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DIVISION FOR OVERSIGHT SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN BOSNIA AND HERZEGOVINA

FINAL REPORT
Nº BIH 101

31 December 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 Bosnia and Herzegovina from 8 July to 8 November 2013. The audit covered the period from 1 January 2012 to 30 June 2013. Expenditures related to programme delivery and operations activities executed in 2011 and in the third quarter of 2013 were covered by the audit, as appropriate.

Background

2. Bosnia and Herzegovina is currently in its first Country Programme 2010-2014, approved by the Executive Board in July 2009 with a resource allocation of USD 6.9 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 1.4 million, executed by UNFPA (USD 1.1 million)¹ and by five implementing partners (USD 0.3 million)¹, and funded from core resources of USD 0.8 million and non-core resources of USD 0.6 million. Approximately 53 per cent of the expenditures corresponded to the Gender component, which focused on gender equality issues, gender based violence and conflict related sexual violence. The Population and Development component accounted for 13 per cent of the expenditures and focused on supporting statistical institutions for census preparation and the establishment of a modern statistical system. The Sexual and Reproductive Health component accounted for seven per cent of expenditures with a focus on strengthening national capacity in the areas of family planning services, adolescent sexual and reproductive health services, and cervical cancer prevention. Management, and programme coordination and assistance costs accounted for the remaining 27 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 require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

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 '**Partially Satisfactory**', which means that governance, risk management and internal control processes were adequately established and functioning well. However, several issues were identified that may negatively affect the achievement of the objectives of the Office. Ratings by key audit area are summarized in the following page:

¹ Source: COGNOS project monitoring reports for the period under review.

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

Key findings and recommendations

6. The audit identified some good practices adopted by the Office. In the area of governance, staff meetings were regularly held to report programmatic progress. In relation to programme management, annual work-plans were timely prepared and signed. In the area of operations management, external independent staff was consistently included in recruitment panels.

7. The audit identified, however, significant issues in the areas of office governance and programme management. In the area of governance, there is the need to review the Office organizational structure and staffing arrangements vis-à-vis the requirements of the expected focus of the Country Programme, and to enhance the accuracy of reporting on programme results. In the area of programme management, the audit noted that the Office activities significantly deviated from the original focus of the Country Programme 2010-2014. Furthermore, there is the need to strengthen planning and management of activities funded through non-core resources and to develop a resource mobilization plan in line with programmatic needs. Programme monitoring and implementing partner capacity assessment need also to be strengthened.

8. The audit also revealed a number of opportunities for improving operations management activities and controls, including enhanced compliance with mandatory training requirements; issuance of purchase orders in a timely manner; and submitting claims for the reimbursements of value-added tax paid.

9. In total, four high priority and nine medium priority recommendations are provided in the audit report to help management address the issues identified.

Management response

10. Management of the UNFPA Bosnia and Herzegovina Country Office agrees to the audit findings and observations and has developed 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 Eastern Europe and Central Asia Regional Office and of the different Headquarter units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2012 to 30 June 2013. Expenditures related to programme delivery and operations activities executed in 2011 and in the third quarter of 2013 were covered by the audit, as appropriate.
2. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes implemented for UNFPA's operations in Bosnia and Herzegovina.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The conformity of expenditures with the purposes for which funds were appropriated;
 - b) The safeguarding of assets entrusted to the Office;
 - c) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
 - d) 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 staff, starting on 8 July 2013; a field audit mission took place from 19 to 30 August 2013. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 30 August 2013. Comments and clarifications provided by management subsequent to the exit meeting were reflected in a draft report submitted to the Office's management on 6 December 2013, and a final management response received on 16 December 2013.

II. BACKGROUND

6. Bosnia and Herzegovina is an upper middle income country, with an average per-capita gross domestic product of USD 4,650 in 2012². The State of Bosnia and Herzegovina, in its current structure defined by the 1995 Dayton Peace Agreement, has limited central power, with most government functions delegated to two entities: the Republika Srpska and the Federation of Bosnia and Herzegovina. Brčko District is a third administrative unit, which is under international administration³. The population was estimated at 3.9 million in 2013, with a population growth rate of minus one per cent. Urban population represents approximately 49 per cent of the total. More than one quarter of the population is over 55 years of age, and the fertility rate is low, at 1.25 children born per woman. The maternal mortality ratio stood at 8 deaths per 100,000 live births in 2010 (compared to 10 deaths per 100,000 live births in 2000)⁴. Contraceptive prevalence rate stands at 36 per cent, well below the regional average of 71 per cent⁵. Gender-based discrimination is present in Bosnian society. Three issues are of particular concern: (a) unequal representation of women in political processes; (b) access to employment; and (c) gender-based violence⁶.

7. Bosnia and Herzegovina is currently in its first Country Programme 2010-2014, approved by the Executive Board in July 2009 with a resource allocation of USD 6.9 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 1.4 million, executed by UNFPA (USD 1.1 million)⁷ and by five implementing partners (IP - USD 0.3 million)⁷, and funded from core resources of USD 0.8 million and non-core resources of USD 0.6 million. Approximately 53 per cent of the expenditures incurred corresponded to the Gender component, which focused on gender equality issues, gender based violence (GBV) and conflict related sexual violence. The Population and Development (P&D) component accounted for 13 per cent of the expenditures incurred and focused on supporting statistical institutions for census preparation and the establishment of a modern statistical system. The Sexual and Reproductive Health (SRH) component accounted for seven per cent of expenditures with a focus on strengthening national capacity in the areas of family planning services, adolescent sexual and reproductive health services, and cervical cancer prevention. Management, and programme coordination and assistance costs accounted for the remaining 27 per cent of expenditures.

8. The Office is located in the city of Sarajevo. During the period under review, the Office was managed by a Country Director based in Ukraine and, as from November 2012, by a Chief of Operations, based in Sarajevo. Both of them were supported by an Assistant Representative who has been on special leave from August 2013 to date. As from 1 January 2014, the Chief of Operations will become the Country Representative.

² Information obtained from the World Bank (data.worldbank.org).

³ Information obtained from the country programme document for Bosnia and Herzegovina 2010-14.

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

⁵ Information obtained from the World Health Organization (www.who.int).

⁶ Information obtained from the country programme document for Bosnia and Herzegovina 2010-14.

⁷ Source: COGNOS project monitoring reports for the period under review.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

9. In 2013 the Office introduced the practice of holding regular staff meetings in order to (i) report on programmatic progress; (ii) discuss programmatic and operational achievements, challenges and issues; (iii) define action plans; and (iv) monitor and follow-up on the implementation of action plans. Nine meetings were organized in the first seven months of 2013 with a high level of staff participation.

A.1 – OFFICE MANAGEMENT

PARTIALLY SATISFACTORY

10. The audit work performed in this area included a review of the Office Management Plans (OMPs) for 2012 and 2013; the 2012 Country Office Annual Report; the channels of communication to staff; and the processes for planning and overseeing programme and operations delivery. No reportable issues were identified in this area except for the following.

Country Office Annual Reports must accurately reflect programme implementation results

11. The 2012 Country Office Annual Report presented an achievement rate of 75 to 99 per cent for programme outputs. The Office indicated that the measurement of results achieved was developed at staff meetings where the overall progress of the various programme activities was assessed. However, this assessment was not documented. An analysis performed by management during the audit showed that approximately 56 per cent of the outputs were actually achieved. The lower performance was particularly evident in the area of Reproductive Health (RH), in which six out of nine output targets were not achieved, which was attributed by the Office management to a combination of factors, including overly ambitious and non-easily measurable targets.

IMPACT *Inaccurate information on results achieved may lead to erroneous decisions.*

ROOT CAUSE *Guidelines (inadequate Office procedures).*

CATEGORY *Reporting.*

RECOMMENDATION 1

PRIORITY: MEDIUM

Assess and report on the achievement of country programme outputs, using objective and reliable data derived from each output's standard progress report and other relevant evidence sources.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2014*

The 2013 Country Office Annual Report was drafted with full consideration of objective assessment of achievements, as planned in the aligned 2013 annual work plans and assessed in the Standard Project Report for each work plan.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING**PARTIALLY SATISFACTORY**

12. Audit work performed in this area included a review of the adequacy of the Office's organizational structure and staffing and their alignment to the needs of the country programme.

13. At the time of the audit field visit, the Office had ten filled staff positions, including four fixed term, one permanent staff position, and five Service Contract (SC) holders. Two positions, the GBV Project Officer and the newly created RH Programme Analyst (see paragraph 15 below), were vacant, and the Assistant Representative was on special leave without pay. The Chief of Operations, based in Sarajevo, joined the Office in November 2012, replacing the previous Country Director based in Ukraine. This has allowed a closer oversight of the day-to-day operations of the Office. The impact of the Assistant Representative's absence has so far been mitigated with the support of the Regional Office (RO), including temporary staff assignments, and a heavier involvement of the Chief of Operations in the day-to-day operations.

14. No reportable issues were identified based on the audit work performed in this area with the exception of the one highlighted below.

Organizational structure and staffing should be reviewed and aligned to the needs of the Office programme and its operations

15. No formal assessment of the adequacy of the Office's organizational structure and staffing was performed either in 2010, at the beginning of the current country programme, or when the Office started to realign the focus of its programme to RH as from 2013. The audit observed an imbalanced ratio (2:8) between technical and project support staff positions, and noticed that programme assistants performed several activities that would normally be assigned to programme officers, such as project and IP management. The Office indicated that an assessment of staffing needs was carried out at the beginning of 2013, as the office went through the process of realigning its country programme to the Mid-Term Review of the UNFPA Strategic Plan. The key gap identified through this assessment was the lack of expertise in the area of SRH, which led to the decision, in agreement with the RO, to create a RH Programme Analyst position to be recruited nationally under the SC modality. This position had not been filled at the time of the audit field mission, due to lack of suitable candidates.

IMPACT	<i>Insufficient staff capacities vis-à-vis the requirements of the country programme.</i>
ROOT CAUSE	<i>Guidelines (inadequate planning).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 2**PRIORITY: MEDIUM**

Compare the Office's organizational structure and staffing arrangements to the requirements of the country programme expected focus; and timely implement the necessary alignment corrections, including a prompt filling of the vacant RH and GBV positions, the creation of new posts and/or modification of existing ones, as required; and staff training .

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2014*

The office structure is still in transition, as the shift towards an increased focus on SRH and alignment with the Strategic Plan only started in 2013. Initial efforts have been made to strengthen the SRH programme component with professional personnel. The updated office structure in line with the office functioning and programme needs will be submitted for approval to the Regional Office and the Division for Human Resources and will be followed with recruitment of professional personnel for the substantial programming areas. In addition, the staffing will be reassessed after the ending of the Assistant Representative leave.

Once the new Country Programme 2015-2019 is approved in June 2014, the office structure will be reassessed and approved for the new programming cycle.

A.3 – RISK MANAGEMENT**SATISFACTORY**

16. Audit work performed in this area included a review of the Office's fraud and operational risk assessments completed in 2012 and 2013 and the process followed in 2013 to identify and assess risks and develop relevant mitigating actions. The audit noted that the 2013 risk assessment was developed using a consultative approach involving the Office's staff, that relevant risks were identified and assessed based on impact and likelihood, and that adequate risk mitigation action plans were developed. No reportable issues were identified based on the audit work performed in this area.

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

17. The audit noted that annual work plans (AWPs) were timely prepared and approved. The AWP preparation process is 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 for a timely start of implementation activities.

B.1 – PROGRAMME PLANNING, IMPLEMENTATION & MONITORING**UNSATISFACTORY**

18. During the period under review, the Office implemented activities relating to four outputs at a total cost of USD 1.1 million, inclusive of PCA costs, with an implementation rate of 74 per cent in 2012 (89 per cent for core resources and 61 per cent for non-core resources), and of approximately 58 per cent in the first half of 2013 (54 per cent for core resources and 67 per cent for non-core resources).⁸ The most significant expenditures corresponded to the Gender related outputs (USD 749,000 or 54 per cent of the expenditures incurred in the period under review).

19. Work performed in this area included a review of AWPs and of the process followed to prepare and approve them, of monitoring reports and of other evidence of programme planning, implementation and monitoring activities for three projects with aggregated expenditures of USD 575,000. The following reportable issues were identified based on the audit procedure performed.

The Programme implemented by the Office should be better aligned with the Country Programme approved by the Executive Board

20. The audit noted a different level of interventions, between the actual programme implemented by the Office over the period 1 January 2010 to 30 June 2013, and the proposed focus of the Country Programme 2010-2014 approved by the Executive Board in July 2009, as well as the country programme action plan signed by the Council of Ministers of Bosnia and Herzegovina in July 2010. The table next page presents salient figures.

⁸ Information obtained from the COGNOS project monitoring report as at 23 August 2013.

**Table 1 - Comparison of actual vs. proposed focus of the programme implemented by the Office
(Millions of US Dollars)**

Area	Expenditures 2010-13 ⁹		Country Programme 2010-14 indicative amounts	
	Amount	%	Amount	%
RH	0,4	12	3.7	54
P&D	0,6	21	1.9	28
Gender	1.8	60	1.0	14
PCA	0.2	7	0.3	4
Total	3,0	100	6.9	100

21. As shown in Table 1 above, only 12 per cent of expenditures incurred in the period 1 January 2010 to 30 June 2013 corresponded to the RH area, compared to a proposed allocation of 54 per cent. According to Management, this significant variation was caused by inaccurate estimates made during the country programme development and by difficulties in mobilizing resources for RH activities.

22. In 2013, Management started realigning the country programme based on the priorities defined in the 2011 Mid-Term Review of the UNFPA Strategic Plan. Management indicated that, as a result of the realignment exercise, a stronger focus would be placed on RH and that efforts would be continued in order to secure resources and staff with appropriate expertise in that area. The effects of the alignment will be reflected primarily in the next country programme cycle 2015-2019.

IMPACT *The programme may not address the critical needs of the host country.*

ROOT CAUSE *Guidelines (inadequate planning).*

CATEGORY *Strategic.*

RECOMMENDATION 3

PRIORITY: HIGH

Develop an evidence-based country programme for the period 2015-2019, based on a robust and well documented situation assessment, and aligned with the needs of the host country and the UNFPA Strategic Plan 2014-2017.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2014*

The 2014 annual work plans are aligned with the 2014-2017 Strategic Plan and efforts are made to secure proportional and adequate funding for all the programming areas. The new Country Programme 2015-2019 to be approved by the Executive Board in June 2014 is being designed in full alignment with the Strategic Plan, the national and regional priorities for the post 2015 Development Agenda and the UNFPA strategy for Middle Income Countries. Efforts will be made to secure adequate funding for the programming areas.

The planning and management of programme activities should be strengthened

23. The Office was unable to complete the procurement, initially planned for 2012, of a migration statistics application, together with the related hardware, at an estimated cost of USD 111,000 funded from non-core resources. The situation resulted in a low project implementation rate of 34 per cent, and contributed to the low overall implementation rate of 74 per cent reached by the Office in 2012. The audit however noted that

⁹ Expenditures recorded from 1 January 2010 to 30 June 2013.

the issues that prevented implementation in 2012 were not escalated to the local Project Steering Committee for decision and remediation.

24. The hardware was eventually procured in 2013 at a cost of USD 60,000. The procurement of the software piece was not completed as the beneficiary entities rejected the proposed solutions on the ground that these did not address their core requirements. From the review of the documentation provided, the audit noted that insufficient time had been allocated to the development of technical specifications aligned to the beneficiary entities' requirements, a situation that was later identified as the root cause for rejection of the offers received. As a result, unspent funds amounting to approximately USD 58,000 will have to be refunded to the donor.

IMPACT *Inability to achieve programme results.*

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

CATEGORY *Operational.*

RECOMMENDATION 4

PRIORITY: HIGH

Enhance planning and management of project activities by (i) assessing challenges and events that could delay or prevent implementation; (ii) defining the steps required to manage the challenges identified; (iii) developing on time clear and quality-assured technical specifications and terms of reference for the procurement of project inputs; (iv) regularly monitoring progress of implementation of activities; and (v) promptly escalating issues to senior management and project management bodies, where appropriate.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 December 2014

Funds have been secured to finalize the software procurement and conclude the project with the planned achievements by the end of 2014. Strengthened accountability mechanisms at the office level and with partners, with clear accountability lines are in place in order to avoid the risks to the maximum possible. Considering the very complicated and fragile country administration, the office needs to remain vigilant and timely assess the risks and take adequate measures.

Linkages between programme inputs and outputs should be clearly demonstrated

25. The audit noted that the Office engaged the services of a consultant for an 11-month period (January to November 2013) at a cost of approximately USD 11,000, as part of a project that was originally set to be (and was actually) completed in a six-month period, by June 2013. The Chief of Operations waived the requirement for a competitive selection process due to the consultant's experience and previous employment by an IP engaged by the Office. No evidence was provided of the contribution made by that consultant for the five months remaining after project completion.

IMPACT *Planned activities may not be relevant to achieve the intended results.*

ROOT CAUSE *Guidelines (inadequate planning).*

CATEGORY *Operational.*

RECOMMENDATION 5

PRIORITY: MEDIUM

Implement review controls, including for consultants, to provide assurance that planned project inputs contribute to the achievement of expected project outputs.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 1 January 2014

The Terms of Reference of the consultant have been adjusted in order to maximize the contribution to project implementation; the consultancy elapsed at the end of the contract.

Adequate competitive recruitment of national consultants will be complied with onwards.

Programme monitoring activities need to be performed on a regular basis and be well documented

26. The results of monitoring activities undertaken in 2013 were not documented. According to Management, monitoring missions took place; however, since mission reports were not prepared, there was no evidence that missions indeed took place, nor of an assessment of progress made towards achieving targets. Furthermore, monitoring and evaluation (M&E) calendars were not prepared in 2012 and 2013 and, as a consequence, the audit could not verify whether monitoring activities were undertaken as initially planned.

IMPACT	<i>Insufficient management assurance as to the level of completion of programme activities and achievement of expected results.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 6**PRIORITY: MEDIUM**

Prepare, implement and track an annual M&E calendar and enhance the effectiveness of monitoring by documenting monitoring activities, tracking issues identified through resolution and assessing the progress towards achieving programme targets.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 30 June 2014

The office will develop a comprehensive M&E framework for the 2014 AWP s and a system to document the monitoring activities before March 2014. The fully developed M&E framework for the 2015-2019 Country Programme will be part of the comprehensive programming package to be adopted in June 2014.

Financial monitoring should be strengthened through budget versus actual expenditure analyses

27. The audit noted that, except for the 2012 P&D area AWP s, programme budgets were not supported by detailed calculation sheets or were prepared only for selected activities. This reduced the Office's ability to monitor, through budgetary controls, progress in the implementation of AWP activities, as well as whether expenditures incurred were in line with activities planned.

IMPACT	<i>Inability to monitor programme implementation progress through financial monitoring controls.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 7**PRIORITY: MEDIUM**

Prepare and document detailed budget calculation sheets for all AWP s and regularly perform and document budget versus actual expenditures analyses at AWP activity level.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 31 March 2014

The planning process for the aligned 2014 AWPs will be completed with detailed budget calculation sheets and documented budget versus actual expenditures analyses at AWP activity level will be performed regularly, both for the NEX and UNFPA implementation.

B.2 – NATIONAL EXECUTION**PARTIALLY SATISFACTORY**

28. In 2012, the Office engaged five IPs (three government agencies and two non-governmental organizations) for programme implementation, with reported expenditures amounting to USD 291,000 (29 per cent of programme expenditures incurred during the period under review). Expenditures incurred by the IPs in 2012 corresponded primarily to consultancies (USD 147,000 or 51 per cent of total National Execution or NEX expenditures) and daily subsistence allowance costs (DSA - USD 41,000). In 2013, the Office did not engage any IPs and directly implemented all programme activities. Management indicated that this decision was taken to allow the Office to strategically assess and determine future steps, including future partnership arrangements, in consideration of the programme realignment process.

29. Audit work performed in this area included the review of IP capacity assessment for the two NGO IPs, compliance with the Operational Fund Advance (OFA) policy and the Funding Authorization and Certificate of Expenditures (FACE) forms recording the cash advances paid to and expenses reported by the largest IP engaged by the Office in 2012, which reported programme implementation expenditures of USD 90,000 (approximately 31 per cent of total NEX expenditures in the period under review). The audit also included a site visit and the review of the 2012 NEX audit report for this IP, which had received an unqualified opinion.

Capacity assessments need to be conducted before engaging implementing partners

30. The Office could not provide any evidence that a capacity assessment had been carried out for the most significant IP; for the other one, the assessment covered only programmatic capacity and did not assess the IP's financial capacity.

IMPACT	<i>The IPs may not have the capacity to adequately perform programme activities and achieve expected results.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 8**PRIORITY: HIGH**

Undertake a detailed capacity assessment before engaging IPs, covering programmatic, operational and financial capacity.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 31 March 2014

Two IPs engaged towards the end of 2013 have been properly assessed according to the corporate guidelines and the practice will be maintained in the future.

B.3 - MANAGEMENT OF NON-CORE FUNDING**UNSATISFACTORY**

31. During the period under review, programme implementation expenditures funded from non-core resources through several Multi-Partner Trust Funds, amounted to USD 585,000, or 42 per cent of total programme expenditures. Audit work performed in this area included inquiries of Management and of staff from the Office of the UN Resident Coordinator (RC), on resource mobilization efforts. Testing was also performed for three non-core resource funds with aggregated expenditures of USD 474,000 (81 per cent of non-core funded expenditures), for compliance with reporting and expense eligibility requirements included in contribution agreements, and for accuracy of reports submitted.

32. As a result of its work, the audit identified one issue requiring immediate management attention.

A resource mobilization plan should be developed

33. The country programme 2010-2014 set a high resource mobilization target of USD 4.1 million, of which USD 2.5 million, or 61 per cent, corresponded to the RH area. Actual non-core resources mobilized at the time of the audit amounted to USD 1.4 million, or approximately one third of the programme cycle target, of which USD 1.0 million corresponded to the area of Gender (100 per cent of the target for that area) and USD 0.4 million to P&D activities (21 per cent of the target for that area).

34. The resource mobilization potential was inaccurately assessed during the development of the 2008-2013 country programme; mobilizing resources proved difficult for RH activities and eventually no funds were raised. The programme implementation focus was therefore shifted to those areas where resources were mobilized, and resulted in the misalignment compared to the programme approved by the Executive Board mentioned in paragraphs 20 to 22 of this report.

35. The audit found out that no resource mobilization plan had been prepared at the beginning of the current programme cycle, or at a later stage. The audit further noted that efforts were undertaken to mobilize non-core resources, with the assistance and support of the RO resource mobilization advisor. However, without a resource mobilization plan, it was not possible to ascertain whether these efforts were aligned with the country programme needs, and whether they took into consideration the current country context.

IMPACT	<i>Resources mobilized may be insufficient or inconsistent with the requirements of the country programme.</i>
ROOT CAUSE	<i>Guidelines (inadequate planning).</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 9**PRIORITY: HIGH**

Define, document and implement a resource mobilization plan, aligned with programmatic needs and based on a realistic assessment of the resource mobilization potential.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 30 June 2014

A resource mobilization plan for securing adequate funding for all programming areas will be developed for the 2014 programme execution, as well as for the new Country Programme 2015-2019.

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

36. The audit noted an adequate level of compliance with established policies and procedures and the constant inclusion of external (non-UNFPA) staff in recruitment panels.

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

37. Payroll expenditures incurred during the period under review amounted to USD 368,000, with SC and Special Service Agreement (SSA) costs aggregating USD 352,000 in the same period. As payroll is managed by UNDP, audit work performed in this area included an analytical review of payroll expenditures and the review for compliance with relevant policies and procedures for recruitment, contract management, renewals and payments, of a sample of seven SCs and two SSAs awarded at a cost of USD 281,000, representing 80 per cent of total non-staff costs. The audit also tested compliance with mandatory training requirements for staff members and SC holders.

38. The audit noted that the recruitment, contract management, renewals and payment of SCs and SSAs were in compliance with the applicable policies and procedures, and expenditures were properly recorded. No significant issues were identified based on the work performed in this area with the exception of the following matter.

Staff members should complete mandatory trainings and undertake recommended ones

39. The audit noted that the seven staff members and SC holders did not complete one or more of the mandatory training courses, and that personnel involved in programme activities, with the exception of the Chief of Operations, did not complete the recommended Results Based Management (RBM) basic training.

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 Office level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 10**PRIORITY: MEDIUM**

Complete any outstanding mandatory training courses for all personnel concerned and ensure that all staff involved in programme activities completes the RBM basics training.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: 31 March 2014

An analysis of mandatory training courses completion was done and the staff members were reminded of what trainings they are still pending to finish. The same analysis will be done in order to ensure that all staff members have completed the mandatory training. Further to this, the induction package for all new staff members has been revised and will contain all the mandatory trainings.

C.2 – PROCUREMENT**SATISFACTORY**

40. During the period under review, the Office procured goods and services in the amount of USD 97,000. The majority of purchases related to the procurement of printing services, publications and training materials for the Gender and P&D projects. Audit work performed included a review of a sample of nine purchases amounting to approximately USD 39,000, or 40 per cent of the population, for compliance with policies and procedures in the areas of bidding, vendor selection, contract award, payment and recording of transactions, as well as linkages to AWPs.

41. There was evidence of compliance with procurement policies and procedures. No reportable issues were identified based on the audit work performed in this area except for the following one.

Purchase orders should be raised and approved in a timely manner

42. The audit noted that five purchase orders (POs), with an aggregate amount of USD 24,000 or 62 per cent of value of the sample of nine POs tested, were generated after the corresponding vendor invoices were received. Ordering goods and services from vendors before seeking Management's authorization through PO approval increases the risk of procurement transactions misaligned with programme needs and circumventing controls. The audit verified that all purchases selected were in fact relevant and were linked to the respective AWP activities.

IMPACT *Procurement transactions may not be in line with programme needs.*

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

CATEGORY *Operational.*

RECOMMENDATION 11**PRIORITY: MEDIUM**

Create and authorize purchase orders prior to committing the procurement of goods or services from vendors.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2014*

All staff will receive training on procurement procedures and PO issuance procedure. In future, no purchases will be done without issuing a purchase order prior to ordering any goods or services. Compliance will be monitored by the Administrative / Finance Associate.

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

43. Work in this area included the review of the accuracy, authorization and proper processing of journal entries, accounts payable vouchers and accounts payable journal vouchers, as well as 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. The following two issued were identified.

Claims for valued-added tax reimbursement should be submitted regularly

44. The local rule is that VAT paid on expenditures above BAM¹⁰ 200 (approximately USD 135 at the June 2013 exchange rate) incurred for activities funded by UNFPA, and implemented either by UNFPA or IPs, are eligible for reimbursement.

¹⁰ Bosnia-Herzegovina Convertible Mark.

45. However, the Office did not claim any VAT reimbursement and did not instruct IPs to do so. VAT paid was therefore expensed through March 2013, at which time the Office started to record VAT as an expense receivable, in accordance with the guidelines provided by the Finance Branch. The Office estimated that the unclaimed reimbursable VAT paid by UNFPA from the fourth quarter of 2011 until August 2013 amounted to approximately USD 16,000, and that the reimbursable VAT paid by IPs between August 2011 and December 2012 amounted to approximately USD 6,500.

IMPACT *Loss of financial resources.*

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

CATEGORY *Operational.*

RECOMMENDATION 12

PRIORITY: MEDIUM

Implement supervisory controls to ensure that VAT reimbursement claims (including those related to VAT paid in past periods) are timely submitted by the Office and its implementing partners to the competent local authorities.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2014*

The IPs already submitted VAT return claims. Once the funds have been received, they will be refunded to UNFPA. In regard to UNFPA VAT reimbursement claims, the claims for 2011 were received and recorded as per the instructions from the Finance Branch. We are pending the reimbursement for 2012 and 2013. Future VAT claims by IPs will be done quarterly, while the UNFPA VAT claim will be done as per the schedule of the local UNDP (who is processing the VAT claims for UNFPA) – usually two to three times a year. Submissions will be monitored by the Administrative / Finance Associate.

The allocation of costs to projects should be made on a consistent basis

46. In 2012, the Office followed an inconsistent practice for the allocation of indirect costs to projects, such as rent and utilities, salaries for posts not funded through the institutional budget, and of a vehicle purchased for official use. A disproportionate portion of these costs amounting to USD 218,000 were charged to a single Gender area project, funded from core resources. As a consequence, costs allocated to several other projects, including those funded from non-core resources, were underestimated. Since the practice described above was discontinued in 2013, no recommendation is raised in this report in relation to this issue.

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

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

48. Travel expenditures incurred by the Office during the period under review amounted to USD 88,000. A significant portion (USD 49,000, or 56 per cent) corresponded to DSA payments for field and monitoring visits and attendance at training workshops and conferences. Audit work in this area included testing a sample of 12 travel-related transactions amounting to USD 28,000, for appropriateness of business purpose, proper authorization, accurate calculation and recording. No reportable issues were identified based on the work performed in this area.

49. Audit work performed on asset management included the review of the process for preparing and approving the asset certification letter and the testing of the largest asset purchase (a programme vehicle procured through UNOPS at a cost for USD 46,000, or 74 per cent of the value of fixed assets procured in the period under review of approximately USD 62,000) for compliance with the fixed asset management policy and procedures. The following issue was identified.

The Office should conduct an annual fixed assets physical count

50. The audit noted that, although the asset management policy and procedures requires it, the Office did not perform a physical count of fixed assets, in order to support the asset certification letter submitted in January 2013 to Headquarters, to confirm the accuracy of the Office asset management records and the existence of the assets reported therein.

IMPACT *Fixed asset balances may be misstated.*

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

CATEGORY *Compliance.*

RECOMMENDATION 13**PRIORITY: MEDIUM**

Perform, document and reconcile the annual fixed assets physical count, in compliance with the asset management policy and procedures.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2013*

An annual fixed assets physical count was done in October 2013, as well as the reconciliation of all assets in the system and in hand, as per the asset management policy and procedures. The office will continue performing the physical count as per the policy and procedures.

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

51. Information and Communications Technology (ICT) support is provided by UNDP. Work in this area was limited to the review of compliance with the mandatory annual certification of Atlas access rights profiles, which were reviewed and approved in a timely manner. No reportable issues were identified.

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

AWP	Annual Work Plan
BAM	Bosnia and Herzegovina Convertible Mark
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditures
GBV	Gender Based Violence
ICT	Information and Communication Technology
IP	Implementing Partner
M&E	Monitoring and Evaluation
NEX	National Execution
OFA	Operating Fund Advance
OMP	Office Management Plan
P&D	Population and Development
PO	Purchase Order
RC	Resident Coordinator
RH	Reproductive Health
SC	Service Contract
SRH	Sexual and Reproductive Health
SSA	Special Service Agreement
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