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DIVISION FOR OVERSIGHT SERVICES

**AUDIT
OF THE UNFPA COUNTRY OFFICE
IN UGANDA**

**FINAL REPORT
N° UGA 101**

19 July 2013

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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the UNFPA Country Office (the Office) in Uganda from 25 March to 14 June 2013. The audit covered the period from 1 January 2011 to 31 December 2012. Expenditures related to programme delivery and operations activities executed in 2013 were covered by the audit, as appropriate.

Background

2. Uganda is currently in its seventh Country Programme 2010-2014, approved by the Executive Board in October 2009 with a resource allocation of USD 45.0 million for the five year cycle. Total expenditures in the biennium 2011-2012 covered by the audit amounted to USD 41.6 million, executed by 20 implementing partners (USD 22.4 million) and by UNFPA (USD 19.2 million)¹, and funded from core resources of USD 14.6 million and non-core resources of USD 27.0 million. Approximately 55 per cent of total expenditures were allocated to the Reproductive Health component, which focused on enhancing midwifery and family planning services, adolescent sexual and reproductive health services, and HIV/AIDS prevention for most-at risk populations. The Gender component accounted for 28 per cent of expenditures with a focus on gender based violence and its management, reproductive rights, and women empowerment. The Population and Development component accounted for 13 per cent of expenditures and focused on ensuring data availability and use and emphasized population and development linkages. Management, and programme coordination and assistance costs accounted for the remaining 4 per cent of expenditures.

Methodology and scope

3. The audit was conducted in accordance with the *International Professional Practices Framework of the Institute of Internal Auditors*, which requires that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

4. The scope of the audit included the review of the Office's governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology.

Audit rating

5. The audit indicates that, for the period covered, the risk management performance of the Office was '**Satisfactory**', which means that governance, risk management and internal controls processes were adequately established and functioning well. Ratings by key audit area are summarized in the following page:

¹ Source: COGNOS project monitoring reports.

Audit ratings by key audit area		
Office Governance		Satisfactory
<i>Office management</i>		<i>Satisfactory</i>
<i>Organizational structure</i>		<i>Satisfactory</i>
<i>Staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Satisfactory</i>
Programme Management		Satisfactory
<i>Programme planning, implementation and monitoring</i>		<i>Satisfactory</i>
<i>National execution</i>		<i>Satisfactory</i>
<i>Inventory management</i>		<i>Partially satisfactory</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
Operations Management		Satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>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

6. The audit identified several good practices adopted by the Office.
 - a) In the area of governance:
 - (i) Responsibility matrices were implemented to clarify the roles and responsibilities of managers, their alternates and other staff members and to ensure a fair distribution of work; and
 - (ii) Meetings with staff and implementing partners were held regularly to share information and to strengthen relationships within the Office and with implementing partners.
 - b) In relation to programme management:
 - (i) The planning process was initiated in September of each year, resulting in the early approval and signing with implementing partners of annual work-plans by February of the following year; and
 - (ii) The Office appointed dedicated implementing partner managers and alternative focal point persons to ensure that there were no breaks in communication in the absence of the designated managers.
 - c) In the area of operations management, the Office devised a tool for monitoring travel, which was used by the International Operations Manager, as well as by the Representative, to monitor trip results and financial accountability.
7. Many of the above good practices could be considered for replication by other country offices.

8. The audit did not identify any issues assessed as high priority. However, the audit noted the following two areas that require further management attention:

- a) Need for a more accurate allocation of expenditures reported by implementing partners to the right general ledger account codes in order to allow for more accurate reporting of expenditures; and
- b) Need to formalize receiving, inspection, and handover procedures for commodities and medical equipment, and for Office staff to be present at counts of inventory under its control.

9. The audit report includes four recommendations designed to help the Office address the above matters, all of them assessed as being of medium priority.

Management response

10. Management of UNFPA Uganda Country Office agrees to the audit findings and observations and has developed appropriate remedial plans/actions to address the audit observations.

11. The DOS team would like to thank the management and staff of the 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 period from 1 January 2011 to 31 December 2012. Expenditures related to programme delivery and operations activities executed in 2013 were covered by the audit, as appropriate.
2. The objective of the audit, conducted in accordance with the *International Professional Framework for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes implemented for UNFPA's operations in Uganda.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of the Office' programme delivery and operations;
 - b) The conformity of expenditures with the purposes for which funds were appropriated;
 - c) The safeguarding of assets entrusted to the Office;
 - d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
 - e) The reliability of the Office's financial and operational reporting.
4. The scope of the audit included the review of the Office's governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.
5. The engagement was conducted by a team of DOS internal audit supported by an external audit firm staff, starting on 25 March 2013; a field mission took place from 15 April to 8 May 2013. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 7 May 2013. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 26 June 2013, and a final management response received on 11 July 2013.

II. BACKGROUND

6. Uganda's population was estimated at 34.0 million² in 2011, growing at a rate of 3.2 per cent per annum. Fifty-six percent of the population is under 18 years of age, and almost 86 per cent live in rural areas³. The maternal mortality ratio stood at 310 deaths per 100,000 live births in 2010, compared to 530 deaths per 100,000 births in 2000⁴. The adolescent birth rate stands at 134.5 per 1000 women aged 15-19⁵, and the average contraceptive prevalence rate stands at 30 per cent⁶. HIV prevalence is 6.4 percent, down from 18 percent in 1992⁷.

7. Uganda is currently in its seventh Country Programme (CP) 2010-2014, approved by the Executive Board in October 2009 with a resource allocation of USD 45.0 million for the five year cycle. Total expenditures in the biennium 2011-2012 covered by the audit amounted to USD 41.6 million, executed by 20 implementing partners (USD 22.4 million) and by UNFPA (USD 19.2 million), and funded from core resources of USD 14.6 million and non-core resources of USD 27.0 million. Approximately 55 per cent of the expenditures were allocated to the Reproductive Health component, which focused on enhancing midwifery and family planning services, adolescent sexual and reproductive health services, and HIV/AIDS prevention for most-at risk populations. The Gender component accounted for 28 per cent of expenditures with a focus on gender based violence and its management, reproductive rights, and women empowerment. The Population and Development component accounted for 13 per cent of expenditures and focused on ensuring data availability and use and emphasized population and development linkages. Management and programme coordination and assistance (PCA) costs accounted for the remaining 4 per cent of expenditures.

8. The main UNFPA office is located in the city of Kampala, with three decentralized offices located in the cities of Gulu, Moroto and Mbarara. During the period under review and at the time of the field mission, the Office was managed by a Representative assisted by a Deputy Representative (this position remained vacant for 14 months, between 1 October 2010 and 30 November 2011), an Assistant Representative and an International Operations Manager.

² Population and Development-Volume 10 No.20. July 2012-Population Secretariat and UNFPA publication.

³ Information obtained from the Country Programme document.

⁴ Trends in Maternal Mortality 1990 to 2010-WHO, UNICEF, UNFPA and the World Bank Estimates.

⁵ Uganda Demographic and Health Survey 2011-Uganda Bureau of Statistics, USAID, UKAID, UNICEF, UNFPA, Irish Aid and WHO.

⁶ Uganda Demographic and Health Survey 2011-Uganda Bureau of Statistics, USAID, UKAID, UNICEF, UNFPA, Irish Aid and WHO.

⁷ Uganda Aids Commission Report-May 2012.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SATISFACTORY

Good practices identified

9. The audit identified the following good practices in the area of Office Governance, which could be considered for replication by other UNFPA offices:

- a) The Office implemented responsibility matrices clearly documenting the distribution of work and roles and areas of responsibility, for both programme and operations staff, with regards to implementing partner (IP), fund code and output management. Alternate managers, who assume responsibilities for activities in the absence of the designated managers, are also clearly identified; and
- b) Regular joint programme and operations review meetings attended by all of the Office's staff, including those located at the decentralized offices, who join the meetings via teleconferencing. The meetings focused on strategic and substantive matters, and on developments and/or obstacles that could enhance/hinder work and relationships between UNFPA and its counterparts. Discussions and action points were well documented and followed up upon.

A.1 – OFFICE MANAGEMENT

SATISFACTORY

10. No reportable issues were identified based on the audit work performed in this area, which included a review of the Office Management Plan (OMP) and the processes for planning and overseeing programme and operations delivery. Overall, the majority of activities included in the OMP were successfully achieved in the period under review.

11. The OMP was used as a tool to support the Representative in her leadership of the CP, as well as a means for ensuring that the CP activities and operational delivery were achieved. Further, OMP activities and goals were integrated into the annual Performance Appraisal and Development (PAD) goals of each staff member. Office management meetings were being conducted on a regular basis to ensure that programme and operational activities were on track.

A.2 - ORGANIZATIONAL STRUCTURE

SATISFACTORY

12. Audit work performed in this area included a review of the adequacy of the organizational structure, including the three decentralized offices located in Gulu, Moroto and Mbarara, opened to support implementation and monitoring at district level, and the alignment to the needs of the CP. No reportable issues were identified based on the audit work performed in this area.

A.3 - STAFFING

SATISFACTORY

13. At the time of the field visit the Office had 85 staff members, including 53 fixed term (FT) positions and 32 professional and support staff engaged under the Service Contract (SC) and Special Service Agreement (SSA) modalities. The Office's staffing levels increased significantly during the

current CP due to the need to align to the needs of the programme, with significant resource demands arising from the concentration of activities in emergency and post conflict response in the north of Uganda. This resulted in the addition of 17 FT staff and 19 SC during the period under review.

14. No reportable issues were identified based on the audit work performed in this area, which included the review of the number and capabilities of staff vis-à-vis the needs of CP delivery and operations management throughout the period under review. The Deputy Representative position was vacant for a 14 month period from 1 October 2010 to 30 November 2011; the impact of the vacancy was managed through three detailed assignments of senior staff from Headquarters (HQ) and other Offices in the Africa Region.

A.4 – RISK MANAGEMENT

SATISFACTORY

15. Audit work performed in this section included a review of the Office’s last fraud risk assessment, the process followed for identifying risks and the actions undertaken to mitigate them. Further, the audit followed up on the implementation of the United Nations Board of Auditors (UN BoA) recommendations emanating from a 2011 audit visit to the Office.

16. The Office completed a fraud risk assessment in 2011 and is due to complete another assessment in 2013. A detailed and structured process that included both Office management and staff was followed in identifying risks which were communicated and timely implemented. The Office developed an action plan for prompt follow-up of the recommendations raised by the UN BoA in its 2011 field visit to Uganda and assigned focal persons responsible for the implementation of the recommendations within set deadlines. All recommendations had been implemented at the time of the field mission. No reportable issues were identified based on the audit work performed in this area.

B. PROGRAMME MANAGEMENT

SATISFACTORY

Good practices identified

17. The audit noted the following goods practices adopted by the Office:
- a) Early preparation of Annual Work-Plans (AWPs). The AWP preparation process was initiated in September/October of each year, allowing for an early signature of the AWPs, typically by the end of February of the following year, and a timely start of implementation activities;
 - b) Adoption of a team approach to management of IPs, with clearly designated IP managers, alternate managers and a finance focal person for each IP, allowing for a more effective IP management process. The audit believes that this is a well-structured and efficient process that could be replicated by other country offices; and
 - c) Use of a Funding Authorization and Certificate of Expenditures (FACE) monitoring sheet by the Monitoring and Evaluation (M&E) Programme Specialist to review the completeness of activity reports and other supporting documentation submitted by IPs. This is another process that could be replicated by other offices.

B.1 – PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING

SATISFACTORY

18. During the period under review, the Office implemented activities relating to six outputs at a total cost of USD 40.2 million, inclusive of PCA costs, with an average implementation rate of 86 per cent. Work performed in this area included a review of AWP's and the process followed to prepare and approve them, and of monitoring reports and other evidence of programme planning, implementation and monitoring activities for three projects with aggregated expenditures of USD 26.4 million.

19. AWP's clearly identified activities to be implemented by the Office and its IPs and the corresponding expenditure budgets, which were supported by detailed calculation sheets showing details by type of expenditure. Activities to be implemented by IP sub-contractees were also clearly outlined. There was evidence of strong monitoring under the guidance of the M&E Programme Specialist. Monitoring visits were supported by well documented field visit reports. These reports clearly showed monitoring findings, recommendations and follow-up action points. These were discussed in programme and operations meetings and timely follow-up and closure of recommendations was made a priority by IP managers. No reportable issues were identified out of the work performed in this area except for the following one.

Implementation of some programme activities was concentrated in the third and fourth quarter of each year

20. Implementation of some programme activities was highly concentrated in the third and fourth quarter of each year. For example, approximately 80 per cent and 77 per cent of the 2012 activities for the gender and family planning outputs were implemented at a cost of USD 10.1 million, in the third and fourth quarter of 2012, respectively. The audit noted the explanations provided by the Office for this pattern and corroborated them through its testing of programme implementation activities. For example, Government IPs prioritized the implementation of non-UNFPA programmes using government funding in order to meet the government-driven financial year-end deadline of 30 June, thereby affecting the implementation of UNFPA programme related activities in Quarters 1 and 2. The audit also noted that some IPs' procurement processes were rather lengthy and, although initiated early in the year, usually continued into the last two quarters of the year.

21. The Office was aware of the issues and proactively sought to frontload activities in order to allow for higher implementation in the first two quarters. This was evident through the continuous communication and engagement with the IPs noted by the audit. No recommendation is raised in this report acknowledging the efforts undertaken by the Office to address the matter, which will nevertheless require continued management attention in the future.

B.2 – NATIONAL EXECUTION

SATISFACTORY

22. National execution (NEX) represented 54 per cent of programme expenditures incurred during the period under review. The Office advanced USD 10.1 million and USD 12.2 million in 2011 and 2012, respectively, to fund programme activities implemented by 13 government agencies and seven non-governmental organizations (NGOs). Most IPs implemented programme activities directly. Six of these IPs entered into formal sub-contracting arrangements with another 20 NGOs and local Government health districts, referred to as sub-contractees, to implement some activities on their behalf. In such instances, the sub-contractees submitted AWP, FACE forms and AWP progress reports to the main IPs for consolidation and reporting to the Office. Expenditures incurred by IPs during the period under review corresponded primarily to travel and daily subsistence allowance payments (DSA - USD 7.7 million), procurement of goods and services (USD 5.3 million), facilities and administration costs (USD 2.7 million), and engagement of consultants (USD 1.7 million).

23. Audit work performed in this area included a review of IP capacity assessment reports, cash advances, and FACE forms for the five most significant IPs engaged by the Office, which, collectively, reported aggregated programme implementation expenditures of USD 13.2 million, approximately 59 per cent of total NEX expenditures. The audit also included site visits to five IP premises and a review of NEX audit reports, as well as discussions with the NEX auditors.

24. Capacity assessments for all IPs engaged in the current CP were conducted before engaging them in programme related activities. IPs engaged after the start of the CP were subjected to assessments before commencing activities. Capacity assessments were also conducted for the sub-contractees either by UNFPA or other UN agencies that had previously engaged them.

25. Overall, the Office maintained adequate controls over cash advances provided to its IPs. Atlas OFA balances were regularly reconciled to FACE forms. All 20 IPs were audited during the period under review. Governmental IPs were audited by the Supreme Audit Institution of Uganda and the NGOs audited by a UNFPA appointed global auditor. Only one IP received a modified (qualified) opinion in 2011 for not providing receipts of goods purchased at a cost of USD 33,370. The matters that led to the qualification were all resolved expeditiously and cleared by the IP and the NEX auditors with commendable input from the Office. All 20 IPs received unqualified audit opinions in 2012 with no significant reportable issues. The audit found the preparation for NEX audits and timely submission of reports to be satisfactory. However, the audit noted one area that needs the Office's attention as noted below.

Expenditures reported by IPs were incorrectly charged to DSA account codes

26. The audit noted, based on its review of FACE forms, that approximately USD 267,000 reported by two IPs as local daily subsistence allowance (DSA) expenditures corresponded to training of counterparts activities and printing costs and should have been charged to different general ledger accounts. At the time of its site visits to the IPs, the audit established, through inquiries of IP finance staff, that they required additional guidance on the account codes to use for reporting expenditures in FACE forms. The audit noted management's efforts to clarify which accounting codes should be used and its plan to engage IPs on the matter through in-house training to be provided to the Office's IP managers and finance staff, and to the IPs' staff.

IMPACT *Inaccurate financial reporting.*
 ROOT CAUSE *Resources (inadequate training).*
 CATEGORY *Compliance.*

RECOMMENDATION 1

PRIORITY: MEDIUM

Complete the planned training sessions to Office (IP managers and finance focal points) and IP staff, to enhance their understanding of the correct general ledger account codes to use when completing FACE forms, by the end of 2013.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE

- | | |
|--|-------------------|
| 1. <i>Provide guidance and list of account codes for use by UNFPA staff in preparing and approving requisitions and vouchers, as well as in completing FACE forms.</i> | <i>09/04/2013</i> |
| 2. <i>Conduct training for UNFPA staff (both Finance and Programme Focal Points for each Implementing Partner) in understanding and correct use of general ledger account codes for completing FACE forms.</i> | <i>30/08/2013</i> |
| 3. <i>Conduct training for staffs of UNFPA Implementing Partners (Finance and Programme Focal Points) in understanding and correct use of general ledger account codes for completing FACE forms.</i> | <i>30/08/2013</i> |
| 4. <i>Provide on-going mentorship support to Implementing Partners in correct use of general ledger account codes while completing FACE forms and during field monitoring visits.</i> | <i>Continuous</i> |

B.3 – INVENTORY MANAGEMENT

PARTIALLY SATISFACTORY

27. Under the umbrella of the Global Programme to Enhance Reproductive Health Commodity Security (GPRHCS), the Office funded activities to strengthen selected reproductive health (RH) commodity security components based on Uganda’s specific context. During the period under review, the Office procured, through the Procurement Services Branch (PSB, based in Copenhagen, Denmark), RH commodities for a total of USD 3.4 million and USD 2.9 million in 2011 and 2012, respectively. The majority of purchases (59 per cent) related to hormonal contraceptives, mainly implants. Other significant purchases were female condoms and medical equipment. Audit work performed in this area included testing of: (i) the process followed to identify procurement needs; (ii) requisitioning; (iii) receiving and inspection; (iv) inventory controls (while the goods procured remained in UNFPA’s possession); (v) handover to IPs; (vi) distribution to intended beneficiaries; and (vii) monitoring activities conducted by the Office. For locally procured commodities, including those procured and paid for directly by IPs, audit work included a review of the related procurement processes.

28. The audit also included the review of the existence and valuation, in accordance with International Public Sector Accounting Standards (IPSAS), of the inventory of contraceptives and medical equipment in-transit or held under UNFPA’s control as at 31 December 2012, at a cost of USD 1.1 million.

29. There was evidence of a strong and collaborative needs assessment process, which included the Ministry of Health (MOH) and other counterparts. Distribution of contraceptives was conducted by the MOH whilst that of medical equipment was conducted by the Office in accordance with the needs expressed by MOH. The audit identified four areas in need of additional management attention:

Lack of consistent evidence of receiving and inspection controls for RH commodities and medical equipment

30. From the documentation provided to the audit, it was not possible to establish if receiving and inspection controls were conducted consistently for all commodities procured by the Office during the period under review. There were no verifications of locally procured commodities (mainly “clean delivery” and “dignity” kits with a cost of USD 373,350) before they were delivered by vendors to the IPs. Samples of the goods included in the kits were provided to the Office for verification against the procurement specifications, but the goods were not inspected before shipment.

31. In the case of contraceptives, which are delivered to government approved stores for mandatory testing and subsequent distribution, and in the case of medical equipment, which is stored under the control of UNFPA, the Office relied on government appointed clearing agents (for contraceptives) and private providers contracted by UNFPA for medical equipment. These firms inspected goods upon customs clearance, but did not provide written evidence of receipt to the Office. Further, the audit noted that the requirement to provide evidence of receipt and inspection was not formalized in the clearing agents’ contracts.

IMPACT	<i>Commodities delivered to government stores and/or IPs may not be as specified, especially in terms of condition, quality and specifications.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at the country level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 2

PRIORITY: MEDIUM

Conduct receiving and inspection procedures and complete the Receipt and Inspection Reports, as prescribed in the inventory management policy, for all internationally or locally procured commodities and medical equipment.

<u>RESPONSIBLE MANAGER:</u> <i>Representative</i>	<u>STATUS:</u> <i>Agree</i>
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE</u>
1. <i>Designate a Focal Point person at the Country Office for inspection/receipt of all goods procured, and ensure s/he coordinates a joint programme and operations conduct of all receipt and inspection procedures.</i>	<i>15/07/2013</i>
2. <i>Complete Receipt and Inspection Reports for all goods procured internationally or locally, in line with Inventory Management Policy.</i>	<i>Immediate</i>
3. <i>Prepare quarterly status report on status of Receipt/Inspection Reports for all goods procured in the quarter, for management review and action.</i>	<i>Quarterly</i>

The handover of inventory items was not clearly documented

32. The audit noted that, during the period under review, there was no formal mechanism for a documented handover of contraceptives to the MOH. Commodities were delivered directly to the MOH by the appointed clearing agents with no formal documentation provided to UNFPA of the handover to the IP.

33. Similarly, in the case of locally procured commodities, although IPs generally signed delivery notes issued by suppliers/transporters as evidence of receipt of goods, they did not provide signed handover forms inclusive of appropriate language releasing UNFPA from further responsibility and liability in relation to the inventory provided.

IMPACT	<i>Risks and responsibility is retained by UNFPA even though physical custody and control of goods has been passed to the IPs.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at the country level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 3

PRIORITY: MEDIUM

Obtain signed “Earmarked Goods Custody” and /or “Inventory Receipt” forms for all commodities and equipment delivered to IPs at the time of official handover to evidence transfer of risk and ownership.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE

- 1. Ensure that Designated Focal Point person at the Country office completes earmarked Goods Custody and Inventory Receipt Forms for all commodities and equipment delivered to IPs at the time of official handover.*

Immediate

Lack of attendance to physical counts of equipment under UNFPA control

34. The Office leases floor space, for storage of medical equipment, from the World Food Programme (WFP) warehouse in West Kampala. All medical equipment procured by the Office is received and assembled at the warehouse before dispatching it to the beneficiary districts. The parts and assembled equipment remain under UNFPA control until shipped to the beneficiary districts.

35. There was no evidence that the Office staff attended any of the monthly inventory counts conducted by WFP, the scope of which includes UNFPA equipment, or reviewed the warehouse records or the results of the counts. The warehouse coordinator interviewed during the audit visit to the warehouse confirmed the observation. The audit noted, however, that the Office personnel made some inspection visits to the warehouse during the period under review. However, these visits did not include inventory counts. Further, the audit team was informed by WFP personnel that the warehouse inventory system had not been fully functional from January 2013 through the date of the field visit. In the absence of an operational inventory control system it is difficult to ascertain what the inventory on hand should have been.

IMPACT	<i>Inventory records maintained by the UNFPA CO may not be complete and accurate as they are not updated on the basis of periodic inventory counts.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at the Country level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 4

PRIORITY: MEDIUM

Attend inventory stock counts at the WFP managed warehouse and ensure that records of the counts are kept, are readily available in the Office, and are reconciled to the expected quantities on hand.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE

- | | |
|---|------------------|
| 1. <i>Designated Focal Point person at the Country Office to attend stock counts of all UNFPA procured goods and ensure that such counts are reconciled with expected quantities.</i> | <i>Immediate</i> |
| 2. <i>Designated Focal Point person at the Country Office to secure and properly keep records of all stock counts and ensure that such records are readily available in the office.</i> | <i>Immediate</i> |

Late procurement of inventory by PSB

36. Inventory amounting to approximately USD 1.1 million was purchased late in 2012. Although the Office submitted requisitions in early May and June 2012, PSB was unable to complete the procurement process until September and October 2012, respectively, resulting in a significant amount of inventory in-transit at year-end, and in delaying delivery of the inventory to beneficiaries. PSB management acknowledged the delay, which was attributed to the unavailability of staff to conduct the procurement actions during that period due to the large increase in procurement volume, which has increased significantly over the last 5 years. The audit noted the communications from PSB to the Office detailing the circumstances leading to the delays and highlighting that this was an isolated incident. The audit also noted that, in anticipation of additional volume increases related to the implementation of UNFPA's family planning strategy, PSB submitted a new staffing proposal for Senior Management consideration in November 2012, which was approved in July 2013 and that the recruitment of additional procurement staff was already under way at the time of preparation of the audit report. No recommendation is therefore provided with regards to this matter.

B.4 - MANAGEMENT OF NON-CORE FUNDING

SATISFACTORY

37. Programme implementation expenditures funded from non-core resources amounted to USD 27.0 million, approximately two thirds of programme implementation expenditures during the period under review, with an implementation rate of 84 per cent and 78 per cent in 2011 and 2012, respectively. No reportable issues were identified based on the audit work performed in this area, which included the testing for compliance with donor agreements requirements and reporting,

including expense eligibility, for three non-core funded outputs in the areas of RH and gender, with aggregated expenditures of USD 19.0 million (70 per cent of the non-core funded expenditures under review). The lower implementation rate achieved in 2012 was due to factors outside the control of UNFPA that had been resolved at the time of the audit.

C. OPERATIONS MANAGEMENT

SATISFACTORY

Good practices identified

38. The audit noted the following good practices established by the Office, in addition to an adequate level of compliance with established policies and procedures in this area:

- a) Use of a travel monitoring tool to monitor compliance with the timely submission of travel expense claim forms and the validation of purpose of travel. The tool is used by the International Operations Manager to monitor travel, and the Representative carries out detailed reviews of the information included therein;
- b) Inclusion of relevant AWP sections in the procurement files to allow for a better trail and linkage to procurement actions;
- c) High level of involvement of office management in procurement related matters;
- d) Human Resource files were organized in an orderly manner with all the required documents filed sequentially;
- e) Hands-on-approach adopted by Office management to monitor the recruitment process; and
- f) In-depth knowledge of UNFPA policies and procedures demonstrated by staff.

C.1 – HUMAN RESOURCES MANAGEMENT

SATISFACTORY

39. Payroll expenditures incurred during the period under review amounted to USD 4.7 million (the payroll is managed by UNDP), with SC and SSA costs aggregating USD 1.5 million in the same period.

40. Audit work performed in this area included: (a) an analytical review of payroll expenditures; (b) testing of a sample of allowances and other variable payroll costs amounting to USD 1.1 million in the period under review; (c) testing of (i) the recruitment process for five locally recruited staff members; (ii) training undertaken by staff; (iii) completion of performance appraisals; (iv) leave management controls; and (d) the review of a sample of 15 SCs awarded at a cost of USD 540,000, representing 65 per cent of SC costs, and 8 SSAs, awarded at a cost of USD 208,000, representing approximately 31 per cent of SSA costs incurred during the period under review.

41. The audit noted that payroll expenditures, allowances and other variable payroll costs were adequately managed and recorded and that the recruitment of SCs, SSAs and FT staff was in compliance with the applicable human resource policies and procedures. The Office's staff was actively engaged in function-specific training made available online, as well as developmental training as indicated in their planned training schedules. The audit further noted a high level of

participation in webinars organized by UNFPA. The PAD tool was used effectively and closely linked to the OMP. Leave records were adequately maintained by the Office and were periodically reconciled and reviewed by management. No reportable issues were identified based on the audit work performed in this area.

C.2 – PROCUREMENT

SATISFACTORY

42. The Office procured goods and services, other than RH commodities and medical equipment, in the amount of USD 3.6 million during the period under review. Work performed in this area included a review of a sample of 25 high value purchases amounting to approximately USD 1.7 million, 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 AWP. The majority of purchases related to the procurement of goods and services for population and development activities (e.g. consultancies for baseline survey and printing), RH services (e.g. ambulances and training material), and project vehicles. There was evidence of strict adherence to the procurement and policies and procedures. Office management maintained continuous supervision of procurement activities. No reportable issues were identified based on the audit work performed in this area.

C.3 – FINANCIAL MANAGEMENT

SATISFACTORY

43. Work in this area included the review of the accuracy, authorization and proper processing of journal entries (JEs), accounts payable vouchers (APVs) and accounts payable journal vouchers (APJVs), and the coding of transactions to the correct account and fund codes. The audit also included a review of the value-added tax (VAT) control arrangements in place including an assessment of their adequacy in the tracking of VAT reimbursement claims at the Office, and the follow up on the implementation of a recommendation by UN BoA for the Office to institute a proper VAT recording and tracking system with guidance from UNFPA Headquarters. The audit did not cover the recording of VAT by IPs as UNFPA's exemption from paying VAT in Uganda did not extend, by law, to programme funds managed by IPs. No reportable issues were identified based on the audit work performed, excepting the issue on the incorrect coding of NEX related expenditure, already discussed in section B.2 of this report.

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

44. Audit work in this area focused on the travel and asset management processes.

45. Travel expenditures incurred by the Office during the period under review approximated USD 1.1 million. A significant portion (approximately 40 per cent) of the expenditures corresponded to DSA payments related to field and monitoring visits and attendance at training workshops and conferences. Audit work in this area included (i) testing a sample of DSA payments to 11 staff members amounting to USD 90,192 and 30 ticket and other travel related transactions amounting to USD 74,708, for appropriateness of business purpose, proper authorization, accurate calculation and recording; and (ii) a review of the travel services long term agreements (LTAs) that were in use by the Office during the period under review for validity and process of procurement.

46. Audit work performed on the asset management process included the review of asset purchases aggregating USD 350,000 (45 per cent of the value of fixed assets procured), focusing on compliance with the applicable asset management policies and procedures. No reportable issues were identified based on the audit work performed in this area.

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

47. Work in this area was limited to the review of compliance with the mandatory annual certification of Atlas access rights and the local network back-up facilities and controls in place. The Atlas access rights profiles were reviewed and updated, as appropriate, in a timely manner. In addition to on-site server backup at the Office, an offsite backup system was in place. No reportable issues were identified based on the work performed.

C.6 – SECURITY MANAGEMENT**SATISFACTORY**

48. Work in this area included inquiries of designated security officers at both headquarters (HQ) and at the field level and the review of actions taken by the Office resulting from security assessments and the level of compliance with minimum operating security standards, including the assessment of UNFPA's representation and attendance to Security Management Team (SMT) meetings. 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

AM	Asset Management
AWP	Annual Work Plan
APJV	Accounts Payable Journal Voucher
APV	Accounts Payable Voucher
CO	Country Office
COGNOS	Corporate reporting system used by UNFPA
CP	Country Programme
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditures
FT	Fixed Term
GPRHCS	Global Programme to Enhance Reproductive Health Commodity Security
HQ	Headquarters
IP	Implementing Partner
JE	Journal Entry
MoH	Ministry of Health
NEX	National Execution
NGOs	Non-governmental organizations
OFA	Operating Fund Account
OMP	Office Management Plan
PAD	Performance Appraisal Development
PO	Purchase Orders
PSB	Procurement Services Branch
RH	Reproductive Health
SC	Service Contract
SMT	Security Management Team
SSA	Special Service Agreement
UN BoA	United Nations Board of Auditors
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollars
VAT	Value-Added Tax
WFP	World Food Programme