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DIVISION FOR OVERSIGHT SERVICES

AUDIT

OF THE ACTIVITIES FUNDED BY THE
COMMON HUMANITARIAN FUND IN SOMALIA

FINAL REPORT

N° SOM-101

31 January 2014

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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the activities funded by the Somalia Common Humanitarian Fund (CHF activities) implemented by the UNFPA Country Office in Somalia (the Office) starting 23 July 2013. The audit, which was limited to those expenditures related to CHF activities, covered the period from 1 January 2011 to 30 June 2013. Expenditures related to CHF activities executed beyond June 2013 were covered by the audit, as appropriate.

Background

2. The Somalia Common Humanitarian Fund (CHF) is a pooled funding mechanism for humanitarian activities in Somalia. It was established in June 2010, as an upgrade of the Humanitarian Response Fund. The CHF has two main objectives, which are:

- a) To strategically fund humanitarian action in Somalia to improve the timeliness and coherence of the humanitarian response; and
- b) Support priority clusters and regional priorities in accordance with identified needs.

3. UNFPA's participation in the Somalia CHF commenced in January 2011, with a total resource allocation of USD 1.7 million during the period under review to fund activities related to sexual and reproductive health, with a focus on the response to pregnancy and child birth complications of internally displaced persons in six regions of South-Central Somalia. Activities were executed under the Health Cluster led by the World Health Organization (WHO). Total expenditures incurred in the period under review amounted to USD 1.3 million. UNFPA, together with eight partners, which included primarily non-governmental organizations based in Somalia, were involved in activities such as: (i) establishment of maternity waiting homes; (ii) training of midwives in basic emergency obstetric care; (iii) supporting treatment of fistula cases; (iv) procurement and distribution of reproductive health medical kits and basic supplies for maternal health centers; and (v) supporting training workshops for doctors selected as supervisors on supervisory skills, data management and reporting.

4. The CHF activities benefited from the support of the Somalia Risk Management Unit, set up in 2011, under the United Nations Country Team, to facilitate effective, efficient and harmonized assistance to the people of Somalia while mitigating the risk associated with the delivery of assistance.

Methodology and scope

5. The audit was conducted in accordance 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 analyzing, on a test basis, information that provided the basis for the audit conclusions.

6. The scope of the audit included the review of Office governance, programme management and operations activities relevant to the delivery of the CHF activities, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology. The audit could not visit the sites where the programme activities were delivered due to security restrictions that limited travel into South-Central Somalia.

Audit rating

7. Subject to the scope limitation mentioned in paragraph 6 above, the audit indicates that, for the period covered, the risk management performance of the CHF activities was **‘Partially Satisfactory’**, which means that governance, risk management and internal control processes were adequately established and functioning well. However, several issues were identified that may negatively affect the achievement of the objectives of the CHF activities. Ratings by key audit area are summarized below:

Audit ratings by key audit area		
Governance		Partially satisfactory
<i>Programme governance</i>		<i>Satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Partially satisfactory</i>
Programme Management		Unsatisfactory
<i>Programme planning, implementation and monitoring</i>		<i>Partially satisfactory</i>
<i>National execution</i>		<i>Unsatisfactory</i>
<i>Inventory management</i>		<i>Unsatisfactory</i>
<i>Management and reporting of CHF funding</i>		<i>Satisfactory</i>
Programme Operations		Satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Satisfactory</i>

Key findings and recommendations

8. The audit identified several good practices as well as areas that require management attention, some which were operational in nature as well as those that were deemed to be compliance related. Overall, the audit report includes three high and three medium priority recommendations designed to help the Office improve its operations in relation to the management of the CHF funded activities. Of the six recommendations, three are operational and the other three are compliance in nature.

Good practices

9. The audit identified several good practices adopted by the Office with regards to CHF activities, including the regular consideration of their status at operational review meetings; active participation in Health Cluster meetings and activities; prompt preparation, finalization and regular review of annual work plans, which clearly documented outputs, indicators, activity timeframes and responsible partners; and the timely submission of reports to the CHF administrative and management agents.

Operational level

10. The Office should enhance its risk management process through providing the Somalia Risk Management Unit with information relative to the vendors and partners engaged by the Office. The Office should improve its monitoring of implementing partners through a more robust follow-up process and prepare more accurate budgets, supported by detailed costing sheets, to better support funding allocation requests and to strengthen its monitoring of implementation.

Compliance level

11. The Office should strengthen its follow-up of NEX audit recommendations and support implementing partners to enhance their capacity, and improve inventory management controls. Further, it should ensure that monitoring and progress reports are timely prepared and submitted by implementing partners in accordance with the requirements of UNFPA programme policies and procedures, to assist the Office in its assessment of the implementing partners' performance.

Management response

12. The Office greatly appreciates the audit conducted by DOS and agrees with its findings and almost entirely with its recommendations. The Office is currently taking effective efforts and actions to address the recommendations included in the report.

13. The DOS team would like to thank the management and staff of the Office and the Arab States Regional Office and of the different Headquarter units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the activities funded by the Somalia Common Humanitarian Fund (CHF activities) implemented by the UNFPA Country Office in Somalia (the Office) during the period from 1 January 2011 to 30 June 2013. The audit was limited to those expenditures related to CHF activities. Expenditures related to CHF activities executed beyond June 2013 were covered by the audit, as appropriate.
2. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over the CHF activities implemented by the Office.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The conformity of the expenditures incurred for the delivery of the CHF activities with the purposes for which the funds were allocated and appropriated;
 - b) The safeguarding of the assets procured for use in the CHF activities;
 - c) The level of compliance with applicable rules, regulations, policies and procedures, including the applicable CHF guidelines, the Memorandum of Understanding regarding the operational aspects of the Somalia CHF, and the Standard Administrative Arrangement for the Somalia CHF; and
 - d) The reliability of the Office's operational and financial reporting of the expenditures and results of the CHF activities.
4. The scope of the audit included the review of programme governance, management, and operations activities relevant to the delivery of the CHF activities, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology. The audit could not visit the sites where the programme activities were delivered due to security restrictions that limited travel into South Central Somalia.
5. The engagement was conducted by a DOS internal auditor, starting on 23 July 2013; a field mission took place from 26 August to 11 September 2013. The findings and recommendations resulting from the audit were initially discussed with the Office's management at an exit meeting held on 11 September 2013. Comments and clarifications provided by management through 15 November 2013 were reflected in a draft report submitted to the Office's management on 17 December 2013, and a final management response received on 9 January 2014.

II. BACKGROUND

6. Somalia's population was estimated at 10.2 million in 2012¹. Seventy per cent of the population is under the age of 30². Based on the most current indicators available, there has been no change in the maternal mortality ratio which stands at 1,000 deaths per 100,000 live births since 2000³. The average contraceptive prevalence rate stands at 15 per cent⁴. As a result of the prevailing conflict situation, an estimated 3.2 million people require emergency humanitarian assistance. The number of Internally Displaced Persons (IDPs) is estimated at 1.4 million, 570,000 of whom live in South-Central Somalia⁵.

7. The CHF is a pooled funding mechanism for humanitarian activities in Somalia. It was established in June 2010, as an upgrade of the Humanitarian Response Fund. The CHF has two main objectives, which are:

- a) To strategically fund assessed humanitarian action in Somalia to improve the timeliness and coherence of the humanitarian response; and
- b) Support priority clusters and regional priorities in accordance with identified needs.

8. UNFPA's participation in the Somalia CHF commenced in January 2011, with a total resource allocation of USD 1.7 million during the period under review to fund activities related to sexual and reproductive health, with a focus on the response to pregnancy and child birth complications of IDPs in six areas of South-Central Somalia, namely Hiraan, Galgadud, Mudug Banadir, Lower Shabelle and Middle Shabelle. Activities were executed under the Health Cluster led by WHO. Total expenditures incurred in the period under review amounted to USD 1.3 million. UNFPA, together with eight partners, which included primarily non-governmental organizations (NGOs) based in Somalia, were involved in activities such as: (i) establishment of maternity waiting homes; (ii) training of midwives in basic emergency obstetric care; (iii) supporting treatment of fistula cases; (iv) procurement and distribution of reproductive health (RH) medical kits and basic supplies for maternal health centers; and (v) supporting training workshops for doctors selected as supervisors on supervisory skills, data management and reporting.

9. The UNFPA Somalia Office is located in the city of Nairobi, Kenya, with three decentralized offices in Somalia, located in Puntland, Somaliland and South-Central Somalia. During the period under review and at the time of the audit field mission, the Office was managed by a Representative assisted by an International Operations Manager and, with regards to CHF activities, a Programme Coordinator based in the South-Central Somalia decentralized office, where the CHF funded activities are implemented.

10. The CHF activities benefited from the support of the Somalia Risk Management Unit (RMU), set up in 2011, under the United Nations Country Team (UNCT), to facilitate effective, efficient and harmonized assistance to the people of Somalia while mitigating the risk associated with the delivery of assistance.⁶

¹ World Bank indicators - 2012.

² Information obtained from the Country Programme document.

³ Trends in Maternal Mortality 1990 to 2010. Published by WHO, UNICEF, UNFPA and the World Bank Estimates.

⁴ Information obtained from the Country Programme 2011/2015 document.

⁵ Information obtained from the Country Programme 2011/2015 document.

⁶ Report of the Under-Secretary General for Humanitarian Affairs and Emergency Relief Coordinator on the implementation of Resolutions 751 (1992) and 1907 (2009) concerning Somalia and Eritrea addressed to the President of the Security Council - July 2013.

III. DETAILED FINDINGS

A. GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

11. The audit identified the following good governance practices which benefited CHF activities:
 - a) Regular operational review meetings, involving both programme and operations staff, which cover the status of the CHF activities in Somalia; and
 - b) Attendance and active participation in Health Cluster meetings and activities by the CHF project staff.

A.1 – PROGRAMME GOVERNANCE

SATISFACTORY

12. No reportable issues were identified based on the audit work performed in this area, which included interviews with Office and Regional Office management regarding the governance procedures in place for CHF activities, a review of the Office Management Plan's expected results and tasks relevant to the delivery of CHF activities, and the processes for planning and overseeing CHF programme and operations delivery. Audit work also included interviews with the Health Cluster⁷ Coordinator (HCC), and the Administrative Agent (AA) and Managing Agent (MA) of the CHF⁸, and the review of relevant supporting documents, such as project proposals and minutes of the Health Cluster meetings.

13. Based on the work performed, the audit established that there was a close supervision of CHF activities by the Office management, including visits to the locations where the projects are being implemented, as well as a satisfactory level of awareness by the Regional Office of the activities undertaken by the Office. There was evidence of a close collaboration with the Health Cluster through attendance to monthly meetings as well as regular communication with the Health Cluster Coordinator. The audit noted that regular updates on the status of CHF project implementation efforts as well as gaps identified during monitoring visits and areas needing improvement were provided by the Office during the Health Cluster meetings. Feedback provided by the HCC and the MA indicated that UNFPA was actively involved in the Health Cluster activities, with valuable contributions in the RH area.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

SATISFACTORY

14. Audit work performed in this area included a review of the adequacy of the organizational structure and staffing arrangements in place in support of CHF activities. The audit reviewed the need and rationale for the posts reflected in the organizational chart and their linkage to the CHF programme delivery. CHF activities are managed by a Programme Coordinator based in the South-Central Somalia decentralized Office. The Programme Coordinator, who also oversees other projects implemented as part of the Somalia Country Programme under the supervision of the Representative, is supported, for the implementation of CHF activities, by four humanitarian response assistants and one United Nations Volunteer (UNV). Three of these assistants are based in the South-Central decentralized Office, while the other assistant and the UNV work from the Nairobi Office. The humanitarian response assistants, who have previous experience in humanitarian

⁷ The Somali Health Cluster, under the leadership of the World Health Organization, is made up of more than 40 international and national humanitarian health organizations that have been working together over the past four years to build partnerships and mutual understanding and to develop common approaches to humanitarian health action in Somalia.

⁸ The Humanitarian Coordinator (HC), supported by the Office for the Coordination of Humanitarian Affairs (OCHA), manages (MA) the CHF. The United Nations Development Programme (UNDP) serves as the Fund's Administrative Agent (AA), receiving funds for the CHF from donors and disbursing them to participating United Nations (UN) agencies, according to the allocation decisions of the HC, as well as providing financial reports and statements on the utilization of the Fund.

settings, have well documented job descriptions, and were able to clearly articulate their roles and responsibilities the challenges faced in implementing activities. A fixed term Humanitarian Officer post has recently been approved to enhance the management and supervision of humanitarian activities in South-Central Somalia. No reportable issues were identified based on the audit work performed in this area.

A.3 – RISK MANAGEMENT

PARTIALLY SATISFACTORY

15. Work performed in this area included the review of the Office’s last fraud and operational risk assessment conducted in 2011, and the process followed for identifying risks and the actions undertaken to mitigate them, with specific emphasis on those risks related to CHF activities.

16. The audit noted that the Office was aware of the key risks affecting the CHF activities, such as weaknesses in implementing partner (IP) capabilities. These risks were mitigated through monitoring visits conducted by the CHF personnel and by the RMU (see paragraph 23 infra).

17. The audit further noted that the Office used the RMU’s support to mitigate some of the risks that could impact the CHF. Activities conducted by the RMU include the maintenance of a Contractor Information Management System (CIMS) to flag areas of concern related to vendors and IPs engaged by the UN organizations operating in Somalia. The RMU also performs site monitoring visits. In particular, the audit reviewed the report on a monitoring visit conducted by the RMU at the site of a MWH built with funds provided by UNFPA, which provided evidence that the MWH had been in operation providing maternity services to the community.

The Office did not provide information on its IPs and contractors, limiting the RMU’s ability to detect patterns and issues for the UNCT

18. In response to inquiries of the audit team, the RMU indicated that they have not identified any significant concerns regarding the IPs and contractors engaged by the Office to deliver CHF project activities. However, the RMU noted that the Office has not yet included its contract information in the CIMS. Therefore, the audit considers that this diminishes the usefulness of the CIMS system as a risk management tool to support the UNCT’s activity.

IMPACT *Risks related to CHF project partners and contractors may not be timely flagged and mitigated.*

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

CATEGORY *Operational.*

RECOMMENDATION 1

PRIORITY: HIGH

Include UNFPA’s partner and contract information into the CIMS database maintained by the Somalia RMU by the end of 2013

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *28 February 2014*

All current and subsequent UNFPA partner and contract information will be provided to the RMU in order to ensure full maintenance within the CIMS database.

B. PROGRAMME MANAGEMENT**UNSATISFACTORY***Good practices identified*

19. The audit noted the following goods practices adopted by the Office with regards to CHF activities:
- a) Prompt preparation and finalization of CHF Annual Work Plans (AWPs), which clearly documented outputs, indicators, activities timeframes, budgets and responsible partners;
 - b) Regular review of the AWPs and the status of implementation of activities during programme and operational review meetings; and
 - c) Timely submission of the financial reports to the AA and MA.

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

20. During the period under review, the Office implemented humanitarian response activities in South-Central Somalia at a cost of approximately USD 1.8 million. Activities funded by the CHF amounted to USD 1.3 million, with a cumulative implementation rate of 78 per cent. Additional funding was provided by UNFPA, from its core resources, for an amount of approximately USD 0.5 million. The activities implemented during the period under review focused on the response to pregnancy and child birth complications of IDPs in six regions located in South-Central Somalia. Results achieved by the Office and its IPs during the period under review included the establishment of 24 maternity waiting homes which served approximately 16,700 pregnant women, of which close to 1,300 were found to face complications and were referred to hospitals.⁹ Other activities included improving the knowledge, skills and practices of women, men, girls, boys and civil society in order to support the referral of delivery complication cases to maternity waiting homes, and scaling up the quality of delivery care through training of midwives and doctors, as well as the procurement and distribution of RH kits and supplies to maternity waiting homes.

21. The CHF activities implementation rate was impacted by the postponement of the activities relating to the Population Estimation Survey of Somalia (PESS), which were scheduled to be completed in the first quarter of 2013 at an estimated cost of USD 332,770 but had to be re-programmed to September-October 2013 due to climatic changes affecting the movement of the nomadic population. PESS activities were initiated during the audit field mission period.¹⁰

22. Work performed in this area included the review of AWPs and the process followed for their preparation and approval, and of monitoring reports and other evidence of programme planning, implementation and monitoring. The audit could not visit the sites where the programme activities were delivered due to security restrictions. The audit noted, as discussed in the good practices session, that programme activities were well planned and documented in well-structured AWPs, which clearly documented outputs, indicators, activities timeframes, budgets and responsible partners, and that the AWPs and the status of implementation of activities were regularly reviewed during programme and operational review meetings. The audit, however, identified the issues noted below that need management attention.

Follow-up action plans were not developed for monitoring visit recommendations

23. The Office made commendable efforts to maintain regular monitoring of CHF projects in spite of the challenges created by the security situation in Somalia. The audit noted that the monitoring visits performed by the Office staff were documented through detailed field visit reports, which included photographic evidence of the programme activities undertaken in the areas visited, clearly identified gaps and constraints noted, and provided recommendations to address them. However, action plans for the follow-up of the issues identified

⁹ Information obtained from the 2012/13 Project Final Report.

¹⁰ At the finalization of the audit report the Office reported the completion of the planned activities with an implementation rate of 95.5 per cent. The audit did not conduct any testing on these activities.

and recommendations raised during the field monitoring visits were not consistently prepared by the concerned staff in Mogadishu and Nairobi.

IMPACT *Programme implementation issues may not be timely addressed.*

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

CATEGORY *Operational.*

RECOMMENDATION 2

PRIORITY: MEDIUM

Establish documented action plans, clearly identifying activities to be undertaken, responsible persons and timelines, for the follow-up and closure of monitoring findings and recommendations.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *28 February 2014*

The Office notes the recommendation and will establish action plans that will show the activities to be undertaken, responsible persons and timelines, for the follow-up and closure of monitoring findings and recommendations.

AWP budgets were not supported by detailed costing sheets

24. From its review of AWP, the audit noted significant discrepancies between budgeted and actual expenditures related to CHF activities, as summarized in the following table included below.

Table 1 – Comparison of CHF project budgeted and actual expenditures – amounts in US dollars

Year	Activities	Budget per		Actual expenditures
		Humanitarian response AWP ¹¹	CHF AWP ¹²	
2012	Support to maternity waiting homes	20,000	120,000	305,000
	Procurement of RH kits	70,000	98,310	85,000
	Procurement of dignity kits	-	88,000	112,000
2013	Support to maternity waiting homes	70,000	n/a	350,000

25. The significance of the variance raises questions about the accuracy and completeness of the budgets developed by the Office, which did not provide costing sheets with the details of budget calculations and underlying assumptions. The lack of accurate budgets could prevent the Office from requesting the appropriate funding allocations from the CHF.

IMPACT *Insufficient funding may be requested from the CHF, impacting programme delivery or absorbing core resources which could be allocated to other programme components.*

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

CATEGORY *Operational.*

¹¹ Source: Master AWP for all humanitarian response activities to be implemented, regardless of funding source.

¹² Source: Detailed AWP submitted to the CHF for purposes of supporting the funding allocation requests.

RECOMMENDATION 3**PRIORITY: MEDIUM**

Implement supervisory controls to allow for a more accurate calculation of AWP budgets and document the budget calculations and all relevant underlying assumptions in detailed budget costing sheets.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2014*

Going forward all activities to be executed will be supported by budgets which include detailed costing sheets and assumptions to allow for easier follow up and matching to actual expenditures. These will be reviewed periodically by management.

B.2 – NATIONAL EXECUTION**UNSATISFACTORY**

26. During the period under review, CHF activities were implemented through eight local and international non-governmental organizations (NGOs), at a total cost of approximately USD 400,000.

27. Audit work performed in this area included the review of (i) the process followed to assess and select the NGOs; (ii) the contracts and/or Letters of Understanding and AWP signed with the NGOs; (iii) the process followed to review and authorize cash advances and reimbursements to the NGOs and to review and authorize the expenditures reported by them; (iv) the monitoring of the activities performed by the NGOs; and the results of the NEX audit conducted by the global auditor for one of the NGOs engaged. Generally, the Office maintained adequate controls in this area. The audit, however, identified certain issues that need management attention:

Partners supporting programme implementation were not engaged under the NEX modality

28. During the period under review, the Office engaged seven NGOs to establish and operate 24 maternity waiting homes in South-Central Somalia through 31 December 2013, at a cost of approximately USD 655,000 (not including the cost of tents and furniture and equipment procured and supplied by UNFPA for the installation of the maternity waiting homes). With the concurrence of the Division for Management Services (DMS) and the Programme Division (PD), the NGOs were initially engaged for a six month period, in August 2012, under the professional services contract modality, at a cost of USD 305,000. The contracts were subsequently extended to maintain the operation of the maternity waiting homes through 31 December 2013 at an additional cost of approximately USD 350,000.

29. A detailed process was followed to assess and select the NGOs, giving special consideration to their previous experience working with Health Cluster members. No cash advances were provided to the NGOs. Expenditures incurred by them for the set-up and operation of the maternity waiting homes were reimbursed by UNFPA after acceptance of the corresponding narrative and financial reports and supporting documentation, and visits by Office staff to the locations where the maternity waiting homes were set-up.

30. The audit noted that different documents, such as purchase orders, invoices and computer-generated cash receipts, were provided by the NGOs to UNFPA to support the expenditures incurred for the activities implemented. The audit noted that, in many cases, the expenditures incurred reported by the NGOs equaled the amounts per the project budgets attached to the contracts signed, and that there was limited description of the goods and services procured. The audit was unable to perform site visits to the locations where the NGOs conducted their activities or otherwise verify the delivery of the goods and services reimbursed or the reasonableness of the quantities procured and/or prices billed.

31. The activities implemented by the NGOs were reflected as UNFPA direct execution (DEX), which in the audit’s opinion misrepresents the nature of the implementation efforts and understates the true extent of national execution under the Somalia CHF activities, and were excluded from the NEX audit process, reducing UNFPA’s assurance about the proper use of the funding provided. In the audit team’s view, the relationship with the IPs engaged should have been established through the use of Letters of Understanding (LoUs) and AWP. No recommendation is provided with regards to this matter as management represented that this IP engagement modality, which was adopted with the concurrence of Headquarters management, will no longer be used and because the Office provided evidence of an adequate monitoring of the NGOs activities by the staff based in South-Central Somalia and Nairobi.

The IP engaged under the NEX modality has weak financial management capacity

32. The Office engaged the local branch of an international NGO to provide different maternal health services in Mogadishu, including the rehabilitation of a maternity ward; training to midwives; strengthening of the skills of doctors; and fistula repair surgery.

33. The audit noted that the Representative waived the requirement to complete a capacity assessment of the NGO, taking in consideration its qualifications (e.g., experience with fistula surgery in Mogadishu and ability to train midwives) and previous engagement with UNFPA in other countries. The waiver was based on the UNFPA Fast Track Policies and Procedures, which the Office was authorized to use effective 20 October 2012. However, the audit noted that the LoU and AWP with this IP were signed on 1 and 12 October 2012, respectively, that is, a few days prior to the authorization to use fast-track procedures. In spite of this inconsistency, no recommendation is provided thereon, taking into consideration the limited time elapsed between the two events and the subsequent approval of the fast-track procedures’ use.

34. The 2012 NEX audit of this NGO conducted in May 2013 identified issues that are indicative of IP financial capacity gaps, including the inability to provide a satisfactory audit trail linking the expenditures reported to UNFPA to individual transactions in the IP’s accounting system. In relation thereto, the audit noted that this IP reported expenditures of USD 305,000, in excess of the cash advance of USD 140,000 provided by the Office without first seeking authorization for the additional expenditures, which were not accepted by the Office after completion of its review of the expenditure report. The NEX audit also identified several instances of IP vouchers lacking evidence of authorization by the designated individuals and instances where goods had been single-sourced without evidence of a bidding process. At the time of the audit field mission, the Office was yet to follow up on the NEX auditors’ findings, the delay being primarily due to the heightened security requirements following the 19 June 2013 security situation which precluded travel to Mogadishu.

IMPACT *Increased risk of inaccurate reporting of programme expenditures incurred by the IP.*

ROOT CAUSE *Resources (insufficient IP skills) and Guidance (inadequate supervision at Office level).*

CATEGORY *Compliance.*

RECOMMENDATION 4

PRIORITY: HIGH

Design and implement an action plan to address the NEX audit findings and allow the IP to enhance its capacity to adequately manage the funding provided and report on activities implemented.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *28 February 2014*

The Office working together with the IP has already initiated action plans to address the NEX audit findings. Meetings and training sessions have been conducted to enhance the IP's capacity as well as to ensure that the NEX audit findings are closed. This enhancement is on-going.

The IP engaged under the NEX modality did not provide progress reports

35. The audit noted that the NGO engaged by the Office to provide maternal health services in Mogadishu did not submit AWP monitoring and progress reports, as required by the applicable programme and financial monitoring and reporting policy and procedures¹³. Such monitoring and progress reports assist in assessing the IP's performance and in identifying actions required to ensure that the planned results are achieved on time and on budget.

IMPACT *Information required to assess the progress and impact of activities implemented by IPs may not be readily available.*

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

CATEGORY *Compliance.*

RECOMMENDATION 5

PRIORITY: MEDIUM

Implement supervisory controls to ensure that AWP monitoring and progress reports are timely prepared in accordance with the requirements of the Policy and Procedures for Programme and Financial Monitoring and Reporting issued in June 2012, and submitted on time by all IPs engaged by the Office.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2014*

After the finalization of the audit the Office communicated to the IP the requirements as per revised policies and thus the IP has already started sharing the AWP monitoring and progress reports with the Office. More of these reports will provided to DOS to enable the closure of the recommendation in due time.

B.3 – INVENTORY MANAGEMENT

UNSATISFACTORY

36. During the period under review, the Office procured, through the Procurement Services Branch (PSB, based in Copenhagen, Denmark), 108 RH kits for the CHF activities, at a cost of approximately USD 80,000. In addition, the Office locally procured and distributed dignity kits, at a cost of USD 112,000, for the benefit of women and girls within the IDP camps. Audit work performed in relation to the RH kits included testing of the processes followed in the areas of: (i) procurement needs' identifications; (ii) requisitioning; (iii) receiving and inspection; (iv) inventory controls (while the goods procured remained in UNFPA's possession); (v) hand-over to IPs; (vi) distribution to intended beneficiaries; and (vii) monitoring activities conducted by the Office. The audit could not physically verify the RH kits' distribution given the inability to perform a field visit. In the case of the dignity kits which were procured in Somalia, audit work included the review of the related procurement process in 2012.

37. The audit noted that the procurement of dignity kits was well-documented and performed in compliance with established procurement policies and procedures. In addition, the audit was presented with a detailed, clear distribution plan and evidence of receipt of the kits by the beneficiaries, which included

¹³ Policy and Procedures - Programme and Financial Monitoring and Reporting - June 2012.

photographic evidence of the distribution process. The audit, however, identified one area that needs management attention.

Inventory management controls did not operate effectively during the period under review

38. Receiving and Inspection reports for the RH kits procured for the CHF activities were not provided to the audit team at the time of the field audit mission. This situation was brought to the attention of management during the audit exit meeting. Management was not able to provide the Receiving and Inspection reports at the time of finalization of the draft audit report.

39. The Office provided the audit team with a distribution plan dated July 2013, but it was not reconciled to the actual deliveries that took place. Delivery forms signed by authorized staff of the beneficiary facilities were only provided for 45 out of the 108 RH kits procured (42 per cent of the kits procured). Discrepancies in the quantities supplied were noted in the corresponding delivery forms by the beneficiary facilities. At the time of the field audit mission, the Office could not provide evidence of delivery for the remaining 63 kits, or information as to whether they were maintained in storage, with the corresponding inventory records. In response to audit inquiries, the Office represented that the maternity waiting homes were initially supplied, upon commencement of operations in 2012, with RH kits procured for other programme interventions in Somalia. No supporting documentation was provided to the audit team regarding the type and number of RH kits re-allocated to the South-Central Somalia maternity waiting homes and their delivery to beneficiary facilities.

IMPACT *Lack of assurance about the receipt and distribution of the kits procured for the CHF project.*
 ROOT CAUSE *Guidance (inadequate supervision at the Office level) and Resources (inadequate training).*
 CATEGORY *Compliance.*

RECOMMENDATION 6

PRIORITY: HIGH

Implement supervisory controls to enforce compliance with the inventory management policy and procedures issued in 2012, including (i) rigorous inspection controls upon receipt of goods; (ii) preparation of Receiving and Inspection reports; (iii) obtaining of signed delivery forms upon delivery of the goods to the IPs and follow-up and clarification of any discrepancies reported; (iv) regular reconciliation of deliveries to the distribution plans; (v) and maintenance of appropriate inventory control records.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Partially agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 April 2014*

While agreeing with the auditor's recommendation, it should be noted however that due to security constraints the distribution process is still on-going as some areas are difficult to reach. The first quantity of kits arrived a few weeks after the attack of the United Nations compound in Mogadishu on 19 June 2013-at that time movement of UN staff was very restricted and it was difficult to coordinate the kits as per distribution plan. Please also consider the security constraints within this operating environment; however the office will aim to establish improved inventory management controls in all the areas noted in the above recommendation.

B.4 – MANAGEMENT AND REPORTING OF CHF FUNDING

SATISFACTORY

40. No reportable issues were identified based on the audit work performed in this area, which focused on compliance with Somalia's CHF programmatic framework, the timeliness and accuracy of project proposals and reports submitted to the AA and the MA, and the review of programme expenditures for compliance with eligibility requirements.

41. The audit noted that project proposal documents were clear and well documented and were timely submitted for review by the HCC before final submission to the CHF Secretariat and HC. Based on the documentation provided expenses incurred for CHF activities were charged to the correct fund codes. Financial reports were also timely submitted to the AA and MA, who both commended UNFPA for the completeness and accuracy of the reports. No issues were noted with respect to expense eligibility requirements.

C. PROGRAMME OPERATIONS

SATISFACTORY

Good practices identified

42. The audit noted the following good practices established by the Office in connection with CHF activities:
- a) Relevant AWP sections were included in the procurement files to allow for a better linkage of procurement actions and programme interventions; and
 - b) Human resources files were well organized and clearly documented the recruitment and performance assessment processes.

C.1 – HUMAN RESOURCES MANAGEMENT

SATISFACTORY

43. During the period under review, all CHF project personnel were engaged under the Service Contract (SC) and Special Service Agreement (SSA) modalities and worked under the supervision of a programme coordinator who was engaged under a fixed-term contract, based in South-Central Somalia. Audit work performed in this area included the review of a sample of four SCs awarded at a cost of USD 34,901, representing 77 per cent of SC costs incurred during the period under review, and three SSAs, awarded at a cost of USD 42,250, representing approximately 77 per cent of SSA costs incurred during the period under review. Detailed testing performed in this area included the review of (i) the recruitment process and payment of the staff thereof; (ii) training undertaken by the staff and how it contributed to the achievement of the CHF project objectives; (iii) completion of performance appraisals; and (iv) the review of the SC's leave records to ensure that leave policies were being adhered to.

44. The audit noted a clear linkage of CHF personnel positions and their terms of reference to the CHF funded AWP activities and expected results. Recruitment and compensation were performed in compliance with the applicable policies and procedures and were properly documented. In addition, the audit noted that personnel participated in training related to humanitarian response, performance assessments were timely completed and leave was appropriately accounted for. No reportable issues were identified based on the audit work performed in this area.

C.2 – PROCUREMENT

SATISFACTORY

45. During the period under review, the Office procured goods (other than RH and dignity kits) and services at a cost of approximately USD 153,000 for the CHF activities. Work performed in this area included the review of a sample of six purchases amounting to approximately USD 115,000, for compliance with policies and procedures in the areas of bidding, vendor selection, procurement committee review and approval, contract award, payment and recording of transactions, as well as linkages to AWPs.

46. The most significant procurement activities corresponded to the purchase of furniture and equipment for the maternity waiting homes, promotional materials, publications, stationery and other office supplies. The audit noted a satisfactory level of compliance with procurement policies and procedures. Supporting documentation for locally procured goods and services was properly filed and could easily be identified upon request. No reportable issues were identified based on the audit work performed.

C.3 – FINANCIAL MANAGEMENT**SATISFACTORY**

47. Work in this area included the review of the accuracy, authorization and proper processing of journal entries, accounts payable vouchers and accounts payable journal vouchers related to CHF activities, and the coding of the transactions to the correct account and fund codes. No reportable issues were identified based on the audit work performed.

C.4 – GENERAL ADMINISTRATION**SATISFACTORY**

48. Audit work in this area focused on the travel and asset management processes. Travel expenditures incurred in relation to CHF activities during the period under review amounted to USD 105,000. A significant portion (62 per cent) of the expenditures corresponded to local and international daily subsistence allowance (DSA) payments, primarily related to travel between Nairobi, Mogadishu and various locations in South-Central Somalia for field and monitoring visits and attendance to training workshops. International travel was also undertaken for training related to humanitarian activities. Audit work in this area included the testing of air travel costs and DSA payments amounting to approximately USD 59,000 for a sample of eight staff members for appropriateness of business purpose, proper authorization, and accurate determination, payment and recording. No reportable issues were identified based on the audit work performed.

49. Audit work performed on the asset management process included the review of asset procured for CHF activities, either for use by the Office or to be provided to IPs, at a cost of approximately USD 56,410 (75 per cent of fixed assets purchase costs of approximately USD 75,000 in the period under review), focusing on compliance with the applicable asset management policies and procedures. The majority of the CHF related assets procured correspond to furniture and equipment for the maternity waiting homes. The audit was not able to conduct a physical inspection of the assets provided, as no site visits could be performed due to the security situation; photographic evidence was however provided by the Office and RMU staff undertaking monitoring visits and by the NGOs operating the maternity waiting homes. No reportable issues were identified based on the audit work performed.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY**SATISFACTORY**

50. Work in this area was limited to testing of the Atlas access rights of staff engaged to authorize CHF related expenditures. No reportable issues were identified based on this work.

C.6 – SECURITY MANAGEMENT**SATISFACTORY**

51. UNFPA currently has one international and three CHF personnel based in South-Central Somalia, who are temporarily co-located with WHO. The security level in South-Central Somalia was (and still is) rated as substantial, as reported by the UNFPA Security Coordinator Office. Audit work in this area included inquiries of designated security officials at Headquarters and in the field in relation to compliance with security measures in place by UNFPA staff engaged in CHF activities located in Somalia and Nairobi, including those related to travel into and within Somalia. The audit also reviewed attendance by Office management to security management team meetings and completion of mandatory security training by the staff engaged in CHF activities. No reportable issues were identified based on the audit work performed in this area.

ANNEX 1

Definition of Audit Terms

A. AUDIT RATINGS

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

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

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines:** absence of written procedures to guide staff in performing their functions:
 - a) Lack of or inadequate corporate policies or procedures
 - b) Lack of or inadequate Regional and/or Country Office policies or procedures
 - c) Inadequate planning
 - d) Inadequate risk management processes
 - e) Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - a) Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - b) Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - a) Lack of or insufficient resources: financial, human, or technical resources
 - b) Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional:** intentional overriding of internal controls.
- **Other:** Factors beyond the control of UNFPA.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

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

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

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

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

GLOSSARY

AA	Administrative Agent
AWP	Annual Work Plan
CHF	Common Humanitarian Fund
CIMS	Contractor Information Management System
CO	Country Office
DEX	Direct Execution
DMS	Division for Management Services
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditures
HCC	Health Cluster Coordinator
HQ	Headquarters
IDP	Internally Displaced Persons
IP	Implementing Partner
LoU	Letter of Understanding
MA	Managing Agent
NEX	National Execution
NGO	Non-governmental organization
OCHA	Office for the Coordination of Humanitarian Affairs
OFA	Operating Fund Account
PD	Programme Division
PESS	Population Estimation Survey of Somalia
PO	Purchase Order
PSB	Procurement Services Branch
RH	Reproductive Health
RMU	Risk Management Unit
SC	Service Contract
SSA	Special Service Agreement
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
UNV	United Nations Volunteer
USD	United States Dollars
WHO	World Health Organization