organizations.

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

Implement a more effective procurement planning process, to ensure that procurement needs are identified and reflected in a comprehensive procurement plan early in the year – as soon as workplans are finalized – to allow the operations team to organize and undertake the related procurement activities with sufficient lead time, and minimize last minute procurement requirements that could lead to lack of compliance with procurement policies and procedures.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: Representative, with support from the Chief, Procurement Services Branch

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2017

The Office, in consultation with and support from PSB, will ensure that the detailed procurement budget and plan, which are already in place as from 2016, are fully utilized and updated, as needed. The plan identifies and quantifies the magnitude of expenditure, timeline, and required services and goods for the operation of the Office.

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

*In collaboration with the Kenya Country Office:*

- (a) *Perform a survey to identify established vendors, i.e. duly certified and operating within the legislation of Kenya and Somalia;*
- (b) *Conduct a general price scan for the most frequently purchased goods and services; and*
- (c) *Use the information at the time of planning and undertaking procurement activities to ensure that these provide value-for-money and mitigate procurement fraud risk.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Representative, Somalia in cooperation with the Representative, Kenya, and support from the Chief, Procurement Services Branch* STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2017*

*The Somalia and Kenya Country Offices will jointly build upon the results of surveys carried out by other UN agencies and verify additional established vendors, as required. The two offices will also jointly conduct a general market analysis and price scan for the most frequently purchased goods and services. The two offices have established a joint Procurement Committee to ensure due process, value-for money, and procurement fraud risk mitigation.*

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

57. In 2015, the Office processed 1,843 local Accounts Payable vouchers for a total value of USD 17.6 million. Approximately half of them were processed at the main office in Nairobi.

58. Work performed in this area included the review of: (a) the Office financial and operations management capacity; (b) authorization and proper processing of financial transactions; (c) coding of transactions to the correct project, activity, general ledger account, implementing partner (IP) and fund codes; (d) the operating effectiveness of controls over the accounts payable and payments process; and (e) the costing of funding proposals, resource planning, budgeting and expense allocation processes.

*Strengthen the Office operations management capacity*

59. During most of the period under review, the operations team at the Nairobi office was managed by a Finance Associate in the General Service staff category, following the secondment and subsequent reassignment of the IOM as from February 2015. The Finance Associate was on administrative leave at the time of the audit field mission, and subsequently left the Office in August 2016. As previously mentioned, a new IOM joined the Office on 28 December 2015.

60. The extended vacancy in the IOM position was, in the audit's view, one of the main causes of the issues affecting the effectiveness of operations management activities during the period under review. Management at Headquarters and the Arab States Regional Office (ASRO) did not provide a rationale for the decision to second, and subsequently reassign, the incumbent and to appoint the Finance Associate as acting IOM – instead of engaging, at least on a temporary basis, a more qualified and experienced individual and reinforcing the capacity of the Nairobi operations team throughout the vacancy period.

61. In spite of improvements noted from the time that the new IOM assumed his duties, the audit revealed a continued need to augment the Office operations capacity. At the time of the audit field mission, the operations team at the main Office in Nairobi consisted of five individuals: one Finance Associate – responsible for processing most financial transactions; one Administrative Associate – who was assigned the only Atlas buyer profile in the Nairobi office; one Human Resource Assistant; one Filing Assistant – also responsible for travel management and the Office registry; and one IT Assistant. Both the Finance and Administrative Assistants were staff members and the latter three were engaged under Individual Consultant contracts.

62. Operational capacity augmentation is required to: (a) allow better management of transaction workload; (b) enhance the effectiveness of key operations management activities, such as procurement, accounts payable, asset management and the review and validation of Funding Authorization and Certificate of Expenditure (FACE)

submitted by IPs; (c) perform quality HACT<sup>3</sup> spot-checks; and support and validate programme budgeting, including enforcing the application of the cost recovery policy.

63. Additional operational capacity is also needed to allow the Office to enhance compliance with policies and procedures and segregation of duties, including rotating roles in key areas – such as those related to procurement and hiring of staff and consultants, which have been performed by the same staff for extended periods of time potentially weakening the effectiveness of controls and limiting opportunities for development of the concerned staff.

64. Of particular importance, augmenting the Office operations capacity is necessary to alleviate the heavy workload that affected the IOM at the time of the audit field mission. Many of the activities mentioned in paragraph 62 were largely left to him – which is not sustainable in the long term, and adversely impacted on the timeliness and effectiveness of discharging his core functions. Maintaining adequate managerial attention on transformational actions is paramount to effectively address the programmatic and operational challenges that affected the Office including, inter alia, (a) implementing or redesigning business processes and controls affected by weaknesses; (b) increasing support to and oversight over the operations of the sub-offices; (c) improving coordination with the programme unit; (d) enhancing the level of understanding of policies and procedures by programme and operations staff; (e) supporting the effective use of new tools, such as the Global Programming System (GPS), to improve workplan management and budgeting; and (f) implementing relevant corporate initiatives, such as Enterprise Risk Management and HACT assurance plan activities.

65. The Garowe and Hargeisa sub-offices each had two administrative/finance staff reporting directly to the Heads of the sub-offices while the Mogadishu sub-office had one administrative/finance staff. In addition, the Hargeisa and Garowe sub-offices each had a logistician, reporting to the Reproductive Health Commodity Security Coordinator, based in Nairobi. The audit did not visit the sub-offices and, therefore, did not develop a clear appreciation of the workload of the finance and administrative staff based there and their capacity to manage it. This matter will be covered in the Phase II audit.

ROOT CAUSE	<i>Resources (insufficient human resources).</i>
IMPACT	<i>The effectiveness and efficiency of the Office’s activities and the effectiveness of the implementation of key corporate initiatives and systems may be impacted by operations capacity gaps.</i>
CATEGORY	<i>Strategic.</i>

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

*Enhance the Office operations management capacity and structure based on a detailed assessment of the effort required to manage transaction workload, enhance compliance with policies and procedures and segregation of duties, implement transformational activities required to address the challenges affecting the Office programme and operations, and support the implementation of corporate initiatives and systems.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative and Directors, ASRO and Divisions for Human Resources and Management Services* STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: December 2017

*The ICG undertook a detailed assessment of a series of issues related to change management, restructuring, re-alignment of the Office and enhancing the operations management capacity and structure. The ICG recommendations proposed a new Office structure and organigram that ensures a better balance between programme and operations staffing. The proposed new structure and organigram is currently being reviewed by Senior Management.*

*The ICG also proposed a series of measures to strengthen operations management in the Office. A leadership plan has been prepared for the implementation of these measures.*

<sup>3</sup> HACT – Harmonized Approach to Cash Transfers

Improve coordination and communication between the programme and operations teams

66. The audit noted an adversarial relationship between programme and operations staff, particularly with regard to procedural matters, with the potential to adversely affect the Office programmatic and operational effectiveness.

67. Relationship issues were brought to the attention of the audit in interviews with programme and operations staff and were also evidenced by the use of un-collegial language and passing of blame in various communications reviewed. In some cases, these issues appeared to be the result of diverging expectations of performance and support by the operations team, for example, in relation to the time needed to effectively undertake procurement processes or the type of supporting documents required to process disbursements to IPs. Communication issues were exacerbated by untimely or otherwise inadequate programme and procurement planning, insufficient knowledge of policies and procedures, lack of formal standard operating procedures (SOP), and inadequate coordination and communication mechanisms and protocols, such as regular programme and operations meetings.

ROOT CAUSE	<i>Guidelines (inadequate planning). Resources (inadequate training and insufficient human resources).</i>
IMPACT	<i>The effectiveness and efficiency of Office activities may be adversely affected by lack of coordination and communication between programme and operations staff.</i>
CATEGORY	<i>Strategic.</i>

**RECOMMENDATION 5**

**PRIORITY: HIGH**

*Improve coordination, communication and relationships between the programme and operations teams, by timely and clearly identifying operations support needs; defining and sharing standard operating procedures and realistic service-levels, taking into account operations capacity constraints; training both programme and operations personnel as regards key policy and procedural matters; establishing clear coordination and escalation mechanisms; and enhancing relationship skills through team-building and other appropriate activities.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

*The Office has established a programme coordination committee in 2016 to improve coordination, communication and the relationship between the programme and operations teams. The new meeting architecture for 2017 established bi-weekly programme-operations coordination meetings. SOPs are under development that will help delineate responsibilities between programme and operations, taking into account operations capacity constraints. To enforce accountability of staff, the 2017 performance assessments of programme and operations staff will include performance indicators for timely and compliant presentation and processing of disbursement requests. A team building retreat is planned for 2017 which will, inter alia, focus on improving communication and relations between the programme and operations teams.*

Significantly enhance resource management

68. The Office did not maintain an effective resource management process during the period under review. The audit revealed significant problems in the costing of funding proposals, resource planning, budgeting and expense allocation processes, which contributed to the Office’s previously mentioned financial deficit.

69. A review of funding proposals developed between 2013 and 2015 revealed that they did not fully reflect all direct and indirect costs required for implementing foreseen activities, including personnel, security and occupancy costs, as well as common services costs.

70. Compounding the effect of weak proposal costing, the Office did not have an adequate resource planning process to guide a prudent allocation of the non-core resources mobilized – which accounted for a large percentage of total resources available for programme implementation – to allow the achievement of results agreed with donors and an adequate funding of non-discretionary costs (such as security) over the full period of implementation of activities.

71. Workplan budgets were not systematically estimated and supported by detailed costing sheets. There was a lack of clarity on the expense categories, and related amounts, budgeted for each workplan activity budget. At least for the year 2015, costs were not systematically and comprehensively included in workplan budgets. Usage of available budget lines was largely at the discretion of programme managers, and there were instances of utilization of budgets without consulting the corresponding budget owners.

72. Reprogramming of funds across Atlas project codes and reversals of expenses charged to fund codes were common in response to budget shortages and accounting errors, as well as to reimburse ‘fund code loans’ made to allow expenses to be incurred before resources earmarked to fund them became available. Cross-subsidization of programme implementation costs was also prevalent. The allocation of expenses to the different fund codes did not follow the principle of proportionality of costs and the requirements of the cost recovery policy, resulting in overcharging expenses to core resources and to the single largest non-core fund code in use at the Office.

73. As an example, only those personnel costs relating to one Service Contract holder were charged to the fund code used for the main gender-based violence programme despite having five dedicated staff members and three service contract holders. The majority of the corresponding personnel costs were charged to core funds and the single largest non-core fund code. The audit noted that the cross-subsidization of salary and other costs continued in 2016, primarily as a consequence of the significant resource funding gaps faced by the Office to cover its personnel and other non-discretionary costs.

74. Due to the pervasiveness of these practices, the audit was unable to reliably determine whether expenses charged to the different Atlas workplan codes were actually linked to the activities carried out per the corresponding workplans.

75. The audit also noted that the 2015 workplans were prepared manually, i.e., outside GPS. At the time of the audit field mission, none of the personnel based at the main office in Nairobi had been trained on the use of GPS. According to Management, only two staff members – the former IOM, subsequently transferred to another UNFPA Office, and the Assistant Representative based in Mogadishu – were trained during the global system rollout in 2015. Although the two individuals conducted an initial briefing to other staff in the Office, the scope was insufficient to ensure a full rollout and effective use of the system by all relevant staff. As a result, a more detailed training was planned for 2016. The effectiveness of workplan management will be covered in the Phase II audit.

76. Resource management challenges during the period under review may have been further compounded by the use of separate Atlas project codes for recording operational costs and salaries, which limits overall visibility. These costs should have been systematically allocated to the corresponding workplan budgets and fund codes, for better tracking. The accounting practice was still in use in 2016 at the time of the audit field mission.

*Root causes of the exceptions identified*

77. The issues discussed above are a consequence of a combination of factors, including: the absence of a clearly defined budgeting process, insufficient programme management and budgeting skills, lack of managerial supervision to ensure budgetary control and discipline, and inadequate training in the use of GPS, a system that was newly introduced during the period under review.

	<i>Guidelines (inadequate Office policies and procedures).</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i> <i>Resources (inadequate training).</i>
IMPACT	<i>The inability to accurately cost funding proposals and workplan budgets may originate financial resource constraints and limit the Office’s ability to successfully fund and implement its programmes and operations.</i>
CATEGORY	<i>Strategic.</i>

**RECOMMENDATION 6****PRIORITY: HIGH**

*Enhance the resource management process to ensure a more effective resource planning, an accurate costing of funding proposals and workplan budgets in compliance with the cost recovery policy, and accurate expense allocations, by: (a) training programme and operations staff; (b) developing standard operating procedures and templates; and (c) implementing quality assurance, including review and sign-off of funding proposals and workplan budgets, by the International Operations Manager and supervisory controls by the Representative or his designee.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2017

*The Office has put in place a detailed budgeting procedure in early 2016 that accounts for the funding pipeline to enhance resource management and ensure more effective resource planning. As a complementary measure to facilitate resource management, as from mid-2016 financial information is distributed to all staff on a weekly basis. To further enhance the resource management process, a series of training events will be organized, facilitated by the Arab States Regional Office and Headquarters. A Proposal Appraisal Committee was established at the beginning of 2017 as a mechanism for quality control and adequate costing in compliance with the cost recovery policy. The SOPs that are being developed will include provisions to enforce more effective resource planning and management, including ensuring compliant development and management of workplans within GPS, and compliant Atlas budgeting.*

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

*Implement review and supervisory procedures to ensure that expenses are incurred strictly in accordance with fund availability and charged to the appropriate workplans, activities, funds and accounts.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: April 2017

*The Office established a screening and clearance mechanism in February 2016 to ensure that all commitments are backed by purchase orders and pre-encumbrances of funds in accordance with approved workplans. Key to this mechanism is the introduction of a disbursement memo, which defines the requisite levels of review and clearance before the Representative's approval. The SOPs that are under development will establish deadlines to ensure early allocation of funds to workplans and that purchase orders are raised in the system before any commitment/contract is entered into (be it with IPs or suppliers).*

*Incorporate value-for-money considerations in decisions regarding procurement of goods and services and programmatic activities*

78. The audit noted some expenses incurred by the Office in 2015 that could have been either avoided or reduced, through better planning and incorporation of value-for-money and cost-effectiveness considerations in the decision-making process. Examples of such expenses are provided below, and also in Section C4 (in particular regarding travel and mobile phone procurement).<sup>4</sup>

79. In 2015, the Office procured 500 diaries at a cost of USD 17,000, for which the programmatic or operational need served was not clear. The office procured a similar number of diaries in 2014, from a different supplier, at a cost of USD 10,000.

80. More cost effective venues could have been considered for events and meetings organized (many of them outside Kenya and Somalia) including the 2015 Office retreat which was held in Ethiopia. According to Management, the use of venues outside Kenya and Somalia was necessitated by security considerations and the difficulty experienced by Somali nationals in obtaining visas to Kenya. Cost-saving opportunities could have been considered by: (a) reducing meeting length, perhaps through pre-meeting assignments and work completed offsite; (b) limiting the number of participants to only those designated to directly benefit from the trainings or meetings; and (c) utilizing less costly venues and service providers.

<sup>4</sup> Procurement issues were included in the rating of this section.

81. A decision was made to transport a printer, at an approximate cost of USD 1,724, from Nairobi, Kenya to Entebbe, Uganda for use at a training meeting. It was unclear why the need could not be satisfied through alternative arrangements, for example by borrowing a printer from the UNFPA Office in Kampala, Uganda. Further, the audit was unable to determine whether the printer was returned to the Office following the meeting.

82. Transportation service providers were engaged in Somalia without leveraging on existing long-term agreements (LTA) awarded by other UN Organizations, resulting in the payment of significantly higher rates than those available under the LTAs. Further, vehicles were rented on a full-time basis for extended periods, including weekends, when they were not necessarily needed.

83. Two rooms were booked on a continuous basis at the Mogadishu International Airport, at a cost of USD 175 per day. One of the rooms was occupied by a UNFPA staff member, whose continuous presence was a necessity in Mogadishu, while the second room was occasionally used for the accommodation of visiting international staff or rented to other UN organizations, albeit at a lower rate than paid. Enquiries made of other UN organizations with operations in the same compound revealed that, with better planning of travel on the part of visiting international staff, the second room could have been booked on an as-needed basis.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>The Office may not realize adequate value-for-money from the procurement of goods and services and programmatic interventions.</i>
CATEGORY	<i>Strategic.</i>

**RECOMMENDATION 8**

**PRIORITY: HIGH**

*Implement review and supervisory procedures to ensure that programmatic interventions and procurement requirements are carefully assessed for relevance and value-for-money considerations before making any financial commitments.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2017*

*The Office will enforce provisions and deadlines to ensure: (1) early detailed planning of activities and clear identification and assessment of requirements; and (2) strict application of the Integrated Control Framework. The collaboration between Programme and Operations through the Programme-Operations meetings and Proposal Appraisal Committee will further help respond to this recommendation.*

*Implement effective Atlas commitment controls*

84. As previously mentioned, the Office accumulated a significant financial deficit of approximately USD 2.05 million as at 31 December 2015.

85. This situation was attributable to: (a) the previously discussed weaknesses in the Office control environment and resource management processes – which led the Office to continue to assume financial commitments without due consideration of resource availability, the need to absorb a large amount of non-discretionary costs, and disregard for value-for-money considerations; as well as (b) the practice (as discussed in paragraphs 50, 51 and 102 of the report) of not timely committing, through requisitions and purchase orders or other appropriate Atlas transactions, the financial resources required to pay for goods and services procured, at the time of contract award, and to reimburse IPs for expenses incurred for programme implementation not funded through cash advances, at the time the corresponding workplans are signed. Table 1 (next page) provides details on the main financial deficit components.

**Table 1 – 2015 Financial Deficit Components (Amounts in USD millions)**

Type	Amount
<b>Unrecorded expenses:</b>	
Common services	0.65
Travel services	0.30
Facility occupancy costs	0.10
Other services	0.10
<b>Sub-total</b>	<b>1.15</b>
<b>Others:</b>	
Deficits on fund codes	0.30
Accounting errors	0.60
<b>Sub-total</b>	<b>0.90</b>
<b>Total</b>	<b>2.05</b>

86. An extraordinary allocation of core resources was provided to the Office at the beginning of 2016 to cover the financial deficit incurred, after the situation was identified and reported by the new Representative and IOM shortly after they assumed duty at the Office.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>Available financial resources may not allow the Office to settle obligations resulting from the procurement of goods and services or the need to reimburse programme implementation expenses incurred by IPs.</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 9****PRIORITY: HIGH**

*Implement review and supervisory procedures to ensure that funds are timely committed through the use of the appropriate Atlas transactions before contracts are awarded or IP expense reimbursements agreed.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2017*

*The Office is developing SOPs to include provisions to ensure that: (1) all goods/services/works to be received from suppliers are the result of a purchase order which has been raised and approved in the system; (2) only expenses incurred as part of agreed, approved and Atlas-finalized workplans of IPs will be reimbursed; and (3) requisitions are raised early in process.*

*Enhance accounts payable controls*

87. The Office did not maintain effective accounts payable controls during the period under review, as evidenced by the exceptions identified discussed below. These reflect a lack of diligence in managing the Office's financial resources and safeguarding its assets.

88. The hotel contracted for the data editing training workshop referred to in paragraph 34 overbilled the Office an excess 10 person-day occupancy, for an amount of USD 920. For two other events held by the Office, billings for participants exceeded the number of those listed as being in attendance. The ability to validate the accuracy of billings for other venues was limited by lack of signed attendance sheets on file.

89. In reviewing a sample of vendor invoices, the audit noted: (a) an error of USD 400 in the calculation of its total amount, which was not identified by the Office; (b) a duplicate payment of USD 6,000 for services rendered at the Gender-based Violence capacity-building training referred to in paragraph 35; and (c) four transactions totaling USD 155,000 for which amounts billed and paid exceeded the purchase order amounts by USD 13,000, with no additional purchase orders raised to cover the shortfall.

90. Delivery notes issued by suppliers/vendors were generally signed as evidence of receipt of goods. However, there was no indication as to whether the goods received met the quality requirements or order specifications, as 'Receiving and Inspection' reports, required by policy, were not prepared.

91. A test of unrecorded liabilities as at 31 December 2015 identified liabilities amounting to USD 85,900, relating to telephony costs and to services rendered by another United Nations organization, which had not been accrued at the 2015 year-end. In addition, the audit noted instances of expenses rolled forward into 2015 from previous years, indicating that previous year-end accruals may not have been accurate either.

92. Further, the audit noted a pervasive misclassification of expenses in project and fund codes resulting in several reversals and corrections of financial transactions, as well as transfers of expenses between fund codes in Atlas. Staff interviewed explained that these were primarily caused by: (a) human error; and (b) the need to transfer expenses that were incurred before resources allocated to fund the expenditures became available (i.e. borrowing funds between fund codes).

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

IMPACT *Increased potential for unrecorded liabilities and financial loss to UNFPA.*

CATEGORY *Operational.  
Reporting.*

**RECOMMENDATION 10** **PRIORITY: HIGH**

*Enhance accounts payable controls through clear standard operating procedures, in-depth receiving and inspection controls documented in ‘Receiving and Inspection’ reports, effective three-way match controls, detailed reviews of the accuracy of invoices submitted by vendors, and rigorous managerial review and authorization of payments.*

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2017*

*The Office put in place a series of measures to enhance controls over accounts payables throughout 2016 (e.g. by establishing a procedure for verification of payment files and subsequent Atlas authorization, verification of invoices, etc.). To further improve accounts payable controls, the Office will enhance the segregation of duties to ensure compliance with the new Accounts Payables Policy.*

**RECOMMENDATION 11** **PRIORITY: HIGH**

*Implement review and supervisory procedures to: (i) prevent the charging of expenditures to erroneous activity, fund and account codes; and (ii) ensure that programme funds are charged to the fund codes specified in the related workplans.*

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

MANAGEMENT ACTION PLAN: DUE DATE: *May 2017*

*The Office has already put in place a process to ensure the correct charging of expenditures. Key to this mechanism is a memo issued in 2016, which defines the requisite levels of review and clearance before the Representative’s final approval. This recommendation will be further addressed by improved resource planning enforced through the Proposal Appraisal Committee, and full operationalization of the Programme Coordination Committee.*

**C.4 – GENERAL ADMINISTRATION** **NOT EFFECTIVE**

93. Work performed in this area focused on travel, asset management, and facilities management activities.

94. Travel expenses incurred by the Office during the period under review amounted to USD 1.4 million. Flight costs increased significantly, from USD 0.4 million in 2013 to USD 1.0 million in 2015, with extensive travel on the part of some Office staff. A significant portion of these expenses corresponded to daily subsistence allowance (DSA) payments for training workshops, meetings, and consultancy services. Audit work performed consisted of the testing of a sample of 70 DSA and travel payments approximating USD 0.2 million (10 per cent of total travel expenses) for appropriateness of business purpose and compliance with policies and procedures.

95. In the period under review, the Office procured fixed assets for its own use at a cost of USD 0.5 million. The most significant categories of fixed assets procured were motor vehicles, information technology and other equipment. Audit work was not performed in this area as it was not assessed to be of high risk and therefore excluded from the audit scope. Tracking of the assets procured will be covered in the Phase II audit.

96. Facilities management transactions amounted to USD 2.8 million in the period under review. Audit work included the review of common facility charges for accuracy and evidence of monitoring by the Office. In addition, the audit included a review of telecommunication services management, in view of the significant increase of expenses in this area.

97. Based on the work performed, the audit identified the following areas in need of Management attention.

Streamline travel procedures and processes

98. Travel SOPs were developed in October 2014. From the audit work performed, it was unclear whether they were ever enforced, all the more in view of the issues identified and discussed below. There was no evidence of approval by Office Management and not all staff interviewed were aware of their existence.

99. The Travel Focal Point role, of great significance given the large travel expenses incurred by the Office, was assigned to a staff member who did not have the required experience, expertise, and benefit of guidance and supervision due to the vacancies in key Management positions.

100. From the audit’s analysis, the travel frequency observed did not appear affordable to the Office, particularly in light of the resource constraints faced. Typically, trip bookings were made within one to seven days of the intended travel dates, deviating from the travel policy requirements, and potentially resulting in the purchase of more costly tickets. In at least one instance, the audit noted the incorrect use of business class travel for a flight from Ethiopia to Djibouti.

101. Further, the majority of the 70 travel transactions reviewed could not be linked to quarterly travel plans or workplan activities, making it difficult to determine whether the travel related to valid programmatic or operational activities. The process for reviewing travel authorization forms was not rigorous, as the audit noted that a number of forms either did not contain all the required data, or had erroneous information on, for example, the project and general ledger codes to be used. In addition, there was no formalized process for reviewing and approving changes to travel itineraries, especially once tickets had already been purchased.

102. In addition, out of the 70 transactions reviewed, 16 (23 per cent of the sample) were not supported by travel authorization forms. Four travel authorization forms had no evidence of approval by a supervisor; eight were not endorsed by the relevant project budget holders; and another five did not indicate travel dates. In 24 cases (34 per cent of the sampled transactions), both requisitions and purchase orders were created in the Atlas system ex post-facto, after the travel had taken place; 46 transactions (66 per cent of the sample) were not supported by the requisite trip accountability documents such as vouchers for reimbursement of expenses (F10 forms) and trip or mission reports. There was no log or registry of authorized and contracted travel and no functional process to verify that travel agents invoices presented for payment were valid, accurate, reconciled to travel plans, and backed by evidence of actual travel undertaken.

ROOT CAUSE	<i>Guidance (inadequate supervision at the Office level).</i>
IMPACT	<i>Diminished ability to monitor travel through budgetary controls and excessive or avoidable travel costs may have been incurred.</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 12**

**PRIORITY: HIGH**

*Review and formalize the local travel standard operating procedures to address the gaps identified by the audit and develop appropriate tools to support the procedures and help monitor and manage travel.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: May 2017

*The Office has already put in place procedures to better monitor and manage travel. Additional tools, such as a Travel Log and F10 Clearance Tool will be put in place as control mechanisms and will be integrated in the SOPs.*

Enhance controls over daily subsistence allowance payments

103. Out of 40 DSA transactions reviewed by the audit, 7 reflected overpayments as a result of the use of incorrect rates and/or number of days in their computation, including the use of varying DSA rates to pay participants attending the same training. In many cases, DSA amounts were self-calculated by the travelers and/or not subject to supervisory controls. In one instance, a USD 910 daily rate was used for a destination for which the correct one was USD 207, resulting in a DSA overpayment of USD 3,500. Given the unusually large rate used, this situation should have been identified through basic supervisory controls. The audit noted that the concerned staff member reported the error and was in the process of reimbursing the funds to the Office through low periodic monthly cash installments, which were retained in cash by the Office, awaiting full recovery before depositing the funds. A surprise cash count conducted by the audit on the amounts recovered revealed a variance between the expected and actual cash on hand. The cash custodian explained that recoveries from the staff member had not been consistent, hence the shortfall. The balance should have been recorded as an account receivable and recovered through the regular payroll process.

104. The audit noted one instance where a consultant was paid a full DSA rate over a three-month period. The proposal and source supporting funding for the original contract was for three months at a total cost of USD 50,000 and the initial contract did not have a provision for the payment of DSA. The contract, however, evolved through the inclusion of a clause requiring the payment of DSA to an actual total expense of USD 126,470 (USD 69,500 paid in fees and USD 56,970 in DSA), exceeding the Representative’s delegated authority threshold for approval.<sup>5</sup> There was no evidence of review or written endorsement by the Director, Division for Human Resources and/or the Contracts Review Committee, as required by applicable policy at the time. Further, the consultant should have received a reduced DSA rate following the initial 60-day period of the consultancy, as per policy.

105. The decision regarding the assignment of Travel Focal Point responsibilities, explained in paragraph 99, may have contributed to these situations.

ROOT CAUSE	<i>Guidance (inadequate supervision at the Office level). Resources (Inadequate training).</i>
IMPACT	<i>Increased risk of financial loss to UNFPA.</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 13**

**PRIORITY: HIGH**

*Institute supervisory controls over the computation and payment of daily subsistence allowances to ensure independence in the process and adherence to policy requirements.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: May 2017

*The Office put in place a DSA calculation and clearance process in February 2016, which integrates requisition clearance by the budget owner and by operations. To further respond to the recommendation, the Office will include this process in the SOPs that will incorporate periodic controls on payments processed and settlement of travel claims.*

<sup>5</sup> USD 30,000 according to the policy in force at the time.

Strictly control telecommunication costs

106. Communication expenses amounted to USD 220,000 in 2015, compared to USD 92,000 in 2013, an increase of over 120 per cent.

107. In addition, the Office procured 70 smartphones at a cost of USD 15,000, with the stated purpose of enhancing security arrangements for its Somalia-based personnel. The rationale for providing phones, including paid lines, to Nairobi-based personnel, who do not face the same security challenges as those based in Somalia, was not explained. ‘Mobile Phone Request’ Forms were not completed and approved by the appropriate persons to justify the need to provide phones to staff, as required by policy.

108. Further, the Office did not put in place a local policy to guide usage of telephone and data services. Although use of the phones was governed by established expense caps for various staff levels, there was no process to track, monitor, and control excessive official, as well as private, usage and recovery of the latter.

109. Roaming and data charges incurred by some individuals were significant. In particular, the audit noted one instance where a staff member incurred roaming charges amounting to USD 5,000 at a single event in 2014. Upon inquiry of Office Management, the staff member apparently agreed to cover some of the charges; however, it appears that USD 1,000 only was recovered.

110. Costs incurred for the phone procurement and the provision of telephony services were charged to several projects without a clear allocation rationale, other than apparently based on funds availability, which, in many cases, resulted in disagreements with budget holders. The majority of telephony costs were paid from core funds, whereas these should have been allocated to those projects that benefitted from the phone usage. This constitutes a further example of inadequate resource management practices, discussed in paragraph 72.

111. Although the total number of phone lines contracted for Nairobi-based Office personnel was originally 37 – which was commensurate with the number of phones provided to them, the number of lines billed by the service provider increased to 75 in September 2015 and 91 as at 31 December 2015 – one of the main factors originating the significant increase in telephony costs. The Office was unable to account for the additional lines billed. It was not clear which staff member, if any, authorized them, and to whom the lines had been allocated. In addition, there was no process in place to review invoices submitted by the telephony company for accuracy and validity.

112. The audit notes that the new Office Management issued a local mobile phone policy in April 2016 to supplement the provisions of the revised UNFPA Mobile Services Framework Policy. However, at the time of finalizing this report, the business case for the provision of mobile phones to Nairobi-based staff had not been reviewed and the Office had not determined to whom the additional telephone lines were assigned.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>Excessive telephony costs may have been incurred and UNFPA assets not effectively safeguarded against fraud and financial loss to UNFPA.</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 14**

**PRIORITY: HIGH**

*Implement supervisory controls to enforce the mobile phone policy and ensure mobile telephony services billings are accurate and correspond solely to authorized services.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented*

*The Office adopted, in April 2016, a Local Mobile Phone Policy, based on UNFPA’s Mobile Services Framework. Usage ceilings were introduced and significant cost reduction achieved. Close verification of all telephony bills received is performed to ensure legitimacy of charges. Discrepancies are acted upon, and charges not recognized as legitimate are contested, not paid, and subject to follow up with the management of the telecom provider.*

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The status of implementation of the recommendation reported by Management is acknowledged, and will be validated as part of the internal audit recommendation follow-up process.*

**RECOMMENDATION 15**

**PRIORITY: HIGH**

*Pending resolution of the discrepancy in the number of mobile telephony lines authorized and billed, limit payments to the service provider only to the originally approved 37 phone lines.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*The Office has not paid for phone lines invoiced which are not recognized as belonging to the organization and has requested the telecom provider to review its claims and withdraw the unrecognized amounts from the company's registry. A meeting with the senior management of the telecom provider will be organized to reach a final solution. If a final solution satisfactory to UNFPA is not reached, appropriate legal recourse will be taken.*

*Review costs for the construction of the planned Mogadishu Office site and recover the balance of the advance paid by UNFPA*

113. Following a decision to relocate the Somalia office from Nairobi to Mogadishu in May 2013, the Office entered into a five-year agreement to lease two adjacent land plots in Mogadishu, at a monthly cost of USD 4,000, and a building under construction on one of the plots, to be occupied by the Office once finalized, which was leased from a different lessor at a cost of USD 8,500 per month. The relocation was put on hold following a major security incident in June 2013.

114. In April 2015, the Office entered into an agreement with another UN Organization to manage the construction of a perimeter wall around the plots, with an advance payment of USD 250,285 made towards the project. A monitoring mission conducted in August 2015 revealed that the quality of the materials used and work performed was poor. The mission also assessed that the construction of a high rise building next to the compound posed a significant security risk making the relocation no longer advisable, a situation which was communicated to the UN organization engaged to manage the construction work in November 2015. In turn, instructions to stop work were provided by the other UN organization to the contractor in February 2016.

115. The Office gave notice for the termination of the land and building lease agreements in December 2015, with rental costs paid up to February 2016 on account of the contractual notice period. Rental costs paid by the Office through the contracts' termination dates approximated USD 400,000.

116. The audit noted that the UN Organization engaged to manage the construction informed the Office of a refundable construction advance balance of USD 73,295. At the time of the audit field mission, the Office was yet to take action to recover the balance and to reflect the amount in the Office accounts.

117. The audit also noted that in December 2013, the Office awarded a separate contract to the building lessor to provide security and cleaning services at the site, at a total cost of USD 89,560 up to the contract's termination in January 2016. The rationale for this contract, which was apparently awarded without competitive bidding, was unclear, especially as the site remained vacant for the entire lease period. Further, a monitoring report made available to the audit, including photographs of the site, raises some issues as to whether the services were actually delivered by the contractor.

118. From the review of the timeline of events summarized above, it would appear that the Office could have achieved some savings had decisions regarding the termination of the construction and the lease agreements been timelier. The audit could not quantify the amount of savings that could potentially have been achieved.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office).</i>
IMPACT	<i>Value for money may not have been achieved and increased potential for financial loss to UNFPA.</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 16****PRIORITY: HIGH**

*In consultation with the Division for Management Services, engage the United Nations organization that managed construction work at the planned site of the Mogadishu Office, to validate the reasonableness of costs incurred and recover the advance balance owed to UNFPA.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Representative and Director,  
Division for Management Services*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

*The Office has followed up on recovering the balance with the International Organization for Migration, the organization that managed construction work at the planned site of the Mogadishu Office. A reimbursement of USD 73,295.10 was transferred to UNFPA's HQ bank account.*

*Management will review and validate the reasonableness of the costs incurred at the planned site of the Mogadishu Office.*

## ANNEX – DEFINITION OF AUDIT TERMS

### A. AUDIT RATINGS

Audit rating definitions adopted for use in reports for audit engagements initiated as from 1 January 2016,<sup>6</sup> are explained below:

<ul style="list-style-type: none"> <li>▪ <b>Effective</b></li> </ul>		<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"> <li>▪ <b>Some improvement needed</b></li> </ul>		<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"> <li>▪ <b>Major improvement needed</b></li> </ul>		<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"> <li>▪ <b>Not effective</b></li> </ul>		<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.

<sup>6</sup> 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 residual 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 residual 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**

<b>Acronym</b>	<b>Description</b>
<b>ASRO</b>	Arab States Regional Office
<b>CIPS</b>	Chartered Institute of Procurement and Supplies
<b>COSO</b>	Committee Of the Sponsoring Organization of the Treadway Commission
<b>DSA</b>	Daily Subsistence Allowance
<b>FACE</b>	Funding Authorization and Certificate of Expenditure
<b>GPS</b>	Global Programming System
<b>HACT</b>	Harmonized Approach to Cash Transfer
<b>ICG</b>	Internal Consulting Group
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>IOM</b>	International Operations Manager
<b>IP</b>	Implementing Partner
<b>LTA</b>	Long Term Agreement
<b>OAIS</b>	Office of Audit and Investigation Services
<b>OiC</b>	Officer-in-Charge
<b>PIN</b>	Personal Identification Number
<b>PSB</b>	Procurement Services Branch
<b>SOP</b>	Standard Operating Procedure
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNFPA</b>	United Nations Population Fund
<b>UN-RIAS</b>	United Nations - Representatives of Internal Audit Services
<b>USD</b>	United States Dollars
<b>VAT</b>	Value Added Tax