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DIVISION FOR OVERSIGHT SERVICES

AUDIT
OF THE UNFPA PACIFIC SUB-REGIONAL OFFICE
IN FIJI

FINAL REPORT
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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the UNFPA Pacific Sub-regional Office (the Office) in Fiji from 11 March to 24 August 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 considered appropriate.

Background

2. The activities covered by the audit correspond to the fourth multi-country programme for the Pacific Island countries and territories 2008-2012, approved by the Executive Board in 2007, with total expenditures of USD 32.9 million during the five-year programme cycle. Total expenditures in the period covered by the audit amounted to USD 13.4 million, allocated to 16 projects executed by 33 implementing partners (USD 5.0 million) and by UNFPA (USD 8.4 million), and were funded from core resources of USD 7.6 million and non-core resources of USD 5.8 million. Approximately 52 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health among adolescents and young people. Gender activities, focused primarily on gender equality and empowerment of women and girls through more effective policies and strengthened community interventions, accounted for 11 per cent of expenditures. Population and development activities, with the aim of ensuring that population, gender, and sexual and reproductive health trends and issues are incorporated in regional and national policies, development frameworks and sector-wide approach programmes, accounted for 17 per cent of expenditures. Management and programme coordination and assistance costs accounted for the remaining 20 per cent of expenditures.

Methodology and scope

3. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, which requires that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place.

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 '**Unsatisfactory**', which means that governance, risk management and internal control 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. Ratings by key audit area are summarized in the following page:

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

Key findings and recommendations

6. The Office operates in a challenging environment. The region is vast and geographically diverse. Country population and development profiles are very different, with countries lying at different stages of their demographic transition, from high birth and death rates to low ones. Populations are ethnically varied, often small, and widely dispersed. Geographical distances and high transportation costs make travel among and within the countries difficult. The audit acknowledges that the above conditions contributed to a high level of operating complexity and programmatic challenges for the Office during the period under review.

7. The audit also acknowledges management efforts to strengthen internal procedures and controls in response to the risks created by the above mentioned conditions. Actions are ongoing to address the findings of the fourth multi-country programme evaluation, including clustering of countries to prioritize resources. Management has also pro-actively initiated the design and implementation of actions to address preliminary findings of this audit. The design of programme quality control procedures, including review of work plans and work plan monitoring tools, has been strengthened, and the 2013 project set-up in Atlas will provide more country-specific information for monitoring and reporting purposes. The audit noted good control practices in the area of operations management. For example, bid evaluation and contract award were generally compliant with the applicable UNFPA policies and procedures. Long Term Agreements were negotiated at United Nations interagency level in the areas of hotels, travel and printing services, in order to benefit from competitive advantage and cost saving opportunities and to ensure quality of goods and services.

8. The audit identified, however, significant issues in the areas of office governance and programme management. Annual work plan management, national execution, operating fund account management, programme and financial monitoring and inventory management are areas impacted by significant issues requiring prompt management attention:

- a) There is a need to strengthen the Office's organizational structure and staffing vis-à-vis the requirements of the multi-country programme, and to enhance the reporting on results and risk management processes;
- b) Annual work plans should be more timely finalized;
- c) Programme implementation monitoring should be enhanced and the results of monitoring activities more clearly documented and reported;
- d) Implementing partner capacities should be better assessed and documented, and financial monitoring of implementing partners strengthened;
- e) Controls over cash advances provided to implementing partners and the expenditures they report should be enhanced; and
- f) The Office's inventory management and pre-positioning strategy should be reassessed, as well as the commodity procurement planning process and inventory controls strengthened.

9. The audit also revealed a number of opportunities for improving operations management activities and controls, including the need to ensure compliance with mandatory training requirements; reconcile and adjust staff leave records; control valued-added or equivalent taxes reported by implementing partners; develop more detailed and accurate programme budgets; and achieve cost savings through a more timely procurement of air travel tickets.

10. In total, 19 high priority and six medium priority recommendations are provided in the audit report to help management address the issues identified.

Management response

11. Management of the UNFPA Pacific Sub-regional Office agrees to the audit findings and observations and has developed remedial plans/actions to address the audit observations.

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

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The 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 considered appropriate. The objective of the audit, conducted in conformance 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 implemented over UNFPA's operations in the Pacific sub-region.

2. The audit included such tests, as considered necessary in the circumstances, to obtain reasonable assurance with regards to:

- a) The effectiveness and efficiency of the Office's 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 rules, regulations, policies and procedures; and
- e) The reliability of the Office's financial and operational reporting.

3. 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.

4. The engagement which started on 11 March 2013, was conducted by a team of DOS internal audit staff, augmented with staff from an external audit firm; a field mission took place from 15 April to 8 May 2013. Preliminary findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 8 May 2013. Comments and clarifications provided by management at the exit meeting and throughout the report preparation period were reflected in a draft report submitted to the Office's management on 27 September 2013; the management response was received on 15 October 2013.

II. BACKGROUND

5. The Pacific Sub-regional Office (SRO) delivers UNFPA's programmes in 14 countries and territories located in Melanesia, Micronesia and Polynesia, characterized by small land areas ranging from the 12 km² of Tokelau to the 28,896 km² of Solomon Islands. With the exception of Fiji, Samoa, Solomon Islands and Vanuatu, all other countries and territories have a land area of less than 1,000 km², distributed in small islands spread over millions of square kilometers of ocean. Populations range from 1,151 in Tokelau (2006) to 837,271 in Fiji (2007)¹.

6. Due to their size, the availability of quality and comparable data for national policy formulation and development, planning is a challenge in several countries and territories, and the multi-country programme underlined the need to strengthen national data collection systems to ensure that they are able to produce high quality reports².

7. The region made progress towards achieving universal access to reproductive health, as evidenced by high coverage rates for antenatal care and skilled birth attendance. Maternal deaths are rare in the Cook Islands, Niue, Palau, Tokelau and Tuvalu, where only one maternal death may be reported over a period of several years. However, efforts remain to be made in the other countries of the sub-region. In spite of improvements over the past 20 years, contraceptive prevalence rates have stalled at approximately 35 to 40 per cent in many countries in the region. The prevalence rates in Solomon Islands and Kiribati remain below 30 per cent. Teenage fertility rates have declined in the last 10 years, but they remain extremely high, especially in the Marshall Islands, Kiribati, Vanuatu and the Solomon Islands. Approximately 60 per cent of the population in these countries is younger than 25. Gender equality and violence against women is also an area of focus. School enrolment among girls has increased. However, women face multiple barriers to economic participation and access to services, and their participation in political leadership remains among the lowest globally. Violence against women is widespread, and there is limited access to justice and related services. Approximately two out of three Pacific Island countries women report having experienced physical or sexual violence from their partner during their lifetime³. Human Immunodeficiency Virus (HIV) prevalence is low in most countries, but there is a high incidence of Sexually Transmitted Infections (STI) among young people, sex workers and seafarers⁴.

8. The activities covered by the audit correspond primarily to the fourth multi-country programme (MCP) for the Pacific Island countries and territories 2008-2012, approved by the Executive Board in 2007, with total expenditures of USD 32.9 million during the five-year programme cycle. Total expenditures in the period covered by the audit amounted to USD 13.4 million, allocated to 16 projects executed by 33 implementing partners (IP) (USD 5.0 million) and by UNFPA (USD 8.4 million). Approximately 52 per cent of the expenditures were allocated to reproductive health (RH), with focus on promoting sexual and reproductive health (SRH) among adolescents and young people. Gender activities, focused primarily on gender equality and empowerment of women and girls through more effective policies and strengthened community interventions, accounted for 11 per cent of expenditures. Population and development (P&D) activities, with the aim of ensuring that population, gender,

¹ Secretariat of the Pacific Community (SPC) Data Sheet 2011.

² Multi-country programme document for the Pacific Island countries and territories 2013-2017.

³ Multi-country programme document for the Pacific Island countries and territories 2013-2017.

⁴ Multi-country programme document for the Pacific Island countries and territories 2013-2017.

and SRH trends and issues are incorporated in regional and national policies, development frameworks and sector-wide approach programmes, accounted for 17 per cent of expenditures. Management and programme coordination and assistance (PCA) costs accounted for the remaining 20 per cent of expenditures⁵.

9. The Office is located in the city of Suva (Fiji). During the period under review, the Office was managed by a Sub-Regional Office Director, who retired in March 2013 (at the time of the audit, the role was carried out ad interim by the Office's Deputy Director), with the assistance of a Deputy Director; two Assistant Representatives; four Technical Advisers in the areas of RH, P&D, Gender and HIV / STIs; a RH Commodity Security (RHCS) Manager; and an International Operations Manager (IOM). Five staff positions are out-posted to the Republic of Marshall Islands (RMI), Federated States of Micronesia (FSM), and Solomon Islands. At the time of the audit, only two of these positions were filled (National Programme Officers in RMI and FSM). Other UN agencies provide support through UN Joint Presence Officers in Kiribati and Vanuatu (UNICEF); Palau, Solomon Islands, Tonga and Tuvalu (UNDP); Nauru (UN Women), while UNICEF and UNFPA share a UN Joint Programme Liaison Officer position in Samoa.

⁵ Cognos Project Monitoring Report for the period 2011-2012.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

UNSATISFACTORY

Good practices identified

10. The audit noted that the Office carries out regular joint programme and operations staff meetings, which are used as a management tool to share information, report on the status of implementation of activities and discuss programmatic and operational challenges faced by the Office. The outcomes of the meetings were well documented and action plans were tracked until completed. The audit also noted that a consultative process was followed to prepare the Office Management Plans (OMPs) for the period under review and that staff members had the opportunity to contribute to the plans. Staff Performance Appraisal and Development (PAD) plans were aligned with the Office objectives.

A.1 – OFFICE MANAGEMENT

UNSATISFACTORY

11. Audit work performed in this area involved the review of the processes for planning and overseeing programme and operations delivery; the information used for decision making; the channels of communication to staff; and the processes followed for developing and monitoring the OMPs for the years 2011, 2012 and 2013, the Sub-Regional Office Annual Report (SR-OAR) and the Country Office Annual Reports (CO-AR) for 2012.

Indicators used in the Office Management Plan need to be more focused

12. The development of the OMPs in 2011, 2012, and 2013 took into consideration relevant Office priorities; however, the audit noted three instances where the indicators used were not relevant to the related goals and/or not measurable, and three instances where the indicators were not sufficient to achieve the related target. In addition, the audit noted two instances where baselines were not consistent with targets achieved in previous years and eight instances where criteria used to assess completion of activities were unclear and/or not properly documented.

IMPACT *Diminished ability to assess whether OMP expected results were achieved.*

ROOT CAUSE *Guidance (inadequate guidance or supervision at the SRO level).*

CATEGORY *Strategic.*

RECOMMENDATION 1

PRIORITY: HIGH

Develop relevant and measurable indicators for OMP outputs to allow assessing results against expected targets using clear and consistent and well documented criteria and support.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 January 2014*

Management will strengthen the quality assurance process of OMP indicators already in place by involving the Monitoring and Evaluation (M&E) specialists of the Asia Pacific Regional Office (APRO) and PSRO as well as management. Criteria to assess the quality of OMPs will be documented and will include as a minimum relevance, measurability, and adequacy of documentary evidence supporting the assessment. Management will include peer review of

OMP completion reports to ensure accuracy and completion of recording of results achieved.

Country Office Annual Reports must accurately reflect programme implementation results

13. During the fourth MCP cycle 2008-2012, the Office prepared a SRO-AR for the SRO, which does not report against the results' development framework; further, CO-ARs were prepared for three out of the 14 countries and territories covered by the MCP, representing 17 per cent only of the programme expenditures incurred, hence potentially presenting an incomplete view of the MCP and of results achieved. The Office indicated that this decision was taken for practicality considerations in consultation with the Programme Division (PD), and that countries were chosen to ensure that all three sub-regions (Micronesia, Melanesia and Polynesia) were represented.

14. The three individual CO-ARs prepared for the year 2012 reported the achievement of 75 to 99 per cent of the programme's outputs, using the annual work plan (AWP) monitoring tools as the main source of information for the measurement of results, as no Standard Progress Reports (SPR) were prepared. The audit review of the AWP monitoring tools and inquiries of the concerned programme officers disclosed that the assertions on the level of results achieved were insufficiently supported and, for two out of the three countries for which CO-ARs were prepared, that only 56 per cent and 25 per cent of the outputs respectively, had actually been achieved. The AWP monitoring tool for the third country did not report results at output level and the audit was not able to assess the level of achievement of outputs. It was noted this issue had already been raised in the evaluation of the fourth MCP issued in January 2012. The low level of achievement of results was attributed by the Office management to a combination of factors, including late signing of AWP, limited capacity of IPs and at the SRO, and overly ambitious AWP and targets.

IMPACT	<i>Lack of or inaccurate information on results achieved may lead to erroneous decisions.</i>
ROOT CAUSE	<i>Guidelines (inadequate SRO procedures).</i>
CATEGORY	<i>Reporting.</i>

RECOMMENDATION 2

PRIORITY: HIGH

Prepare CO-ARs for all countries managed by the Office, liaising as necessary with the Programme Division to identify an acceptable alternative when not feasible.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

While the office completed the SRO-AR and the choice of three countries for CO-AR for Development Results Framework (DRF) reporting was made with the Programme Division, to obtain a more comprehensive analysis of the expenditure linked to development results for the multi-country programme cycle 5, PSRO will report on all countries for the SRO-AR and CO-AR. It will explore with the Programme Division how to obtain relevant CO-AR information for development results for all 14 countries recognizing that for some countries, only technical assistance and commodities and not in-country programming is undertaken.

RECOMMENDATION 3**PRIORITY: HIGH**

Implement an effective process, including appropriate management review controls, to assess and report on the achievement of SRO outputs using objective and reliable data derived from each output's SPR and other relevant sources of information.

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 30 November 2013

PSRO management will strengthen the quality assurance review of the AWP outputs already in place to validate the reported percentage of outputs achieved in the AWPs of all 10 countries, through closer scrutiny, using a triangulated system from data obtained from the M&E database, SPRs and other relevant information. PSRO management will undertake another training of PSRO programme staff on Results Based Management (RBM) with the new M&E specialist, with particular focus on measurability of outputs as stated in the MCP, the ten UNDAF Action Plans Results and Resources Frameworks and the AWPs.

A.2 - ORGANIZATIONAL STRUCTURE**UNSATISFACTORY**

15. Audit work performed in this area involved reviewing the adequacy of the organizational structure of the Office and its alignment to the requirements of MCP delivery and operations management.

The organizational structure needs better alignment to the needs of the sub-regional programme and its operations

16. A comprehensive review of the Office's organizational structure was not carried out in preparation for the new MCP. The last review of the organizational structure was performed in 2003. An analysis performed by the audit team of the size and complexity of the Office operations compared to the overall staff level revealed that the ratio of IPs and resources managed per staff member increased significantly during the last five years. The audit also observed instances of high workload in certain areas – in particular finance and warehouse operations, of unbalanced workloads – in particular in programme support, and lack of segregation of duties, for example, in the warehouse management function.

17. The Office submitted a proposal to the Post Establishment Committee (PEC) in 2011, requesting the creation of four new posts, and planned to enhance its in-country presence in response to a recommendation made in the evaluation of the fourth MCP issued in January 2012. These actions were not implemented. The proposal was not endorsed by the Division for Human Resources (DHR). A plan to enhance in-country presence, with an initial deadline of July 2012, had not been implemented at the time of the audit.

18. In an effort to clarify responsibilities within the existing structure and identify clear role back-ups, the Office management introduced a Division of Labor (DoL) matrix. Although the DoL is a valuable management tool, its design was not based on a comprehensive analysis of the Office structure and capabilities vis-à-vis the requirements of the new MCP.

IMPACT *The Office organizational structure in place may not be effective and aligned to the requirements of the new MCP.*

ROOT CAUSE *Guidelines (inadequate planning) and Resources (insufficient human resources).*

CATEGORY *Operational.*

RECOMMENDATION 4

PRIORITY: HIGH

Review the SRO organizational structure vis-à-vis the requirements of the MCP delivery and operations management.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

A human resource re-profiling exercise, undertaken by DHR staff and consultant, has been completed in late September 2013. The report and recommendations have been submitted to APRO and DHR for approval. Upon receipt of the decision of APRO and DHR, PSRO will implement the relevant recommendations to ensure that the organizational structure meets the requirements of the new MCP delivery and operations management.

A.3 – STAFFING

PARTIALLY SATISFACTORY

19. Audit work performed in this area included the review of the number and capabilities of staff vis-à-vis the needs of the MCP delivery and operations.

Key positions are to be filled as soon as possible

20. At the time of the audit, eight staff positions were vacant, including those of SRO Director (who retired in March 2013), M&E Coordinator, a Finance and Administration Associate, and three programme posts (one Programme Officer and two Programme Assistants) out-posted in the sub-region. These positions became vacant shortly before the audit field mission, with the exception of the two Programme Assistant positions in RMI and FSM, which have been vacant since October and November 2011 respectively. Vacancies at the time of the field mission represented 23 per cent of the Office staffing. In addition, the Deputy Director, who joined the Office in 2003 and was acting as Head of the Office at the time of the field mission, is scheduled to be re-assigned to another Office as from November 2013. It is critical for the Office to have all the above positions, which were under recruitment at the time of the field audit mission, filled promptly to ensure continuity in delivering programme activities and providing operational support.

IMPACT *Diminished ability to deliver against the MCP goals and targets.*

ROOT CAUSE *Guidance (inadequate supervision by the SRO, Headquarters and the Regional Office)*

CATEGORY *Operational.*

RECOMMENDATION 5

PRIORITY: HIGH

With the support of DHR and the Asia-Pacific Regional Office, complete the recruitment of all vacant positions promptly and ensure an adequate hand-over out of the Office Director and Deputy Director positions.

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 October 2013

The office had already started the recruitment process prior to the audit for all the vacant positions. Positions have been subsequently filled. Management has already finalized the recruitment of seven out of the eight positions and the last one is to be finalized by mid-October 2013. The new Deputy Director is already at post and handover is ongoing, and planned for one month. The PSRO Director handover will be done by the PSRO Director with the new Director on 27 and 28 October 2013.

A.4 – RISK MANAGEMENT

PARTIALLY SATISFACTORY

21. Audit work performed in this area included the review of the Office’s last fraud risk assessment, the process followed for identifying risks and the actions undertaken to mitigate them.

The fraud and operational risk assessment has to be updated as soon as possible

22. A detailed and comprehensive fraud and operational risk assessment was completed in 2011; it has not been updated either in 2012 or in 2013 until the field audit mission. It should be noted that several of the risks identified in the 2011 risk assessment in areas such as organizational structure, programme evaluation, IP capacities, travel and commodity management, were still relevant at the time of the audit and are reflected in the issues identified in this report, indicating lack of appropriate follow-up by the SRO Management. It was noted that various other mechanisms, such as the monthly joint programme and operations staff meetings and the annual retreats, were used to report and discuss issues and risks. However, in 2012 and 2013, there was no systematic and disciplined process to collect, log and prioritize issues, develop action plans, and track their implementation.

IMPACT *Management may not be able to identify the risks threatening the achievement of its objectives in a timely manner and react accordingly.*

ROOT CAUSE *Guidelines (inadequate risk management process at the SRO level).*

CATEGORY *Strategic.*

RECOMMENDATION 6

PRIORITY: HIGH

Update the fraud and operational risk assessment on an annual basis and establish a systematic mechanism to identify, prioritize and log risks, develop action plans to address them and track their implementation.

RESPONSIBLE MANAGER: *SRO Director*STATUS: *Agree*MANAGEMENT ACTION PLAN:DUE DATE: *30 November 2013*

Although the fraud risk assessment tool was not formally utilized, PSRO is working towards mainstreaming the fraud risk assessment and implementation into its activities in the OMP, DoL, programme operations meetings, ad hoc group meetings, annual retreats, and utilization of the AWP quick reference card, Operating Fund Account (OFA) tracking tool and NEX audit action plans. For 2013 and future years, the separate fraud risk assessment tool and exercise will be utilized each year to further provide closer prioritization and reporting of action undertaken. The process to carry out the assessment, develop and monitor action plans will be documented and will include as a minimum the approach and criteria used to identify and prioritize risks, deadline and owners of remediating actions, and monitor mechanisms.

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

23. The Office put in place a comprehensive Resource Mobilization Strategy and Plan to guide its resource mobilization activities. Further, a number of activities were planned and performed during the period to enhance the Office's communication, partnership and fund raising role in the sub-region.

B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING**UNSATISFACTORY**

24. During the period under review, the Office implemented activities relating to three outputs at a total cost of USD 13.4 million, inclusive of PCA costs, with an average implementation rate of 83 per cent. Audit work performed in this area included (i) the review of the process for preparing and approving the AWPs in 2012 and 2013; (ii) the review of AWPs, AWP monitoring tools, mission reports and other evidence of programme planning, implementation and monitoring activities for project activities implemented in 2012 in five countries, with a budget of USD 2.8 million, including site visits to two SRO programme countries in addition to Fiji; and (iii) the testing of financial transactions amounting to USD 2.3 million (approximately 28 per cent of the UNFPA executed programme implementation expenditures incurred in the period under review) and their linkage to the corresponding AWPs.

AWPs need to be finalized on time

25. Despite early engagement with IPs, with initial planning meetings commencing as early as October of each year, the planning and AWP preparation and finalization process was particularly time-consuming and was concluded late. In 2012, 24 out of 25 AWPs were signed after 28 February 2012, with 13 of them being signed after 30 April 2012. In 2013, only eight out of 35 AWPs had been signed as at 20 April 2013. According to the SRO Management, the delay in AWP finalization and signing was due to unavailability of relevant staff at the Office and IPs, combined with the transition from the cluster system to the three tier system for a new programme cycle, as well as the long AWP review and approval process. As a result of the delays, funding to a large number of IPs was only provided in the second half of the year, and direct execution activities had to be deferred for the final months of each year.

26. Further, the 2012 and 2013 OMPs reflected management goal to develop multi-year AWP with government partners in order to help minimize the issues created by planning delays and to enhance programme effectiveness. However, at the time of the audit field mission, no multi-year AWP had been prepared.

IMPACT *Lack of implementation of programme activities.*

ROOT CAUSE *Guidelines (inadequate planning at the SRO level).*

CATEGORY *Operational.*

RECOMMENDATION 7

PRIORITY: HIGH

Establish a roadmap with clearly defined milestones and deadlines to allow for the finalization and signing and/or update of AWP no later than 28 February of each year.

RESPONSIBLE MANAGER: *SRO Deputy Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 October 2013*

For each AWP, a road map will be created with the indication of key milestones, deadlines and responsible persons, taking into consideration the complexity of the activities, the requirements and availability of relevant personnel at UNFPA and IP.

RECOMMENDATION 8

PRIORITY: HIGH

Implement the SRO Office Plan to develop and sign multi-year AWP with Government IPs.

RESPONSIBLE MANAGER: *SRO Deputy Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *28 February 2014*

Multiyear AWP will be developed for 2014-15 and 2016-17 for relevant countries and signed with IPs by Feb 2014 to ensure early implementation of programming.

Programme implementation needs improved monitoring

27. The M&E information included in the multi-Country Programme Action Plan (CPAP) and in the M&E Framework only indicated the countries considered for yearly monitoring visits, without any further details. An annual detailed M&E calendar was not prepared. As a consequence, the audit could not verify whether missions were undertaken as planned. An analysis of mission reports issued in 2011 and 2012 showed the following: (i) missions were undertaken to most countries and served multiple purposes; however, they were typically limited to the IP headquarters, without visits to project sites and beneficiaries; (ii) limited time was allocated during those missions to monitoring programme implementation activities and results; (iii) monitoring checklists were not completed; and (iv) mission reports were submitted late and often after other missions had been undertaken.

IMPACT *Insufficient management assurance as to the level of completion of programme activities and achievement of expected results.*

ROOT CAUSE *Guidance (inadequate guidance or supervision at the SRO level).*

CATEGORY *Operational.*

RECOMMENDATION 9

PRIORITY: HIGH

Prepare, implement and track an annual M&E calendar and enhance the effectiveness of monitoring by (i) increasing the time and resources allocated thereto; (ii) expanding the scope of monitoring visits to cover project sites, beneficiaries and financial monitoring; (iii) completing monitoring checklists; and (iv) timely submitting missions reports.

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 October 2013

A detailed annual M&E calendar will be developed for 2014 and will be adhered to, to ensure appropriate coverage. Completion of Monitoring Mission Checklists has been reinforced for all monitoring missions as a prerequisite for clearance of mission reports. Timely submission of mission reports has been and will continue to be reinforced. PSRO has announced the reinforcement of the ten day guidelines which will be applied for travel expense report (F10 form) clearance. To improve compliance to mission report completion, after the ten day period for mission reports, F10 payments will not be made, as advised by the operations manager.

Performance monitoring and reporting practices and tools need to be strengthened

28. The review of five 2012 AWP monitoring tools for projects with budgeted expenditures totaling USD 2.8 million revealed the following: (i) actual vs. budgeted expenditure analyses were not performed; (ii) activities involving the procurement of goods and services were considered as implemented at the time of the goods and services were procured rather than at the time they were delivered or rendered; (iii) several AWP monitoring tools did not report on achievements at output level, while in other cases, criteria used to assess achievement of outputs were unclear; and (iv) SPRs were not completed. These weaknesses had already been highlighted in the fourth MCP evaluation report issued in January 2012; however, they were not adequately addressed by the Quality Assurance (QA) review of AWP monitoring tools introduced in 2012.

29. The audit also noted that the five AWP monitoring tools tested were completed by the UNFPA programme officers instead of the IPs, as mandated by the applicable procedures, and that the AWP monitoring tool quality was inconsistent. In addition, AWP monitoring tools were only maintained in file, in either hard or soft copy, for the fourth quarter of the year. This represents an important loss of data for monitoring and for learning purposes. Further, the audit could not ascertain whether they were completed on time, on a quarterly basis as mandated by the applicable procedures.

IMPACT	<i>Insufficient management assurance as to the level of completion of programme activities and achievement of expected results.</i>
ROOT CAUSE	<i>Guidelines (inadequate SRO procedures) and Resources (inadequate training).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 10**PRIORITY: HIGH**

Implement an effective process, with appropriate management controls, for measuring and reporting programme performance and results, including a clear documentation of results in AWPMTs and SPRs, holding IPs accountable for timely and quality reporting, including budgeted versus actual expenditure analyses (both at outcome and activity level).

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 December 2013

The inclusion of budgeted versus actual expenditure in the AWP monitoring tool is an excellent suggestion and PSRO has included this in the AWP monitoring tool format from hence forth. The strict adherence to filling of AWP monitoring tools by IPs and on quarterly basis and SPRs will be instituted.

AWP Atlas set-up needs to support better effective project monitoring

30. In 2011 and 2012, programmes were set up in Atlas at sub-regional level, making it difficult to monitor activities at country level using standard Cognos project monitoring reports, as budgets and actual expenditures for different AWPMTs were comingled into common Atlas activities. This limitation impacted primarily the ability to monitor the family planning output, which has the largest number of activities. The status of implementation of activities was discussed in the monthly joint programme and operations staff meetings, using qualitative information received by the project officers and financial data developed by the Finance Associates from the analysis of transaction vouchers and IP expenditure reports (Funding Authorization and Certificate of Expenditures -FACE- forms).

31. Management indicated that, from 2013 onwards, the Atlas project set-up would be changed to allow for more country specific information. At the time of the audit field mission, the majority of the 2013 AWPMTs had not been finalized and entered in Atlas; hence it was not possible to fully assess the new Atlas project set-up.

32. From the review of the new project set-up design however, it was noted that further improvements are possible. In particular, it appears that a number of activities in the AWPMTs are clustered by input in Atlas, i.e.: expenditure type, such as salaries, contractors and equipment, rather than representing genuine activities planned, to be undertaken for achieving outputs as clarified in the procedure "Preparation and Management of Annual Work Plans (AWPMTs)" issued in August 2012.

IMPACT *The ability to monitor programme implementation may be diminished.*

ROOT CAUSE *Guidance (inadequate guidance or supervision at the Sub-regional Office level).*

CATEGORY *Operational.*

RECOMMENDATION 11**PRIORITY: MEDIUM**

Set up AWP in Atlas following the guidelines reflected in the procedure "Preparation and Management of Annual Work Plans (AWPs)" dated July 2012 to allow a more effective project monitoring using the COGNOS project monitoring reports.

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 December 2013

PSRO has already undertaken individual country programme in Atlas to facilitate ease of country programme monitoring activities for 2013 and has instituted an Atlas activity code to facilitate easy recognition of relevant activities by countries in sub-regional budgets to ensure that a more effective country project monitoring system is used in this complex multi-country programme monitoring by the sub-regional office. Programme Operations meetings are ongoing. Activity description will be reviewed to ensure adherence to policy. Assistance will be sought from PD as needed.

B.2 – NATIONAL EXECUTION**UNSATISFACTORY**

33. During the period under review, the Office funded programme implementation activities executed by 25 government agencies operating in 12 countries, and by eight non-governmental organizations (NGO), for a total of USD 5.0 million (approximately 40 per cent of total programme expenditures), with an average implementation rate of 80 per cent.

34. Audit procedures performed in this area included the review of IP capacity assessments, the IP selection process and the oversight activities established by the Office to manage IP performance and deliverables. The review covered 11 IPs, with aggregated reported expenditures of USD 1.3 million, and another six IPs receiving grants totaling USD 363,000. The audit also included the review of the OFA process and controls, through the testing of cash advances to IPs totaling USD 4.3 million and their subsequent liquidation through FACE forms submitted by IPs reporting expenditures in the amount of USD 4.0 million. Given the overall significance of travel costs incurred by IPs, additional testing against available supporting documentation was performed for a sample of travel expenditures reported amounting to USD 115,000. The audit further included site visits to four IPs and a review of the results and reports of 27 NEX audits conducted in the period under review, which covered approximately 75 per cent of NEX expenditures.

The quality of IP capacity assessments needs to better support decisions on cash transfer modalities and assurance activities

35. IP capacity assessments were completed in 2013 for most IPs, using the Implementing Partner Capacity Assessment Tool (IPCAT). HACT (Harmonized Approach to Cash Transfers) micro-assessments were carried out for only six IPs in 2011 and 2012. The audit found that, in general, IPs were not assessed in-depth, particularly with regards to their financial and operational capacity. The assessments were completed primarily by the assigned programme managers; there is limited documentation on file supporting the areas reviewed and the capacity ratings assigned.

36. Further, the audit found no evidence that the results of these assessments were considered to determine the most appropriate cash transfer modalities or the scope and frequency of monitoring and assurance activities in light of IPs' capacity levels and internal control systems.

37. The audit also noted that, for six out of the nine NGOs tested, critical documentation⁶, such as annual audit reports, incorporation documents and proof of legal status, had not been obtained and uploaded in IPIMS, the Implementing Partner Information Management System; in addition, for the three NGOs for which documents were available, there was no evidence that the Office had validated the information.

IMPACT	<i>The engagement of IPs with weak capacity may impair the achievement of the MCP objectives.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at the SRO Office level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 12

PRIORITY: HIGH

Complete a more robust and better documented assessment of IPs' financial and operational capacity and use the assessment results to determine the most appropriate cash transfer modality as well as scope and frequency of monitoring and assurance activities.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 January 2014*

In following the generic tools provided by the Headquarter for capacity assessment of IPs, PSRO will provide more robust and better assessment of IPs' financial and operational capacity with supporting documentation and use this tool to guide cash transfer modality and monitoring frequency, especially for new IPs or those with previous year qualified NEX audits. PSRO will continue to undertake IPs' assessments for new IPs but with more attention to details, related to issues highlighted in NEX audit reports.

RECOMMENDATION 13

PRIORITY: MEDIUM

Update IP profiles in IPIMS and validate and document their legal status, financial soundness and institutional capacity.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 January 2014*

All IP relevant information with all complete documentation including legal status, corporate status and audits reports will be uploaded in the system of IPMIS by end of January 2014.

⁶ This requirement does not apply to Government implementing partners.

OFA management and financial monitoring controls need to be strengthened

38. The Office explained that obtaining accurate expenditure reports from IPs was at times difficult due to their limited capacity, inadequate record keeping and gaps in financial controls. The extent and impact of IP capacity issues is evidenced by the results of NEX audits as well as other reviews commissioned by the Office management during the period under review. Eight out of 27 NEX audit reports issued in the period under review were qualified, which represents 30 per cent of the audits undertaken and approximately 41 per cent of total audited expenditures. Unsupported expenditures detected by the audits amounted to USD 299,000, i.e. 20 per cent of total expenditures reported by the IPs that received qualified opinions and over 13 per cent of total audited NEX expenditures.

39. Issues identified by the NEX audits included (i) the use of common accounts to record project expenditures funded by multiple donors, thereby limiting the Office's ability to identify UNFPA related expenditures as well as duplicate or otherwise ineligible expenditures; (ii) double reporting of expenditures, i.e., the same expenditures were charged to UNFPA and to another multilateral system donor; (iii) reporting ineligible overhead costs; (iv) reporting unsupported expenditures; (v) lack of audit trails; and (vi) over-reporting expenditures. Further, follow-up audit of an IP commissioned by management detected unspent UNFPA funds dating back from 2009. Testing during this audit of a sample of 25 FACE forms submitted by the IPs revealed multiple instances of missing or incomplete expenditure information and the use of generic descriptions of expenditures incurred, such as "workshops", "travel" and "consultancy", not aligned to the activities per the corresponding AWP.

40. In general, errors and omissions, such as those previously exemplified, were either not detected through the FACE form review process and financial monitoring controls implemented by the Office, or when identified, not timely acted upon or followed through by IPs. The audit noted, however, that the Office is actively following-up with IPs to resolve the issues identified by the different audits undertaken. In 2013, the Office was reimbursed excess advances of USD 294,000 which had been made in 2011 and 2012 (6.7 per cent of the funds advanced totaling USD 4.3 million). Similarly, since 2011, the Office has been making efforts to recover unsupported expenditures and received back approximately USD 165,000; the process is ongoing, with additional follow-up audits of the relevant implementing partners commissioned by the Office to validate programme expenditures scheduled or under way at the time of the original field audit mission.

41. The audit also noted that, during the period under review, the Office paid advances totaling USD 278,000 to eight IPs with un-liquidated OFA balances amounting to USD 150,000. Furthermore, the audit noted six instances of advances to IPs in excess of programme needs, totaling USD 93,000. Delays were further noted in the submission of FACE forms by IPs and their subsequent processing. Approximately 90 per cent of all liquidations were completed in the fourth quarter of both 2011 and 2012, with advances aggregating USD 829,000 in these two years, taking more than six months to clear. OFA reconciliations were not regularly performed on a quarterly basis and a comprehensive reconciliation was conducted in September 2012 only, in preparation for the 2012 year-end financial closing.

IMPACT *Funds provided to IPs for programme implementation activities may not be used for the intended purpose or not used in a cost effective manner.*

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

CATEGORY *Compliance.*

RECOMMENDATION 14

PRIORITY: HIGH

Strengthen financial monitoring activities by aligning their scope and frequency to the assessed IP capacity covering as a minimum (i) reconciliations of expenditures reported to the IPs' accounting records, cash books, bank account statements and supporting documentation; (ii) follow-up on the status of correction of issues identified through audits and/or capacity assessments; and (iii) assessment of the operating effectiveness of financial and operational processes relevant to the delivery of UNFPA funded activities.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

PSRO will reconsider cash transfer modality on the basis of IP capacity assessment and NEX audit report. Finance and programme staff will undertake reconciliations of expenditures following verification of IP accounting records, cash books and bank account statements and supporting documents and following up on audit issues. 2012 training of IPs were undertaken and 2013 training of IPs on these aforementioned issues specific to recent NEX and DOS audits as per recommendation 15 below has been undertaken for IPs in seven countries (FSM, Marshall Islands, Palau, Samoa, Solomon Islands, Tuvalu, and Vanuatu). IP training to be undertaken for the remaining four countries (Fiji, Kiribati, Tonga, Nauru) before year-end.

RECOMMENDATION 15

PRIORITY: HIGH

Strengthen the OFA management process controls in the areas of review and approval of FACE forms, compliance with the OFA management policy and OFA balance reconciliations, by establishing clear guidelines for reviewers and approvers and monitoring their timely performance.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

PSRO will establish clearer guidelines for OFA management process controls for review and approval of FACE forms and monitoring their timely performance. This will be achieved also through closer coordination and partnership between finance and programme staff at country level, including combined missions, and closer working together at the sub-regional level.

B.3 – INVENTORY MANAGEMENT**UNSATISFACTORY**

42. Under the umbrella of the Global Programme to Enhance Reproductive Health Commodity Security (GPRHCS), the Office funded activities to strengthen selected RHCS components based on the Pacific sub-region's specific context. During the period under review, the Office supplied, through the Procurement Services Branch (PSB, based in Copenhagen, Denmark), RH commodities procured at a cost of USD 1 million. The majority of purchases (51 per cent) corresponded to medical equipment and sub-dermal implants. Other significant commodities were injectable contraceptives and female condoms. Total inventory reported by the Office as at 31 December 2012, determined and valued in accordance with the International Public Sector International Accounting Standards (IPSAS) adopted in 2012, amounted to USD 1.1 million (of which, USD 557,000 corresponded to inventory in transit as at 31 December 2012).

43. The Office also provides regular assistance and training to IPs in order to build local capacity to effectively manage RH commodities at a national level and to ensure that RH commodity security is mainstreamed into the national integrated supply management systems. As from 2004, the Office has been managing a warehouse located in Suva, Fiji. The warehouse operation plays a key role in prepositioning RH commodities for further distribution throughout the sub-region.

44. Audit work performed in this area included the review of the processes followed through a walk-through and testing of 14 purchase orders (PO) totaling USD 673,000, in the following areas: (i) procurement needs' planning; (ii) requisitioning; (iii) receiving and inspection; (iv) inventory controls while the goods procured remained in UNFPA's possession; (v) commodity handover to IPs; and (vi) monitoring of commodity distribution.

The Office needs to reassess its inventory pre-positioning strategy and warehouse operations to better support reproductive health commodity security needs in the region

45. The audit noted that the Office, in spite of its regular and supplementary orders, was unable to maintain minimum inventory levels of two hormonal contraceptives as was foreseen in its RH commodities pre-positioning strategy which was designed to help mitigate the risks arising from the lack of reliable data, IPs' weak forecasting capabilities and the logistical challenges of supplying a vast region. This impacted the Office's ability to meet the RH commodity security requirements of countries in the region.

46. An independent assessment⁷ was commissioned in 2010, which covered the inventory pre-positioning strategy and warehouse operations, including (i) the level of buffer stock required to be maintained at the central UNFPA warehouse, (ii) the number of countries to assist, the capacity of the warehouse, and (iii) the human resources required to enable a more effective inventory management process. The Office indicated that some recommendations raised by the assessment, such as those related to infrastructure improvements and human resource capacity increase which required additional funding, could not be implemented due to resource constraints, therefore further impacting the Office's ability to meet RH commodity security requirements.

⁷ "Pre-positioning of Stocks of Reproductive and Other Essential Health Commodities in the SW Pacific Sub-Region" (November 2010).

IMPACT *Increased risk of commodity stock-outs.*
 ROOT CAUSE *Guidance (inadequate supervision at the SRO level).*
 CATEGORY *Operational.*

RECOMMENDATION 16

PRIORITY: HIGH

Reassess the inventory pre-positioning strategy and warehouse operations, taking into account the recommendations raised by the independent assessment conducted in 2010 (including those related to buffer stock level, number of countries to be assisted, capacity of the central warehouse and human resources), to ensure that the operational set-up meets the RH commodity security requirements in the region.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

PSRO has already re-assessed its prepositioning strategy and has implemented strategies for direct shipment of commodities to the tier 1 countries and selected tier 2 countries with large orders, while maintaining the shipment of commodities to PSRO for the smaller countries in 2013. PSRO will be moving its stock in October 2013 to the Fiji Government Pharmaceutical Services Centre to be housed as the current warehouse space provided by the Fiji Government has been taken back. Prepositioning of buffer stocks for emergency orders will continue and PSRO is maintaining a minimum stock level. PSRO will re-establish minimum levels of commodities in line with this new system of distribution.

PSRO has already recommended an increase in staffing capacity and mainstreaming RHCS in technical, programming and operations in the HR restructuring.

The RH commodity need identification and procurement planning processes require strengthening

47. The 2012 consolidated RH commodity procurement plan was only partially executed as a result of a weak product needs and specifications identification and procurement planning process. Overall, the Office managed to fulfill only 16 per cent (USD 0.3 million) of its original procurement plan of USD 1.8 million. Purchase orders for an additional USD 0.6 million (33 per cent of procurement planned) were issued during the year but the inventory was in-transit as at 31 December 2012. The lack of clear definition of product requirements and specifications, as well as of acquisition costing estimates, combined with orders outside the prequalified list contributed significantly to the delay in executing the procurement plan.

IMPACT *Increased risk of commodity stock-outs.*
 ROOT CAUSE *Guidelines (inadequate planning).*
 CATEGORY *Operational.*

RECOMMENDATION 17

PRIORITY: HIGH

Develop more accurate procurement plans, based on an enhanced needs and specification identification process, and establish a mechanism to track their timely implementation.

RESPONSIBLE MANAGER: SRO Director

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 28 February 2014

For 2013, procurement has been based on assessment at the regional level of logistics, service and demographic statistics to obtain more accurate procurement needs. Supplemental orders have been placed and are expected by year-end. For 2014, procurement plans will be based on a similar method. A system for tracking timely implementation from time of procurement request to receipt in country will be established.

At the country level for the 14 countries, training in RHCS currently includes procurement with estimation of needs based on national forecasting system with logistics data from Logistics Management Information Systems (LMISs), service data from health information systems and demographic data from censuses and surveys. RHCS level 1, 2, and 3 training incorporates this at the relevant level of the health system.

Evidence of inventory receipt and distribution must be obtained and retained

48. The Office did not consistently obtain signed Inventory Receipt or Earmarked Goods Custody Forms, as appropriate, at the time commodities were delivered to IPs or control transferred to them. Audit test performed revealed that receipt confirmations were provided for only three out of the 13 shipments selected for testing in 2012. Similarly, the audit revealed that no receipt confirmations were provided for more than half of the deliveries made to IPs from the central warehouse in Suva in the course of 2012.

49. The audit also noted limited coordination regarding handling of shipments and deliveries between the Programme Officers and the staff members charged with inventory control. A site visit to an IP conducted in the course of the audit field mission evidenced that the IP was not aware of the delivery to its warehouse of goods procured in 2012 at a cost of USD 128,000. Audit inquiries revealed that part of the goods procured for that IP, with a value of USD 37,000, had not yet been cleared from customs and none of the remaining items supplied kept in the warehouse had been transported to their final destination.

IMPACT *Increased risk of asset misappropriation or delays in distribution.*

ROOT CAUSE *Guidance (inadequate supervision at the RO).*

CATEGORY *Operational.*

RECOMMENDATION 18

PRIORITY: HIGH

Obtain signed “Inventory Receipt” and “Earmarked Goods Custody” forms, as required by the Inventory Management policy (2012), at the time goods are delivered to IPs or the control over the inventory is transferred to them.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

PSRO will obtain consistently signed inventory receipt and earmarked goods custody forms for all IPs receiving commodities from PSRO.

RECOMMENDATION 19

PRIORITY: HIGH

Monitor commodities supplied to IPs to ensure that they are timely delivered to their final distribution points and utilized as planned.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

As PSRO does not have in-country staff in all countries, PSRO has recommended placing national programme officers in six countries, as part of the HR re-profiling recommendations, and if approved, their revised/new job descriptions will include RH commodities monitoring at national, and subnational level where appropriate. The PSRO programme and technical staff will all participate in independent monitoring of stock at the national level when on mission each year. RHCS Stock monitoring is already part of the monitoring mission checklist and will be reinforced in mission reports clearance process. RHCS logistician has instituted a mechanism for quarterly reporting of RH stocks in-country.

Warehouse management controls need to be strengthened

50. The audit visit to the central UNFPA warehouse located in Suva, Fiji revealed that data was not always available to allow for an effective tracking, control and reporting of inventories, as well as to enable the analysis and reconciliation of physical inventory differences. In addition, the Office maintained two inventory control systems which reported different RH commodity inventory positions for some commodity items. No reconciliation was undertaken to explain the difference. Similarly, the audit noted the need to improve (i) the monitoring of inventory levels in order to timely trigger their replenishment, and (ii) the information available to track stocks in transit, status of deliveries and distribution to recipient countries.

51. Bin cards were not maintained at the warehouse in order to control receipts, issuances and inventory levels by batch number. Stock cards were maintained offsite, at the sub-regional Office but they did not provide batch number and other information relevant to track inventory, limiting the Office's ability to ensure that shipments were made based on a First-In First-Out (FIFO) basis for commodities with batches with different expiry dates.

52. In addition, physical inventory counts were not performed by staff members who were independent from inventory management functions. One staff member is currently responsible, with limited supervision, for all core warehouse management processes, such as maintaining inventory records, reporting month-end movements and balances, and is also responsible for performing physical counts.

53. Further, inventory counts were not properly documented. Reconciliations of physical count results to inventory reports were not consistently performed. In addition, there were no verification procedures to reconcile opening and closing inventory balances, as well as inventory movements such as incoming and outgoing commodities against receipt and delivery authorizations.

IMPACT *Increased risk of loss, damage, waste and misappropriation, of inventory maintained at the warehouse.*

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

CATEGORY *Operational.*

RECOMMENDATION 20

PRIORITY: MEDIUM

Strengthen UNFPA warehouse operations and management by: (i) using the inventory control system in an effective manner; (ii) conducting, documenting and reconciling regular physical counts undertaken by independent personnel; (iii) tracking inventories by batch number; (iv) reconciling inventory movements against receipt and delivery authorizations; and (v) tracking inventory in-transit and deliveries to IPs.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

PSRO is in the process of strengthening warehouse management by (i) using inventory control system using bin cards with batch numbers, (ii) undertaking regular spot checks and physical count by operations manager, (iii) tracking inventories through Batch Number system, (iv) reconciling receipt and delivery and (v) tracking in-transit inventory and deliveries closer with PSB.

Management will work with PSB to use different International Commercial Terms (INCOTERMS) for increased visibility of stock in transit.

B.4 – MANAGEMENT OF NON-CORE FUNDS

SATISFACTORY

54. Audit procedures in this area included the review of the Resource Mobilization Strategy and plan, donor agreements and donor reporting, as well as tests of expenditures, to ensure that non-core funds are utilized and reported in line with donor requirements. During the period under review, the Office managed to successfully mobilize and utilize non-core resources totaling USD 8.7 million and USD 5.7 million respectively, securing a broad-based and stable funding to meet the strategic objectives of the MCP. A detailed and comprehensive Resource Mobilization Strategy and Plan was in place to guide the Office resource mobilization activities. The audit also observed that a number of activities were planned and performed during the period to enhance the Office’s communication, partnership and fund raising role in the sub-region. No further reportable issues were identified from the work performed in this area.

C. OPERATIONS MANAGEMENT

PARTIALLY SATISFACTORY

Good practices identified

55. The audit noted that the recruitment of Service Contracts (SCs) and Special Service Agreements (SSAs) was well documented, and that these contractual modalities were used in compliance with HR policies and procedures and their number was kept at minimum.

56. The audit also noted that the procurement process was in compliance with the applicable policies and procedures. Adequate controls were in place to ensure appropriate approval and processing of purchases. Long-Term Agreements were negotiated at inter-agency level, where appropriate, to optimize purchasing conditions and internal workload.

57. Further, the review of travel operation showed general compliance with travel policy and procedures. The audit noted good practices using travel checklists to ensure compliance and completeness of travel documentation for approval and clearance.

C.1 - HUMAN RESOURCES MANAGEMENT

SATISFACTORY

58. At the time of the audit field mission, the Office employed 27 staff members and seven SC and SSA holders. Related costs incurred during the period under review amounted to USD 2.6 million and USD 762,000 respectively. Work performed in this area consisted in the analytical review of payroll, SC and SSA expenditures (the payroll is managed by UNDP) in the period under review, the walk-through of the process followed for recruitment of one staff member, and the testing of seven SCs and SSAs awarded at a cost of USD 269,000 (approximately 35 per cent of total costs incurred in the period under review) for compliance with the applicable recruitment and compensation policies and procedures and linkages to AWP. The audit also tested the accuracy of leave balances used for purposes of IPSAS reporting as of 31 December 2012, and the compliance of staff members with mandatory training requirements.

Staff members must complete all mandatory trainings

59. The audit noted that the seven staff members selected for testing did not complete one or more of the mandatory training courses.

IMPACT	<i>Internal capability may not be sufficiently developed, affecting the quality and results of programme delivery and operations.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at the SRO level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 21

PRIORITY: MEDIUM

Complete any outstanding mandatory training courses by the end of 2013 for all staff concerned

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

All staff will complete mandatory training by end of 2013 and regular follow-up to check compliance will be undertaken.

Discrepancies in leave records must be reconciled and adjusted

60. For all six staff members selected for testing, the audit noted differences, aggregating to 34 days, between the leave balances per the staff annual attendance cards maintained by the leave monitor and the leave balances per Atlas. This was due to a lack of regular data reconciliation. An analysis carried out by the Office at the time of the audit revealed a total discrepancy of 97 days, resulting from a total leave balance of 1,302 days in Atlas compared to 1,205 per the manual leave records.

IMPACT *The IPSAS leave accrual is misstated.*

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

CATEGORY *Reporting.*

RECOMMENDATION 22

PRIORITY: MEDIUM

Periodically reconcile leave data per Atlas with the records maintained by the leave monitor and update Atlas balances.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

Leave monitor is reconciling leave data in Atlas with the records maintained manually and will update Atlas balances as appropriate. Operations Manager to validate that this is maintained for the entire year.

C.2 – PROCUREMENT

SATISFACTORY

61. The Office locally procured goods and services at a cost of USD 1.6 million during the period under review. Audit work performed in this area included a review of a sample of 10 high value purchases for goods and services amounting to approximately USD 450,000, 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 AWP.

62. 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

UNSATISFACTORY

63. Audit work performed in this area included the review of the accuracy, authorization and proper processing of journal entries, accounts payable vouchers and accounts payable journal vouchers, and the coding of transactions to the correct account and fund codes. The audit also included the review of the value-added tax (VAT) control arrangements in place and of the budget management process. Two reportable issues were identified based on the audit work performed.

The Office must establish controls to ensure that VAT or equivalent taxes are not included in expenditures reported by IPs

64. Management indicated that all IP expenditures should be exempt from value-added or equivalent consumer taxes, and that the Office had instructed all IPs not to charge such taxes as part of the expenditures reported through FACE forms. However, no controls were introduced as part of the FACE form review process to ensure that taxes were indeed not charged.

65. Through its review of a sample of invoices provided by five IPs together with the FACE forms they submitted, the audit noted that three of them included taxes within the expenditures accepted by UNFPA. It should be noted that UNFPA procedures do not mandate that invoices be submitted together with FACE forms, so the audit could not perform a similar review for the other six IPs selected for testing of FACE forms. Further, based on the information available, it was not possible to make a reliable estimate of the amount of taxes that should not have been charged.

IMPACT *Overstatement of expenditures reported by IPs.*
 ROOT CAUSE *Guidance (inadequate supervision at the SRO level).*
 CATEGORY *Operational.*

RECOMMENDATION 23

PRIORITY: HIGH

Implement additional FACE form review procedures designed to ensure that value-added or equivalent consumers' taxes are not reimbursed unless the IPs can demonstrate to UNFPA's satisfaction that they are unable to avoid or recover the taxes charged.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

IP training undertaken and to be undertaken by Programme and Finance Staff to include VAT/TAX issues. PSRO to establish controls to ensure that VAT will not be recorded as expenditures in FACE submission through appropriate review by POs and Finance.

A more rigorous approach for determining programme budgets and inputting them in Atlas must be adopted

66. The audit review of 2012 AWP budgets for three IPs with an aggregated budget allocation of USD 2.1 million and the walk-through of the budgeting process followed in 2012 revealed that AWP budgets were not systematically estimated based on detailed costing sheets. Management indicated that budgets were determined based on previous year's budget estimates. The lack of

documented budget assumptions and budget vs. actual analyses limited management’s ability to validate the accuracy and relevance of budgets and to determine the cause of budgeted vs. actual expenditure variances, for instance due to inaccurate project budgeting, lack of or partial execution of activities or changes therefrom. As an example, the audit noted that, for one project, the same budget amount was allocated for 2013 as in 2012 even after it had proven to be incorrect in the previous year. The lack of analysis and documentation deprives Management from a valuable monitoring tool.

67. Further, Management did not follow a rigorous approach to input budgets in Atlas for all projects. Multiple budget revisions were entered to adjust budget estimates and re-programme funds; as an example, 591 budget revisions were recorded in 2012 for the three major projects implemented by the Office. The audit could not reconcile 2012 AWP and Atlas budget amounts. The analysis of budget trend for fund code FPA90 (regular resources) in 2012 showed that budgeted amounts exceeded the total amount of resources allocated for the year, leading to several budget revisions to be entered in Atlas to adjust the balance. The Office eventually reconciled the total budget amount in Atlas (even though it was not at AWP level) in October 2012.

IMPACT *Inability to monitor the level of programme implementation through implementation rate metrics.*

ROOT CAUSE *Guidelines (inadequate SRO process).*

CATEGORY *Operational.*

RECOMMENDATION 24

PRIORITY: HIGH

Develop and maintain detailed costing sheets in support of AWP budgets and implement a more rigorous process to input AWP budgets in Atlas and validate the accuracy of data.

RESPONSIBLE MANAGER: *SRO Director*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

While a master budget sheet is maintained for the cycle and the year, individual detailed project budget sheets are already developed for each sub-regional and country project/programme in spreadsheets. Programme budget sheets will be maintained reflecting regular updating of changes in AWP and subsequent changes in Atlas. Only IOM or Deputy Director will be authorized to make changes in Atlas to maintain rigorous control of budgets.

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

68. Audit work in this area focused on the travel and asset management processes. Travel costs in the period under review totaled USD 2.2 million, or 26 per cent of UNFPA direct execution expenditures. Audit procedures carried out in this area include the analytical review of travel expenditures to verify the time between the purchase and the actual undertaking of travel, a walk-through of the process followed to approve and process different types of travel transactions (including procurement of air tickets and payment of daily subsistence allowances), and the testing of a sample 41 travel-related POs totaling USD 819,000 to verify their compliance with relevant travel and procurement procedures. No reportable issues were identified based on the audit work performed with the exception of the one reported below.

69. Fixed assets reported as at December 2012 amounted to USD 313,000. Audit work performed in this area included the review of 36 asset transactions with a value of USD 233,000, focusing on compliance with the applicable asset management policies and procedures. No reportable issues were identified.

Booking of air travel must be more timely completed

70. The audit noted that a large number of air tickets, with a cost of approximately USD 994,000, were purchased less than 15 days before travel date, deviating from the travel policy requirements. Based on available travel studies⁸, earlier travel booking could have generated, potential savings of up to USD 160,000.

IMPACT *Excessive travel costs may be incurred.*
 ROOT CAUSE *Guidance (inadequate supervision at the SRO level).*
 CATEGORY *Compliance.*

RECOMMENDATION 25 **PRIORITY: MEDIUM**

Develop travels plans as early as possible to allow for the purchase of air tickets at least three weeks before travel date.

RESPONSIBLE MANAGER: *SRO Director* STATUS: *Agree*
MANAGEMENT ACTION PLAN: DUE DATE: *31 January 2014*

Annual Travel plans with quarterly updates will be adhered to, to ensure timely purchase of tickets for cost savings. In the revised HR structure, PSRO will consider centralizing travel logistics for increased efficiency.

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

71. Work in this area was limited to assess compliance with the requirement for the annual Atlas access rights review. No issues were identified.

⁸ Studies conducted by the UNDP Travel unit in 2012 indicated that savings of at least 16 per cent annually may be achieved on airfare bookings if the latter are made and paid by a minimum of 15 working days prior to travel date.

ANNEX 1 - DEFINITION OF AUDIT TERMS**A. AUDIT RATINGS**

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

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

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

C. PRIORITIES OF AUDIT RECOMMENDATIONS

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

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

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

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

GLOSSARY

Acronym	Description
APRO	Asia Pacific Regional Office
Atlas	UNFPA's ERP (Enterprise Resource Planning) system
AWP	Annual Work Plan
CO	Country Office
CO-AR	Country Office Annual Report
COGNOS	UNFPA reporting tool (based on Atlas)
CPAP	Country Programme Action Plan
DHR	Division for Human Resources
DoL	Division of Labor
DOS	Division for Oversight Services
DRF	Development Results Framework
FACE	Funding Authorization and Certificate of Expenditures
FIFO	First-In First-Out
FSM	Federated States of Micronesia
GPRHCS	Global Programme to Enhance Reproductive Health Commodity Security
HACT	Harmonized Approach to Cash Transfers
HIV	Human Immunodeficiency Virus
HR	Human Resources
INCOTERMS	International Commercial Terms
IOM	International Operations Manager
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Assessment Tool
IPIMS	Implementing Partner Information Management System
IPSAS	International Public Sector Accounting Standards
LMIS	Logistics Management Information System
MCP	Multi-country programme
M&E	Monitoring and Evaluation
NEX	National Execution
NGO	Non-Governmental Organization
OFA	Operating Fund Account
OMP	Office Management Plan
PAD	Performance Appraisal and Development
PCA	Programme Coordination and Assistance
PD	Programme Division
P&D	Population and Development
PEC	Post Establishment Committee
PO	Purchase Order
PSB	Procurement Services Branch
PSRO	Pacific Sub-regional Office
QA	Quality Assurance
RBM	Results Based Management

Acronym	Description
RH	Reproductive Health
RHCS	Reproductive Health Commodity Security
RMI	Republic of Marshall Islands
SC	Service Contract
SPC	Secretariat of the Pacific Community
SPR	Standard Progress Report
SRH	Sexual and Reproductive Health
SRO	Sub-regional Office
SR-OAR	Sub-regional Office Annual Report
SSA	Special Service Agreement
STI	Sexually Transmitted Infection
SW	South West
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UN	United Nations
USD	United States Dollars
VAT	Value Added Tax