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OFFICE OF AUDIT AND INVESTIGATION SERVICES

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

**FINAL REPORT
N° PHL102**

21 May 2015

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. OBJECTIVES, SCOPE AND METHODOLOGY	4
A. OFFICE GOVERNANCE	7
<i>Good practices identified</i>	<i>7</i>
A.1 – OFFICE MANAGEMENT	7
A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING	7
<i>Implement the change management process recommendations</i>	<i>8</i>
<i>Complete all mandatory trainings and undertake recommended ones</i>	<i>9</i>
A.3 – RISK MANAGEMENT	9
<i>Establish a more systematic approach for implementing risk mitigation and performance improvement actions</i>	<i>9</i>
B. PROGRAMME MANAGEMENT	10
<i>Good practices identified</i>	<i>10</i>
B.1 - PROGRAMME PLANNING AND IMPLEMENTATION	11
<i>Strengthen the monitoring process</i>	<i>11</i>
<i>Institutionalize lessons learned from humanitarian response operations</i>	<i>13</i>
B.2 – NATIONAL EXECUTION	16
<i>Assess implementing partner capacity more rigorously</i>	<i>17</i>
<i>Enhance financial monitoring of implementing partners.....</i>	<i>18</i>
B.3 – INVENTORY MANAGEMENT	20
<i>Enhance inventory receiving and distribution controls and documentation</i>	<i>20</i>
<i>Maintain accurate and complete inventory data</i>	<i>21</i>
B.4 – MANAGEMENT OF NON-CORE FUNDING	22
<i>Develop a resource mobilization strategy for emergency preparedness activities</i>	<i>22</i>
C. OPERATIONS MANAGEMENT	23
C.1 - HUMAN RESOURCES MANAGEMENT	23
C.2 – PROCUREMENT	23
<i>Develop procurement plans based on a robust needs assessment process</i>	<i>24</i>
<i>Review delegation of authority arrangements</i>	<i>25</i>
<i>Strengthen the procurement practices followed by the Office</i>	<i>25</i>
<i>Vendor performance evaluation</i>	<i>27</i>
<i>Atlas receipt</i>	<i>27</i>
C.3 - FINANCIAL MANAGEMENT	29
<i>Enhance financial transaction processing and supervisory controls</i>	<i>29</i>
<i>Establish a more effective filing system</i>	<i>30</i>
C.4 - GENERAL ADMINISTRATION	31
C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY	31
C.6 – SECURITY MANAGEMENT	31
ANNEX 1	32
GLOSSARY	34

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in the Philippines (the Office). The audit covered the period from 1 January 2012 to 31 March 2014. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. The activities covered by the audit corresponded to the seventh Country Programme 2012-2016 approved by the Executive Board in its 2011 annual session, with indicative resources of USD 28.5 million. Total expenses covered by the audit amounted to USD 30.8 million, allocated to 24 projects executed by 53 implementing partners (USD 9.6 million) and by UNFPA (USD 21.3 million), funded from core resources of USD 17.4 million and non-core resources of USD 13.5 million¹. In addition, the audit covered expenses incurred subsequent to 31 March 2014 amounting to USD 0.25 million corresponding primarily to procurement of inventory and travel operations.

3. Approximately 75 per cent of the expenses related to the programme's Reproductive Health component, which focused on strengthening the capacity of health systems to deliver core reproductive health information and services, with focus in selected geographical areas that are isolated and disadvantaged and in humanitarian situations. The Gender component accounted for 8 per cent of the expenses and focused on enhancing national and local government capacity to implement, monitor and evaluate policies and plans to advocate for reproductive rights and to combat gender-based violence, as well as enhancing the capacity of civil society to advocate for reproductive rights and to combat gender-based violence and harmful practices. The Population and Development component accounted for another 11 per cent of the expenses, with a focus on strengthening the capacity of relevant government ministries to generate, analyse and disseminate data on population, sexual and reproductive health, HIV/AIDS, gender and youth, and to utilize data in national and local policymaking and development planning. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of the expenses¹.

4. During the period under review, the Office had to respond to eight different emergencies which created significant challenges and capacity constraints as regards the delivery of the seventh Country Programme activities. In particular, the Office was actively involved in the Level 3 corporate response to Typhoon Haiyan which struck the Philippines on 8 November 2013. Total expenses incurred for emergency operations amounted to approximately USD 6.0 million during the period under review.

Methodology and scope

5. 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. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

6. 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.

¹ Source: COGNOS project monitoring reports for period covered by the audit

Audit rating

7. The audit indicates that, for the period covered, the risk management performance of the Office was '**Unsatisfactory**', which means that the governance, risk management and internal controls processes were either not established or functioning well. The issues were such that the achievement of the objectives of the Office could be seriously compromised. Ratings by key audit area are summarized in the following table.

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

Key findings and recommendations

8. The audit identified a number of good practices implemented by the Office, as well as areas that require management attention, some of a strategic nature and others related to operational, compliance and reporting. Overall, the audit report includes 14 high-priority and 4 medium-priority recommendations designed to help the Office improve its programme delivery and operations. Of the 18 recommendations, 5 are of strategic nature; 8 refer to operational matters; 1 is related to reporting and another 4 to compliance matters. Three of the recommendations have been addressed to Headquarters management.

Good practices

9. The audit identified several good practices implemented by the Office, including (i) clear office management plans aligned to individual performance plans; (ii) efforts to improve performance through lessons learned and operational reviews; (iii) development of tools to standardize and streamline management practices; and (iv) on-going efforts to rationalize and focus the programme.

10. Of particular relevance, the Office introduced the use of implementing partner consortia, i.e., the grouping of implementing partners by thematic area, under the coordination of a lead partner. While assessing the effectiveness of this implementing partner engagement modality will require a longer timeframe, this modality, if properly managed, could significantly help the Office reduce programmatic and operational complexity and enhance its ability to deliver expected programme results. As such, Headquarters management should carefully assess and support this initiative, in order to determine the policy requirements necessary to make this practice successful and allow its replication to other Offices.

Strategic

11. At the strategic level, the proposal submitted to Headquarters to align the Office's organizational structure and personnel capacity to programme delivery needs should be promptly approved and implemented. In addition, the Office should enhance its practices to prioritize and track risk remediation and performance improvement actions.

12. From a programmatic perspective, there is a need to provide a corporate level response to the challenges that have affected the delivery of humanitarian response activities in recent years (including the Office's response to Typhoon Haiyan). This should build upon the initiatives undertaken since 2012 by the Humanitarian and Fragile Countries Branch, leveraging the lessons learned reviews completed in recent years as well as the outcome of the humanitarian response consultation conducted in August 2014. In addition, the Office has to develop a needs-based strategy for mobilizing the resources required for emergency preparedness activities.

Operational

13. The Office should enhance its monitoring activities, including implementing partner financial monitoring which did not operate effectively in the period under review. Implementing partner capacity should be assessed and properly considered in determining the most appropriate cash transfer modalities as well as monitoring extent and frequency. The Office should also significantly enhance its inventory management process.

14. At corporate level, Headquarters management should take steps to increase the scope of national execution audits for countries impacted by significant financial monitoring gaps, like the Philippines.

Compliance

15. The Office should improve its procurement capacity, implement supervisory controls to enforce compliance with procurement procedures as well as ensure the achievement of the UNFPA procurement principles of value-for-money, integrity and effective competition. A more effective filing system should also be implemented to allow the safeguarding and easy retrieval of relevant documents and records.

Reporting

16. There is a need to enhance financial transactions processing and supervisory controls, including those required to ensure that goods and services have been received before effecting payment, all approvals required have been obtained and financial transactions are correctly recorded, using the appropriate project and account codes.

Management response

17. The Country Office Team would like to thank the OASIS Team for their audit work. We recognize and agree with most of the findings and recommendations found in the report. The Office wishes to note that the audit covered a period during which the Office was responding to eight different emergencies, including the Level 3 response to typhoon Haiyan. The Office's structure and resourcing arrangements were not adequately set up to respond to such a scale-up, and this had directly contributed to many of the challenges and capacity constraints, including those related to the delivery and monitoring of the regular programme activities under the seventh Country Programme, identified in this report.

18. The OASIS team would like to thank the Management and staff of the Office and of the Asia and the Pacific Regional 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 2012 to 31 March 2014. Programme delivery and operational activities pertaining to other periods 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 the UNFPA operations in the Philippines.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of the Office's operations;
 - b) The conformity of expenses with the purposes for which funds were appropriated;
 - c) The safeguarding of assets entrusted to the Office;
 - d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
 - e) The reliability of the Office's financial and operational reporting.
4. The scope of the audit included the review of the Office 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 OASIS audit specialists supported by staff from an external audit firm during the field audit mission, which took place from 16 June to 9 July 2014. Preliminary audit findings and recommendations were discussed with the Office's Management at exit meetings held on 9 and 11 July 2014. Additional follow-up audit work on some significant transactions executed by the Office took place through 7 November 2014. The outcome of this work, as well as comments and clarifications provided by Management after the completion of field work were reflected in a draft report submitted to the Office's Management on 9 March 2015, and a final Management response received on 14 May 2015.

II. BACKGROUND

6. The Philippines is the twelfth most populous country in the world. With over 7,000 islands and 160 ethnic groups and an annual growth rate estimated at 2 per cent, its population is estimated to reach 100 million in 2015. Adolescents and youth aged 10-24 account for 30 per cent of the total population. Approximately 26 per cent of the population lives below the poverty line, and there are wide income disparities among regions².

7. The total fertility rate declined from 4.1 children per woman in 1993 to 3.2 children per woman in 2008. Modern contraceptive prevalence rate stands at 34 per cent among married women of reproductive age, but is only 22 per cent among all women of reproductive age. Skilled attendants are present at 62 per cent of births. The adolescent fertility rate stands at 44 births per 1,000 women aged 15-19, and is especially high among the poor. Young people accounted for half of all reported sexually transmitted infections and a third of new HIV cases in 2010². The maternal mortality ratio has remained virtually unchanged in comparison to the year 2000, at approximately 120 maternal deaths per 100,000 live births in 2013³.

8. The activities covered by the audit corresponded to the seventh Country Programme 2012-2016, approved by the Executive Board in its 2011 annual session, with indicative resources of USD 28.5 million. In recognition of the Philippines's status as an emerging middle-income country, the seventh Country Programme focuses on upstream policy engagement and catalytic support in selected geographic areas, strengthening institutions and systems and leveraging partnerships, with the goal of enabling national systems and partners to deliver quality services.

9. Total expenses covered by the audit amounted to USD 30.8 million, allocated to 24 projects executed by 53 implementing partners (USD 9.5 million) and by UNFPA (USD 21.3 million), funded from core resources of USD 17.4 million and non-core resources of USD 13.5 million⁴. In addition, the audit covered expenses incurred subsequent to 31 March 2014 amounting to USD 0.25 million, corresponding primarily to procurement of inventory and travel operations.

10. Approximately 75 per cent of the expenses related to the programme's Reproductive Health component which focused on strengthening the capacity of health systems to deliver core reproductive health information and services, particularly in selected geographical areas that are isolated and disadvantaged and in humanitarian situations. The Gender component accounted for 8 per cent of the expenses and focused on enhancing national and local government capacity to implement, monitor and evaluate policies and plans to advocate for reproductive rights and to combat gender-based violence, as well as enhancing the capacity of civil society to advocate for reproductive rights and to combat gender-based violence and harmful practices. The Population and Development component accounted for another 11 per cent of expenses, with a focus on strengthening the capacity of relevant government ministries to generate, analyse and disseminate data on population, sexual and reproductive health, HIV/AIDS, gender and youth, and to utilize data in national and local policymaking and development planning. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of the expenses¹.

² Country Programme document 2012 – 2016, UNFPA Philippines, May 2011

³ Trends in Maternal Mortality: 1990 to 2013 – Estimates by WHO, UNICEF, UNFPA, The World Bank and the United Nations Population Division (2014)

⁴ Source: COGNOS project monitoring reports for the period covered by the audit

11. During the period under review, the Office participated in the response to eight different emergencies, originating from natural disasters and armed conflicts, incurring related expenses in excess of USD 6.0 million, or 18 per cent of total expenses. In particular, the Office was actively involved in the Level 35 corporate response to Typhoon Haiyan which impacted the Philippines on 8 November 2013. Typhoon Haiyan was the strongest typhoon on record to ever hit landfall anywhere. The typhoon devastated 36 provinces, affecting over 16 million people, among them 3.75 million women and girls of reproductive age⁶. In collaboration with governmental and humanitarian partners, the Office took the lead in developing a master plan aimed at responding to reproductive health needs as well as preventing and managing gender-based violence; it also supported the delivery of services to a large number of beneficiaries in 26 priority areas in the affected provinces.

12. The main UNFPA office in the Philippines is located in the city of Manila. UNFPA staff was also located at sub-offices, humanitarian hubs and project offices operating at government facilities at the priority provinces supported by the programme. During the period under review, the Office was managed by a Representative, until her rotation to a Headquarters position in September 2013, an Officer-in-Charge, in the period between October and December 2013, and a new Representative, as from January 2014. They were assisted by two Assistant Representatives, a national operations manager (recruited in September 2013) and four national programme officers.

⁵ Based on the model adopted by UNFPA to classify emergency response interventions - a level three response drives the mobilization of UNFPA global response capabilities to support the affected country

⁶ Source: Protecting women and girls in the aftermath of typhoon Haiyan – A Call For Action – UNFPA, December 2013

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

13. The audit identified the following good practices in the area of Office governance, which were in line with established policies and procedures:

- a) Office management plan outputs, indicators and activities and staff and partner responsibilities were clearly defined;
- b) Continuous coordination and monitoring mechanisms for the follow-up of Office activities were in place through regular staff meetings; and
- c) Individual performance plans were aligned to office management plan priorities.

A.1 – OFFICE MANAGEMENT

SATISFACTORY

14. Audit procedures performed in this area included the review of (i) the Office's planning process; (ii) the relevance and level of implementation of the 2013 office management plan; (iii) the alignment of the performance plans of key personnel to the Office's priorities; (iv) the effectiveness of management's oversight of programme delivery and operational activities; (v) the accuracy of the Office's 2013 annual report; (vi) minutes of management and programme and operations staff meetings; and (vii) the level of familiarization of the Office's personnel with UNFPA's policies and procedures.

15. No reportable issues were identified based on the audit work performed in this area.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING

PARTIALLY SATISFACTORY

16. The main UNFPA office in Philippines is located in the city of Manila. During the period under review, programme delivery was supported through a network of over eight field offices, including sub-offices, humanitarian hubs and project offices operating from government facilities at the priority provinces supported by the programme. Based on interviews with the Office management and the heads of the sub-offices, the audit noted that there was a clear understanding of the sub-offices' roles and responsibilities, although no written terms of reference had been developed at the time of the field audit mission.

17. At the time of the field audit mission, the Office had a total of 69 posts, including 2 international posts (Representative and Humanitarian Coordinator), 18 national posts, 11 temporary appointments, 34 posts covered by contract personnel and another 4 covered by trainees and United Nations volunteers. Following the rotation of the then Representative to a Headquarters position in September 2013, the Office was managed by an Officer-in-Charge until the arrival of the new Representative in January 2014.

18. Audit work performed in this area included a review of (i) the alignment of the organizational structure and staffing arrangements in place with the requirements for the delivery of the Office's development and humanitarian response activities; (ii) the effectiveness of the performance assessment process; and (iii) the relevance and sufficiency of staff development activities conducted during the period under review.

19. Based on the audit work performed in this area, the audit noted two matters that require management attention.

Implement the change management process recommendations

20. As explained in the Background section, during the period covered by the audit the Office had to respond to several humanitarian emergencies, which created significant capacity constraints and challenges over the Office’s ability to deliver its seventh Country Programme activities.

21. The challenges were compounded by the Typhoon Haiyan response, which demanded significant efforts from the Office as from November 2013. Staff responsibilities had to be reassigned and tasks reprioritized. Existing personnel, hired for the development programme or for other emergency response activities, had to be redirected on multiple interim assignments, increasing operational complexity and workload, as the Office’s organizational structure and personnel arrangements were no longer adequate to support in an effective and sustainable manner both development and emergency response activities, and the related operational needs.

22. Cognizant of the problems outlined above, in January 2014, the Office commissioned a change management review to (i) examine its organisational structure and personnel arrangements, and identify opportunities to enhance its capacity to address the operational and programmatic needs arising from staggered emergencies, and (ii) explore new ways of engagement and implementation for the delivery of the seventh Country Programme.

23. The change management review developed several recommendations to address the problems that have impacted the Office’s programme delivery and performance, including proposals for (a) restructuring and re-profiling roles and functions, to allow better integration across thematic areas and operations and the national, field and humanitarian clusters/hubs of the programme; (b) establishing a cluster to manage humanitarian preparedness and response activities; and (c) developing a capacity building program in key business areas.

24. The audit is of the view that the successful implementation of the change management recommendations could significantly strengthen the Office capacity to deliver its development and humanitarian response activities. The proposals were under review at Headquarters at the time of the field audit mission. The Office has taken proactive steps and is determined to promptly implement the proposed recommendations once approval is obtained.

IMPACT	<i>The Office’s organizational structure and personnel may not be aligned with programme delivery needs.</i>
ROOT CAUSE	<i>Guidance - inadequate guidance at Headquarters and Regional Office level.</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 1 **PRIORITY: HIGH**

Promptly approve and implement the recommendations arising from the change management process to ensure that the Office’s organizational structure and personnel are aligned with the seventh Country Programme and emergency response delivery needs.

RESPONSIBLE MANAGER: *Representative and Director, Division for Human Resources* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Not provided*

The Office will complete the implementation of the recommendations nine months after the approval of the proposal by Headquarters.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The Division for Human Resources did not provide a timeline for this recommendation, without which it is not possible to establish an implementation deadline.*

Complete all mandatory trainings and undertake recommended ones

25. The audit noted that the 12 staff members and 3 contract personnel selected for review had not completed required mandatory training courses, including those related to ethics, integrity and anti-fraud; harassment, sexual harassment and abuse of authority in the workplace; Internal Control Framework certification; and Procurement Level I. Further, 13 staff members and contract personnel involved in programme planning and implementation activities had not completed the recommended results-based management training.

IMPACT *Internal capability may not be sufficiently developed, affecting the quality and results of programme delivery and operations.*

ROOT CAUSE *Guidance - inadequate supervision at Office level.*

CATEGORY *Compliance.*

RECOMMENDATION 2

PRIORITY: MEDIUM

Complete any outstanding mandatory courses for all personnel concerned and promote the completion by programme staff of the recommended results based management training.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 September 2015*

The Office will establish a manual monitoring system for mandatory courses by the end of May 2015 and undertake monthly review to report on the completion of the mandatory courses through the Human Resources unit of the Office starting June 2015 and on who completed and who has still pending courses to be taken. Full compliance is planned by 30 September 2015. The Office will send out a message to all staff encouraging them to take the recommended Results-Based-Management courses.

A.3 – RISK MANAGEMENT

PARTIALLY SATISFACTORY

26. Audit work performed in this area consisted of the review of both the last fraud and operational risk assessment and the process followed by the Office to identify and mitigate risks, as well as the review of the reports on lessons learned and operational reviews conducted during the period under review. Work performed also included the follow-up on the status of implementation of recommendations raised by the sixth Country Programme evaluation completed in 2011.

27. Based on the audit work performed in this area, the audit identified the following issue that needs management attention.

Establish a more systematic approach for implementing risk mitigation and performance improvement actions

28. The last fraud and operational risk assessment available at the time of the field audit mission was completed in January 2013. Management indicated that it was not possible to update the assessment in the first part of 2014 due to the need to devote significant management attention to the Typhoon Haiyan response, a situation which the audit acknowledges.

29. The audit noted that during the period under review, the Office carried out several internal and external assessments to identify programme and operations improvement opportunities. The assessments allowed the Office to identify risks as well as performance improvements, and to initiate a performance improvement program to address them.

30. The audit noted, however, that there was no systematic process in place to prioritize actions designed to address the assessments' findings and monitor implementation progress, and that tracking issues and actions was carried out on an ad-hoc basis. As a result, a number of remedial actions remained unimplemented, or showed limited progress at the time of the field audit mission. In addition, based on the testing performed for the different in-scope areas and processes, the audit noted that several assessments' recommendations had been reported as "implemented" even though new control processes were not properly implemented and institutionalized in a sustainable manner in the work practices of the Office.

IMPACT *Management may not be able to mitigate risks or improve performance, threatening the achievement of its objectives.*

ROOT CAUSE *Guidance - Inadequate supervision at Office level.*

CATEGORY *Strategic.*

RECOMMENDATION 3 **PRIORITY: HIGH**

Implement mechanisms to prioritize actions designed to address risks and improvement opportunities identified through the risk assessment process and other internal and external assessments undertaken by the Office, and track progress with clearly defined target dates and responsibilities for implementation and validation.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 September 2015*

The Office will review the recommendations of missions that took place in 2013, 2014, and 2015 and prepare a prioritized action plan by the end of June 2015. Implementation period is expected to be at least six months.

B. PROGRAMME MANAGEMENT

UNSATISFACTORY

Good practices identified

31. The audit noted the following good practices adopted by the Office in the area of programme management, all of which could be considered for replication by other offices:

- a) The Office completed and documented lessons learned reviews for humanitarian response interventions and developed template and tools to enhance emergency preparedness arrangements;
- b) The Office developed several tools to standardise and streamline management practices, such as a flowchart of the workplan development process and checklists for the review of workplans and quarterly progress reports. The Office also mapped key business processes to identify areas for improvement;
- c) The Office introduced the use of the IP "consortium" modality, under which IPs are grouped by thematic area, under the coordination of a lead IP, to reduce programmatic and operational capacity and enhance the Office ability to deliver results. This implementing partner engagement modality should be carefully assessed and supported by Headquarters Management to determine the policy requirements necessary to make this practice successful and allow its replication to other Offices; and

- d) The Office has proactively worked to rationalize its activities and focus programme delivery, reducing the number of IPs and workplans used to manage implementation and the number of indicators used to measure progress towards expected results. The audit noted on-going efforts at the time of the field audit mission to help the Office achieve its programme objectives more effectively and efficiently.

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

32. During the period under review, the Office implemented activities related to six outputs of its seventh Country Programme at a total cost of USD 29.6 million, inclusive of programme coordination and assistance costs, with an overall financial implementation rate of 72 per cent in 2012 and 75 per cent in 2013 (measured based on budgets allocated in Atlas). The implementation was managed through 25 different workplans.

33. The Office programme activities focused on 10 priority provinces. Activities were implemented directly by UNFPA, with related expenses of USD 20.0 million (68 per cent of programme implementation expenses) and a financial implementation rate of 74 per cent in 2012 and 77 per cent in 2013, and by 53 IPs, with related expenses of USD 9.6 million (32 per cent of total programme implementation expenses) and a financial implementation rate of 68 per cent in 2012 and 70 per cent in 2013. A large component of UNFPA's implemented activities corresponded to the procurement of reproductive health commodities and programme equipment at a cost of USD 10.4 million (refer to Section B.3 of the report for details).

34. Regular programme implementation was impacted by significant humanitarian response efforts. The Office participated in the response to eight different emergencies, originating from natural disasters and armed conflicts, incurring related expenses in excess of USD 6.0 million, or 18 per cent of total expenses. In particular, the Office was actively involved in the Level 3⁷ corporate response to Typhoon Haiyan.

35. Audit work performed in this area focused on five projects implemented with aggregated expenses of USD 27 million during the period under review (92 per cent of programme implementation expenses) and included (i) the review of a sample of three large workplans related to the projects selected; (ii) the assessment of the process followed to prepare, cost and approve the workplans and monitor their implementation; (iii) the review of standard progress reports, workplan progress reports, monitoring reports and other evidence of programme implementation, including site visits to five partners involved in the implementation of project activities in Tacloban, Eastern Samar and Sarangani; and (iv) the review of the process followed for developing and quality-assuring emergency response workplans and reporting the activities implemented by the Office to respond to humanitarian needs. Work performed also included the review of the process followed for developing and approving 2014 workplans reflecting an aggregated budget of USD 6.9 million, as well as the response activities to typhoon Haiyan implemented up to the date of the audit field mission, with related expenses of USD 5.1 million in 2014.

36. Based on the audit work performed in this area, the audit identified the following issues that need management attention.

Strengthen the monitoring process

37. The audit review of project implementation and monitoring activities, including visits to three project sites, revealed several areas for improvement in the monitoring process.

⁷ Based on the model adopted by UNFPA to classify emergency response interventions - a level three response drives the mobilization of UNFPA global response capabilities to support the affected country

Monitoring strategy

38. While the Office made efforts to streamline its indicator portfolio, it did not develop a clear strategy for collecting monitoring data for analysis and reporting purposes. At the time of the field audit mission data was collected for over 1,100 performance indicators for development activities in the 10 provinces supported (i.e. 110 indicators per province) and an additional 300 indicators for humanitarian response operations (covering six sites where emergency response activities were delivered) through workplan monitoring reports. The monitoring coverage, in terms of project locations and data, is too broad to allow the Office to sustain it and effectively measure progress in the implementation of UNFPA-funded interventions.

Nature of monitoring activities

39. The audit noted that more than 60 per cent of the monitoring activities consisted of meetings and coordination activities for the humanitarian programme, with limited substantive monitoring activities to assess the level and quality of programme implementation.

Planning and reporting of monitoring activities

40. A monitoring calendar was not maintained to keep track of planned and actual monitoring activities. Further, the monitoring and evaluation database maintained was incomplete and did not reflect monitoring data collected for 4 out of the 10 provinces supported.

Monitoring tools

41. The Office did not utilize monitoring checklists to guide and standardize data collection and monitoring procedures, systematically and consistently determine progress towards stated objectives, and identify issues for corrective action.

Reporting by IPs

42. There was limited validation of the reliability and integrity of reporting by IPs. The audit observed instances of inaccurate reporting of project expenses by IPs (elaborated in section B.2 later). In addition, based on the analysis of available information, the audit noted inconsistencies between the financial (i.e., budget utilization) and physical (i.e., completion of workplan activities) implementation reported by 10 provincial government IPs, as summarized in Table 1 below.

Table 1 - Performance reporting by priority provinces

Amounts in millions of United States dollars

Area	2012		Implementation		2013		Implementation	
	Expenses Budget	Actual ⁸	Financial execution ⁹	Physical execution	Expenses Budget	Actual ⁷	Financial execution ⁸	Physical execution
Total - all provinces supported	22.0	18.0	78 %	82 %	16.0	9.6	58%	78%
Albay	2.6	2.5	98 %	94 %	1.0	0.5	48%	95 %
Camarines Norte	4.1	4.0	98 %	91 %	1.6	0.8	51 %	87 %
Compostela Valley	1.0	0.8	82 %	33 %	1.5	1.1	75 %	68 %
Masbate	1.0	-	0	98 %	-	-	-	-
Sarangani	2.6	1.0	42 %	67 %	0.6	0.2	40 %	69 %

⁸ Includes actual expenses incurred as of the end of the year plus outstanding commitments

⁹ Budget implementation rate measured based on the project monitoring reports

43. For example, the Compostela Valley province reported financial utilisation of 82 per cent in 2012, but a 33 per cent execution rate of programme activities. In contrast, the Masbate province, for which the 2012 project monitoring reports showed no financial implementation, reported a 98 per cent activity execution level in that year. The Albay province, with a 4 per cent financial implementation in 2013, claimed a 95 per cent programme accomplishment level in the same year. Similar discrepancies could be noted for the other provinces. The Office explained that some the physical execution levels reported by IPs were inaccurate due to errors and misunderstanding of reporting requirement.

IMPACT	<i>The Office may not be able to effectively formulate corrective actions to address programme implementation issues and thus achieve its objectives.</i>
ROOT CAUSE	<i>Guidelines – inadequate monitoring process design. Guidelines – inadequate supervision at Office level.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 4

PRIORITY: HIGH

Enhance the monitoring process by adopting a risk-based monitoring strategy operationalized through a streamlined indicator portfolio, a clear monitoring plan with an appropriate mix of monitoring activities, and an effective use of monitoring tools and data.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 September 2015*

The Office streamlined its indicator portfolio in February 2015 as part of its strategic plan re-alignment work. For 2015, initial discussions have been held by the Senior Management Team to discuss monitoring priorities, including joint team monitoring visits across substantive work areas to identify cross-cutting issues and concerns, based on investments planned for 2015. A monitoring plan will be finalized by the end of June 2015 covering 2015. The plan will include financial monitoring spot check visits. The plan will include at least one visit in 2015 for each implementing partner covering both programme and operations. The Office’s senior staff have revisited and adopted the most recent Work Plan Monitoring Template (dated 25 February 2015), which will be used both for monitoring during field trips and for implementing partners in the Metro Manila area.

Institutionalize lessons learned from humanitarian response operations

44. The Office response to Typhoon Haiyan and other emergencies that impacted the Philippines took place under the umbrella of the UNFPA humanitarian response process and policies, which have undergone significant enhancements over the past four years. UNFPA’s Second Generation Humanitarian Response Strategy, released in January 2012, established the framework for UNFPA’s response to complex emergencies. More detailed operational guidelines are provided in the related Standard Operating Procedures and the Fast Track Procedures and Emergency Procurement Procedures, which consolidate the mechanisms designed to provide additional authority and flexibility to the management of country and regional offices to facilitate a more effective response to humanitarian crises.

45. Even within the context of an enhanced humanitarian response framework, the audit noted several matters that impacted UNFPA’s response to Typhoon Haiyan, many of them already identified in analyses of lessons learned from previous UNFPA emergency response interventions, as detailed below.

Contingency planning and preparedness

46. The Office lacked a functional emergency response preparedness plan to facilitate a more effective response to Typhoon Haiyan. Despite having to respond to multiple emergencies during the period under review, contingency planning and preparedness activities could not be completed due to the lack of human resources needed to support the project on a full-time basis. As such, a number of critical emergency response preparedness plan components, such as a surge roster, IP identification and work planning tools, the establishment of emergency hubs, emergency procurement plan and needs forecasting, were not timely developed.

Clarity of structure and communication lines

47. The roles and structures, as well as the reporting and communication lines necessary to respond to a large scale emergency were not adequately established and communicated at the onset of Typhoon Haiyan. This includes the structures for more effective coordination with internal and external stakeholders at the different phases of the emergency and appropriate governance arrangements for 'responders' (i.e. staff members involved in the response) involved in the emergency response.

48. Further, detailed workplans for operationalizing UNFPA's response to Typhoon Haiyan were not shared with field office personnel at the onset of the emergency. UNFPA responders informed the audit team that there was limited communication to inform staff on the changing organizational structures and chain of command created by staff movements at the onset of the emergency period. The Office indicated that operational plans, with clear written instructions, were only shared with field office personnel in February 2014.

Surge capacity and personnel deployment

49. The Office had surge capacity to respond to three concurrent Level 1¹⁰ emergencies (Central Mindanao, Zamboanga, Bohol), but given these ongoing responses when typhoon Haiyan struck, it was not possible to scale up to respond to this Level 3 emergency. Given this, UNFPA was only able to deploy limited surge capacity within the 48 to 72 hours after the Level 3 emergency activation, to fill the positions required for a more effective initial response to the emergency. This is a critical indicator of UNFPA's ability to operationalize its response to major emergencies.

50. In the case of Typhoon Haiyan, the first batch of responders from the corporate surge roster arrived a week after the Level 3 emergency was activated. The surge capacity and personnel recruitment process was ongoing until mid-December 2013, a month after the typhoon struck the Philippines. The Office was not able to provide clear records of the number of staff deployed and the duration of each deployment given the complexity and frequent changes in emergency operations and staff movements.

51. Personnel assigned to support the Country Programme's development activities or initially hired for other emergencies had to be redeployed to support the Typhoon Haiyan response. The efforts to re-balance the structure with appropriate replacements for personnel redeployed from other ongoing emergency operations to the Typhoon Haiyan response could not be timely completed. At the time of the field audit mission, most of the 14 redeployed personnel positions had not been covered with new personnel. It should be noted that the consultancy policy in force at the time of audit field work prevents UNFPA offices from hiring personnel for emergencies using short-term consultancies, thereby limiting the Offices' ability to fill required positions.

¹⁰ Level 1: The Country Office can respond using its own staff, funding, and supplies without additional support from regional office or headquarters. Strategic direction of the response and leadership remains the responsibility of the UNFPA Country Representative

Utilization of Central Emergency Response Fund funding

52. The Office’s overall utilization rate for the Central Emergency Response Fund¹¹ (CERF) in the period 2011- 2014, for a sample of four emergencies, including Typhoon Haiyan, averaged around 91 per cent over the funds’ six month life-cycle. The audit noted, however, that critical rapid response activities, such as the delivery of emergency supplies and kits, totalling USD 670,000 or 50 per cent of the activities funded by the CERF, were not implemented within the intended timeline. The utilisation of CERF funds based on work-plan targets averaged only 28 per cent at year-end, indicating limitations in the Office’s ability to implement timely response activities in the early phase of emergencies.

Procurement needs assessment and specification development

53. For Typhoon Haiyan, analyses were insufficiently detailed to determine emergency response procurement needs and product specifications for items not previously procured by the Country Office, as discussed in Section B.3 later. This condition was also identified in previous internal audits of other offices involved in humanitarian response activities, leading to acquisitions that did not fully meet the emergency response requirements.

Lessons learned and next steps

54. The audit noted that the challenges faced by UNFPA’s response to Typhoon Haiyan are not unique to the Philippines. A humanitarian consultation conducted in August 2014, coordinated by UNFPA’s Humanitarian and Fragile Context Branch, identified multiple valuable lessons learned and good practices related to previous humanitarian response interventions and the need to strengthen institutional mechanisms and operational tools to enhance UNFPA’s humanitarian response. Further, the Humanitarian Steering Committee, led by the Executive Director, was established to lead and strengthen humanitarian programming in UNFPA as well as to ensure that good practices and improvement opportunities identified are incorporated into the UNFPA’s emergency response framework and preparedness plans.

IMPACT	<i>The effectiveness and efficiency of humanitarian response activities may be diminished.</i>
ROOT CAUSE	<i>Guidelines - inadequate corporate processes. Guidance - Inadequate guidance at Headquarters and Country and Regional Office level.</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 5

PRIORITY: HIGH

Develop a time-bound action plan, including required resources and capacities, to provide an effective corporate response to the strategic and operational challenges that have impacted the effectiveness of humanitarian response activities. Periodically review the action plan for alignment to humanitarian response priorities and track it for completion to ensure that critical matters are resolved in a timely and sustainable manner.

RESPONSIBLE MANAGER: *Chief of Humanitarian and Fragile Context Branch (Secretary to the Humanitarian Steering Committee)*

STATUS: *Agree*

¹¹ The Central Emergency Response Fund (CERF) is a humanitarian fund established by the United Nations General Assembly in 2006 to enable more timely and reliable humanitarian assistance to those affected by natural disasters and armed conflicts

MANAGEMENT ACTION PLAN:DUE DATE: 31 March 2016

The Humanitarian and Fragile Context Branch (HFCB) concurs in general with these observations and have already taken steps to address programmatic and operational bottlenecks in UNFPA's humanitarian responses. The HFCB has been working with the Inter-divisional Working Group, under the leadership of the Humanitarian Steering Committee, to address some of the issues highlighted in this report. An action plan will be developed, which also includes a review of post 2015 humanitarian landscape and will inform identification of internal capacities and resources needed to deliver on UNFPA's mandate.

B.2 – NATIONAL EXECUTION**UNSATISFACTORY**

55. National Execution (NEX) expenses amounted to USD 9.6 million (32 per cent of programme implementation expenses) in the period under review, corresponding to activities implemented by 53 IPs (20 government entities and 33 non-governmental organizations), with a financial implementation rate of 68 per cent in 2012 and 70 per cent in 2013. By 2013 year-end, only 26 of these partners remained active, due to the Office's efforts to reduce programme complexity, including the introduction of the IP consortium modality (refer to paragraph 58 below).

56. Per the available general ledger information, NEX expenses corresponded primarily to capacity building activities such as learning and training of counterparts (USD 4.0 million) and studies and research related costs (USD 0.7 million).

57. NEX audits performed in 2014 covered 14 IPs engaged in 2013, with expenses of USD 3.1 million in 2013, while NEX audits performed in 2013 covered 22 IPs with expenses amounting to USD 3.5 million in 2012. Of the 36 NEX audits conducted, 5 received qualified audit opinions due to unsupported expenses amounting to USD 0.2 million (3 per cent of audited expenses). Operating Fund Account balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 1.0 million quarterly in 2013 and amounted to USD 0.3 million as at 31 December 2013.

58. In order to reduce administrative complexity, the Office grouped its non-governmental organization IPs into three thematic "consortia". An IP with stronger financial management capacity was appointed to act as a convener for each consortium, with accountability for (i) consolidating funding requests from the remaining consortium members, referred to by the Office as "secondary IPs"; (ii) validating and authorizing the fund requests based on the approved workplans; (iii) coordinating the disbursement of funds with the Office; and (iv) transferring the funds to the secondary IPs. In addition, the conveners were responsible for preparing and submitting consolidated expense and progress reports to the Office.

59. Audit work performed in this area included the review of (i) the IP selection and capacity assessment processes; (ii) the existence of appropriate Letters of Understanding signed with the IPs; (iii) the controls implemented for the review, authorization, and processing of fund advance requests and expense reports submitted by IPs through the use of Funding Authorization and Certificate of Expense (FACE) forms; (iv) the controls implemented over the Operating Fund Account, used to record and control the funds advanced to IPs; and (v) the process followed to monitor IP activities, for a sample of 11 IPs (5 government entities and 6 non-governmental organizations) with NEX expenses totalling USD 4.9 million (51 per cent of NEX expenses) in the period under review.

60. Audit procedures performed included site visits to eight IPs, with the objective of developing an appropriate understanding of (i) their overall control environment as pertains to UNFPA-funded programme activities; (ii) the controls over financial transactions for significant expense categories; and (iii) the process followed for the preparation and authorization of the FACE forms and work-plan progress reports submitted to UNFPA. The site visits also included the review of the safeguarding and use for intended purposes of assets provided to IPs and of evidence of implementation of selected programme activities, as well as inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication and the barriers and other factors potentially impacting the effectiveness of programme implementation.

61. Based on the work performed, the audit noted the following matters that require management attention.

Assess implementing partner capacity more rigorously

62. Financial capacity assessments were carried out for 17 of the IPs engaged by the Office for delivering its seventh Country Programme, either at the beginning of the programme cycle or throughout the period under review, using the HACT¹² micro-assessment checklist or an alternative assessment checklist developed by the Office. Assessments of the IPs' programmatic capacity were not made available to the audit for review.

63. The audit noted that the financial capacity assessments' scope and depth of analysis was not adequate, particularly for the IPs that did not undergo a HACT micro-assessment. In 2014, only 5 out of the 10 provincial governments engaged as IPs underwent HACT micro-assessments.

64. From its review of the assessment reports, the audit noted that none of the capacity areas covered were assessed as high risk in the reports despite findings such as the use of manual accounting systems; unreconciled differences between cash-book and general ledger balances; lack of or weak internal audit functions, with outstanding audit issues; and qualified financial audit opinions, just to name a few. The assessments did not cover key areas, such as procurement or the financial monitoring process to be followed by IP consortium conveyers; the reports provide limited information and supporting documentation of the IP processes and controls assessed. Further, the assessment reports did not clearly outline the rationale underlying the risk scores assigned and their implications as regards the IP management and, in particular, the frequency and scope of financial monitoring.

65. The audit also noted that documentation maintained in the Implementing Partner Information Management System (IPIMS) was incomplete.

	<i>IPs may not have the capacity required for effective programme implementation.</i>
IMPACT	<i>An insufficient understanding of the financial capacity of IPs may not allow for sound financial monitoring.</i>
ROOT CAUSE	<i>Guidance – inadequate supervision at Office level.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 6 **PRIORITY: HIGH**

Complete IP capacity assessments, or revised those completed to date, to provide an appropriate and properly documented assessment of relevant programmatic and financial capacity areas, in line with the requirements of the UNFPA Implementing Partner Capacity Assessment Tool and the HACT micro-assessment checklists.

¹² Harmonized approach to cash transfers to implementing partners

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2015*

The Office will complete IPCAT (Implementing Partner Capacity Assessment Tool) assessments for IPs that will continue to be engaged by the Office but had not previously been assessed in 2015. Priority will be given to high risk IPs (those that have received a qualified NEX audit opinion and/or will receive substantive funds from UNFPA in 2015 in excess of USD 100,000), for which the IPCAT will be completed by the end of 2015.

Enhance financial monitoring of implementing partners

66. The audit noted that during the period under review, the Office did not perform regular financial monitoring of IPs to obtain sufficient assurance that UNFPA funds were used for the purposes intended per the approved workplans. Financial monitoring activities were also not reflected in the approved monitoring plans and did not take place on a regular basis.

67. Work performed by the audit team revealed issues indicative of IP financial management capacity gaps and exceptions that the Office should have identified through regular financial monitoring, as outlined below.

IP consortia

68. The audit could not assess the sufficiency of financial monitoring of the secondary IPs involved in each consortium, performed either by the Office or by IP consortium conveyers. LOUs signed with consortium conveyers did not clearly outline their financial monitoring responsibilities. Inquiries of staff of the conveyer and of secondary IPs for one of the consortia revealed that the conveyer performed limited monitoring. The audit noted that there were issues concerning lack of supporting documentation for IPs operating in one of the consortia that led to a qualified 2014 NEX audit opinion.

Documentary support

69. Attendance lists for two training events funded by the Office were not made available for review by the audit team. The audit noted that signatures on the attendance list of an additional training session selected for review were different from those on the list used to support allowances paid to participants and that, in one case, attendance sheets for a training program on gender responsiveness conducted by a local governmental IP showed fewer participants than those computed in the bills submitted by the hotel at which the training took place. In another case, participant lists did not include contact details, thus preventing the audit team from attempting to confirm participation in the event and the payment of the allowances reported.

70. Supporting documentation could not be provided to the audit team for expenses totalling approximately USD 60,000 reported by some of the IPs visited. A list of the related transactions was provided to the Office for follow-up.

Advances reported as expenses

71. Expenses reported by one IP for four workplan activities selected for review corresponded to the budgeted cost of USD 34,000 instead of the actual expenses incurred. No invoices or other supporting documents were provided for review to the audit team.

72. The procurement of maternal health kits by an IP was reported as an expense in the first quarter of 2014 even though goods delivery started as from the second quarter of 2014 (it was unclear if the deliveries had been completed at the time of the field audit mission).

73. Activities for a regional project with budgeted expenses totalling USD 21,600 were incorrectly reported by a governmental IP as completed in December 2012, at which time the funds were transferred by the IP to the unit responsible for implementing these activities. From its review of the documentation provided, the audit established that the activities had not been implemented at the time of the field audit mission. The Office informed the audit team that the IP has agreed to refund the unspent funds to the Office.

Ineligible project expenses

74. The audit noted several instances of expenses incurred in 2012 by one the IPs visited that could be construed as not eligible for reimbursement. Based on inquiries of Office and IP personnel, the audit noted that four different individuals, including IP Board members and staff, were engaged by the IP to perform clerical work related to the review and drafting of reports at a cost of USD 4,600. Additionally, four subject matter experts, some of whom also served as IP Board members, were hired at a cost of USD 90,400 to develop training materials. Administrative costs related to the organisation of a capacity building program amounting to USD 4,600, which should have been part of the IP's regular coordination role, were charged separately. Costs amounting to USD 16,300 for coordination of project activities were charged separately by the IP, in addition to costs totalling USD 22,000 covering the salaries to the IP staff performing the coordination work. The Office informed the audit that it has since taken measures to issue clear guidelines to prevent recurrence of similar issues with other partners.

IMPACT *Funds provided to IPs may not be used for the intended purposes.*

ROOT CAUSE *Guidance – inadequate supervision at Office level.*

CATEGORY *Operational.*

RECOMMENDATION 7

PRIORITY: HIGH

Perform regular implementing partner financial monitoring visits and spot-checks, based on a formal monitoring plan, with a frequency and scope appropriate to provide the Office with sufficient assurance of the proper use of funds per the approved workplans.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 December 2015*

The Office will conduct financial monitoring visits and spot checks annually with at least two visits per year for high-risk IPs. A plan to that effect will be developed by end June 2015.

RECOMMENDATION 8

PRIORITY: HIGH

Increase NEX audit coverage for the UNFPA field Offices with insufficient financial monitoring or were impacted by significant IP financial management issues identified through managerial oversight, spot-checks or other financial monitoring activities and internal, or external audits.

RESPONSIBLE MANAGER: *Director, Division for Management Services*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 January 2016*

As and when internal and external oversight activities identify insufficient business unit financial monitoring of IPs and/or significant IP financial management issues, DMS will (i) increase the IP audit coverage for the business unit in question in the 2015 NEX audit cycle, and (ii) guide the Office to undertake appropriate adjustment of the Country Office assurance plan for the concerned IPs within the context of the HACT framework planned for global roll out with effect from 1 of January 2016. In such cases, the assurance plan may include more frequent IP financial audits and/or IP financial spot-checks conducted by the Office or a third-party service provider that address the issues highlighted by oversight activities.

B.3 – INVENTORY MANAGEMENT

UNSATISFACTORY

75. During the period under review, the Office supplied reproductive health commodities and other inventory items procured at a cost of USD 9.0 million. A large component of the inventory was supplied as part of the response to Typhoon Haiyan, for an amount of approximately USD 5.0 million, consisting of reproductive health and dignity kits and other items such as medical equipment, emergency mobile units and transportation equipment.

76. Audit work performed in this area included testing, for a sample of 30 local procurement transactions made at a cost of USD 2.3 million and 16 international procurement transactions totalling USD 4.6 million, managed by the Procurement Services Branch (PSB, based in Copenhagen, Denmark), of the processes and controls in place in the areas of: (i) procurement needs planning; (ii) requisitioning; (iii) order tracking; (iv) custom clearance, receiving and inspection; (v) inventory controls (while the goods procured remained under UNFPA’s control); (vi) handover of the inventory to IPs; (vii) distribution to intended beneficiaries; and (viii) monitoring thereof. For locally procured inventory, audit work also included a review of the related procurement processes (refer to section C.2 of this report).

77. Based on the work performed, the audit noted the following matters that need management attention.

Enhance inventory receiving and distribution controls and documentation

78. Receiving and inspection reports were not made available to the audit team for 22 out of 30 local inventory purchases selected for review made at a cost of USD 2.3 million. Similarly, documentation related to the receipt of inventory was not made available for audit review for 13 out of 16 international procurement transactions selected for testing, at a cost of USD 2.5 million.

79. In addition, signed Inventory Receipt or Earmarked Goods Custody, evidencing the hand-over of inventory to IPs, were not made available for audit review.

80. Documentation supporting the receipt and hand-over of inventory was not scanned and uploaded in CHANNEL, UNFPA’s inventory management system, deviating from the requirements of the inventory management policy and making it difficult to retrieve evidence of inventory receipts and deliveries.

IMPACT	<i>Goods received may not conform to those ordered. Damage, shortages and quality problems may not be timely identified.</i>
	<i>Hand-over of goods to implementing partners may not be properly evidenced.</i>
ROOT CAUSE	<i>Guidance - inadequate supervision at Office level.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 9

PRIORITY: HIGH

Conduct receiving and inspection procedures and complete Receipt and Inspection Reports for all internationally and locally procured inventories, and obtain signed Inventory Receipt or Earmarked Goods Custody forms at the time goods are handed over to IPs, as required by the Inventory Management policy; upload scanned copies of the signed forms in the inventory management system, and properly file the originals for future review and consultation.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented*

A system was established in November 2014. A designated person has been assigned to implement the recommendation above. The inventory assistant/focal person is doing the overall inspection of procured goods, performs inventory counting, ensuring that all item whether inventory goods or consumables are properly evidenced by transmittal form or inventory receipt form. The Office complies with the process and documentation requirements as well as updating the inventory record/movement in Channel.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *Follow-up action is required to determine the status of implementation of this recommendation.*

Maintain accurate and complete inventory data

81. The Order Tracking System was not adequately updated with physical inventory receipt dates for 24 international procurement transactions made in 2012 and 2013 at a cost of USD 13.3 million.¹³

82. In addition, during the period under review, the Office did not regularly use CHANNEL to record and control inventory receipts and deliveries or to generate inventory hand-over forms. The Office was not able to provide information on the status of inventory maintained at field offices' storerooms at the time of the field audit mission, as CHANNEL records had not been updated subsequent to 31 December 2013. Further, the value of inventory maintained at field offices storerooms included in the 2013 inventory certification letter provided to the Finance Branch was not determined based on documented physical counts performed by the Office at the end of 2013. Per the Office, physical counts were carried out in January and March 2014 but no documentation was provided to support this assertion other than CHANNEL reports which the audit team was not able to reconcile to the 2013 year-end CHANNEL balances.

IMPACT *The ability to accurately control and report inventory, for both operational and financial reporting purposes, is diminished.*

ROOT CAUSE *Guidance - inadequate supervision at Office level.*

CATEGORY *Operational.*

RECOMMENDATION 10 **PRIORITY: HIGH**

Regularly update and reconcile the order tracking system and the inventory system records to ensure the completeness, accuracy and appropriate documentary support of inventory receipts, deliveries and balances.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

This control is now in place when the hiring of an inventory assistant in November 2014.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *Follow-up action is required to determine the status of implementation of this recommendation.*

¹³ Section B.2, of the inventory management policy - physical receipt of internationally procured goods must be recorded and updated in OTS

B.4 – MANAGEMENT OF NON-CORE FUNDING

SATISFACTORY

83. Programme implementation expenses funded from non-core resources amounted to USD 17.4 million, representing 52 per cent of programme implementation expenses during the period under review. Non-core financial implementation rates averaged 74 per cent in the period 2012 - 2013.

84. Audit work performed in this area included testing of compliance with donor agreements requirements, including expense eligibility and reporting, as well as assessing the Office’s resource mobilization strategy and plan to meet its non-core funding goal under the Country Programme 2012-2016. The audit also included tests of the accuracy of the reports submitted to donors and of compliance with the new cost recovery policy, as well as inquiries of donor representatives regarding their assessment of UNFPA’s performance and achievements.

85. No reportable issues were identified based on the audit work performed in this area, other than the following one.

Develop a resource mobilization strategy for emergency preparedness activities

86. While the Philippines ranks third¹⁴ worldwide in terms of disaster risk likelihood, mobilizing resources for emergency preparedness programme activities has proven challenging, with the Office relying primarily on a single donor to fund them. At the time of the field audit mission, the Office has not yet developed a strategy to mobilize the resources required for emergency preparedness activities, based on a comprehensive needs assessment.

IMPACT	<i>The effectiveness of humanitarian response activities may be diminished due to delays and other challenges in mobilizing the required resources.</i>
ROOT CAUSE	<i>Guidelines – inadequate planning at Office level.</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 11

PRIORITY: MEDIUM

Develop a needs-based resource mobilization strategy for emergency preparedness activities.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Disagree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Not provided*

The Office does not agree with this observation for a number of reasons. The single donor contribution has been enough for the Office to initially respond to all the Level 1 emergencies experienced during the period, which is what is needed and what the funding is meant for. In addition, the Office has successfully mobilized additional funding through the Central Emergency Response Fund (CERF) and the Department for International Development (DFID) to scale up responses to Level 1 emergencies if and when needed. It is unrealistic to expect that all the needs for the entire Level 1 responses can be funded through prepositioning. The Office will not preposition for a level 3 emergency as this will only happen so rarely that if prepositioning is done there is a high risk of expiry of the prepositioned goods. If prepositioning is to be done for Level 3, it should be done either at the regional or global level. Finally, the Office strategy is to get the Government, rather than UNFPA, to preposition for emergency responses. This is in support of what the Government wants UNFPA to do.

¹⁴ UNFPA Guidance note on Minimum Preparedness - Humanitarian and Fragile Contexts Branch (HFCB) and Asia Pacific Regional Office, May 2014

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The audit notes the above management response. After considering all the comments and information provided by the Office, the audit maintains its recommendation. The recommendation to develop a resource mobilization strategy to undertake preparedness activities in the country extends beyond the prepositioning of reproductive health, dignity and hygiene kits. It also covers other key preparedness activities to build and strengthen programmatic and operational response capacities of the Office and its implementing partners. The recommendation is also consistent and aligned with the Country Programme’s goals to strengthen the capacity of health systems in the country to deliver reproductive health information and services in areas that are disadvantaged and in humanitarian situations. Follow-up action by the Office is required.*

C. OPERATIONS MANAGEMENT

UNSATISFACTORY

C.1 - HUMAN RESOURCES MANAGEMENT

SATISFACTORY

87. During the period under review, the Office incurred staff payroll costs amounting to USD 1.8 million. In addition, the Office made extensive use of contract personnel and engaged 25 individuals under the Service Contract modality and another 30 under the Special Service Agreement modality, for management activities and programme delivery, incurring related costs in the amount of USD 2.4 million. At the time of the field audit mission, the payroll for both staff members and Service contract holders was managed by the United Nations Development Programme (UNDP).

88. Work performed in this area included (a) the analytical review of payroll and contract personnel costs; (b) a walk-through of the payroll reconciliation controls with UNDP; and (c) the testing of a sample of 14 contracts awarded by the Office at a cost of USD 0.3 million, for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of (i) recruitment; (ii) contract award; and (iii) contract management. Audit procedures applied also included a review of the Office’s leave management process.

89. No reportable issues were identified based on the audit work performed in this area.

C.2 – PROCUREMENT

UNSATISFACTORY

90. During the period under review, the Office locally procured goods and services at a cost of approximately USD 6 million. The most significant categories of goods and services procured corresponded to hygiene and dignity kits, as well as reproductive health kits for Typhoon Haiyan and other humanitarian response interventions. In addition, the Office procured, through PSB, reproductive health commodities, medical kits, obstetric hospital containers and motor vehicles at a cost of approximately USD 8.7 million over the same period.

91. Audit work performed in this area included the review of a sample of 30 local purchases made at a cost of USD 2.3 million (39 per cent of total local procurement) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles¹⁵ and policies and procedures, and operating effectiveness of controls in the areas of (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving, as well as the review of the procurement planning process and management as regards common services shared with other United Nations organizations. A large part of the procurement transactions tested corresponded to the procurement of goods and services for the Typhoon Haiyan response. The audit also included the assessment of the Office’s procurement capacity and of the procurement planning process.

¹⁵ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

92. The audit noted the following matters which require management attention.

Develop procurement plans based on a robust needs assessment process

93. The audit noted that the some goods procured for Typhoon Haiyan did not fully meet the needs of the emergency operation. Based on the review of available documents and inquiries of Office management and personnel, there were coordination problems between the Manila Office programme and operation staff and the on-site response units with regards to the definition of procurement needs and specifications; some of these goods were procured before the Office was able to reliably determine these. As a result, the Office procured some goods that could not be utilized as planned, for example:

- a) At the time of the field audit mission one of the two obstetric hospital containers purchased for the Typhoon Haiyan response at a cost of USD 0.7 million each (including freight costs of USD 0.3 million) had not been utilised for the intended purposes due to specifications issues. The obstetric hospital containers were procured in November 2013 before the finalization of the Typhoon Haiyan emergency response needs assessment and procurement plan. The unit in question was delivered in March 2014, with a two-month delay compared to the originally planned date. The audit team observed that, at the time of the field audit mission in July 2014, the obstetric hospital container was not functioning;
- b) At the time of the field audit mission, 44 maternity tents procured for the response at a cost of USD 32,000 had not been utilized, and had remained in storage due to specification issues; and
- c) Site visits to three IPs revealed the existence of unutilised medical equipment and commodities, such as reproductive health kits, being kept at temporary store rooms. The Office was aware of the over-stocks but was unable to provide details or an estimate of their magnitude given the gaps in records and documentation at these locations.

94. The audit also noted that two of five procurement transactions of kits for other emergency response interventions selected for testing, made at a cost of USD 0.1 million, could not be traced to the corresponding workplans and emergency procurement plans.

IMPACT	<i>Goods and service procured may not respond to programme and operational needs and/or not provide sufficient value-for-money.</i>
ROOT CAUSE	<i>Guidance - inadequate supervision at Office level.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 12

PRIORITY: HIGH

Develop procurement plans based on a robust programme needs assessments and product specification definition process.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Disagree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Not provided*

The Office wishes to clarify that the conditions above relate only to the Haiyan Level 3 emergency where procurement plans could not be developed in advance.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The audit notes the above management comment. After considering all the feedback and information provided by the Office, the audit maintains its recommendation. As explained in paragraph 91 above, testing performed by the audit focused on Typhoon Haiyan due to materiality considerations, but similar gaps in the procurement planning and needs assessment processes were noted for other Office's operations and programmes, and reported in both internal and external reviews carried out by the Office during 2012 and 2013.*

As regards the procurement of goods for the Typhoon Haiyan response, the audit noted, for example, that the second hospital container procured had not been delivered as at 31 December 2014, and was still reported as part of the Office’s inventory, which raises serious concerns as to whether a valid emergency response need would have been addressed through its procurement. Similarly, the audit noted that the Office was holding a large number of kits in stock as at 31 December 2014, in spite of management’s assertion that it will not preposition inventory and would instead rely on procurement from the existing LTAs. Follow-up action by the Office is required.

Review delegation of authority arrangements

95. One of the two Assistant Representatives was the only staff member assigned Atlas purchase order approval rights (Level 3 Atlas profile¹⁶) during most of the period under review, resulting in her approval of over 2,200 purchase orders (including those created to allow the processing of travel transactions). No staff members were given Level 1¹⁷ purchase order approval rights during the period under review.

96. A large majority of the purchase orders approved by the Assistant Representative were below the USD 5,000 threshold. The large purchase order approval workload assigned to the Assistant Representative could compromise the approval process quality and generate deviations from the internal control framework requirement, i.e. that approving managers review supporting documentation for each of the purchase orders put for approval and exercise due diligence to ensure compliance with the UNFPA procurement principles, policies and procedures, and the achievement of value-for-money.

IMPACT *The purchase order review and approval process may not be effective.*

ROOT CAUSE *Guidance - inadequate supervision at Office level.*

CATEGORY *Operational.*

RECOMMENDATION 13

PRIORITY: MEDIUM

Review Atlas approval profile assignments to ensure that the transaction approval workload of key Office staff members is manageable to allow them to effectively discharge their related fiduciary accountability.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Completed*

Action on this observation has been completed as a PO approver for purchase under USD 5,000 has been designated to ensure that the procurement process will be observed based on the Internal Control Framework (ICF)

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *Follow-up action is required to determine the status of implementation of audit recommendation.*

Strengthen the procurement practices followed by the Office

97. Audit testing of procurement activities undertaken by the Office revealed exceptions indicative of procurement capacity gaps, as detailed below.

¹⁶ An Atlas Level 3 purchase order approval profile allows UNFPA managers to approve purchase orders without limitation as to their amount

¹⁷ An Atlas Level 1 purchase order approval profiles allows UNFPA managers to approve purchase orders up to USD 4,999.

Award of long term agreements for the procurement of dignity and hygiene kits

98. Based on the review of available documentation and enquiries of Office management and personnel as well as bidder representatives, the audit is of the view that the Office could have taken steps to enhance the competitiveness of the process followed to award two long term agreements (LTAs), in May 2013, for the procurement of dignity and hygiene kits.

99. Only two bidders, one of them a local company and the other one an international vendor, submitted offers fully compliant with the requirements set forth in the invitation to bid (ITB). Three other local bidders did not provide detailed technical specifications, although this was required by the ITB, and were therefore disqualified from the process. As a result, the Office was not able to secure the minimum number of three responsive bids mandated by the procurement procedures to achieve effective competition. The Office did not provide a clear justification for the lack of at least three responsive bids and of the reasonableness of the prices quoted by the bidder awarded the LTA.¹⁸

100. The audit noted that the ITB was advertised in the United Nations Global Marketplace¹⁹ and the UNFPA Philippines website for 26 calendar days, but not in local or international media or publications. A pre-bid meeting was held with four interested suppliers on the same day the ITB was issued. Information regarding the details of the discussions at the pre-bid meeting and documentation shared with prospective suppliers were not provided to the audit team. Attendance sheets showing the names and signatures of the persons attending the meeting were not provided either, and the minute of the meeting was only signed by the Office's personnel. It was unclear to the audit team, based on the documentation made available for its review, whether the bid process, requirements, evaluation criteria and technical specifications were thoroughly discussed and explained to all bidders during the pre-bid meeting.

101. In May 2013, the Office made a submission to the Headquarters Contracts Review Committee (CRC) recommending the award of the LTA to the local vendor that submitted one of the two qualified offers, whose financial offer was 12 per cent higher but with a shorter lead time than the other offer. At the request of the CRC, the Office negotiated a price rebate with this vendor as the financial proposal exceeded the available budget. The negotiation process was not documented. Further, the audit team learned that a separate negotiation had also been undertaken with the international supplier, but the audit team was not able to determine its nature and outcome; this additional negotiation was not communicated to the CRC.

102. In consideration of the differences in delivery terms and pricing, the CRC recommended that LTAs be awarded to both bidders on condition that purchases from the local vendor be made when the delivery of the kits was required within 30 days, the need for the kits could not have been reasonably foreseen at an earlier stage, the programmatic implications of not delivering within 30 days were severe, and the international supplier could not fulfil the order on time.

103. The audit noted, however, that purchase orders amounting to USD 0.8 million were issued against the local LTA more than 30 days after the start of the Typhoon Haiyan response, instead of against the international supplier LTA. This decision could be assessed as inconsistent with the condition established for the award and use of the LTA referred to in the previous paragraph. The audit also noted that six purchase orders related to the Typhoon Haiyan response, amounting to USD 0.6 million, were issued against the local LTA after the goods had been ordered and received. Based on the information made available to the audit team, it was not possible to validate and assess that the 30-day delivery requirement as a precondition for the use of the local LTA.

¹⁸ Per the Procurement Procedures, the reasonableness of the price can be justified through a market survey, benchmarking with previous purchase prices, comparison with market prices, etc.

¹⁹ The United Nations system procurement portal

Supporting documentation

104. Documentation pertaining to a request for proposal for the procurement of medical products at a cost of USD 37,000 was not available on file for audit review. The only document provided to the audit team was an incomplete cost comparison sheet which did not indicate prices offered by bidders other than the one who was awarded the procurement. Similarly, documentation related to the purchase, at a cost of USD 8,000, of advocacy t-shirts for inclusion in kits supplied as part of humanitarian response efforts, was not available on file for audit review. The only document provided to the audit team was a note-to-file prepared in June 2014 indicating that the order had been awarded to a vendor as a result of a mix-up and to compensate an over-payment made as regards previous orders placed with that vendor.

Issuance and approval of purchase orders

105. During the period under review, the Office issued a large number of purchase orders reflecting only the purchase order total amount, without separately specifying quantities required and unit costs.

106. The audit noted multiple instances where purchase orders were issued for payment approval purposes only, once delivery of the goods and services procured had been completed. The audit also noted purchase orders for which the purchase order creation and expected delivery date were the same, indicating that the purchase orders were issued on a post-facto basis.

107. The audit noted over 300 local purchase orders issued more than 30 days after the related purchase requisitions were raised in Atlas. In addition, the audit noted delays in the approval of purchase orders of up to 149 days, with over 150 purchases orders approved more than 30 days after issuance, which could lead to delays in the delivery of the goods and services.

Vendor performance evaluation

108. The Office did not consistently evaluate the performance of vendors from which it procured emergency kits, programme vehicles and medical commodities. This is a mandatory requirement for purchase orders in excess of USD 50,000. As of July 2014, performance assessment had not been completed for six vendors with 14 purchase orders awarded in 2013 totalling USD 1.8 million.

Atlas receipt

109. The audit noted that the Atlas receipt of pharmaceutical and products goods procured in 2012 at a cost of USD 57,000 only took place in the first quarter of 2013, preventing from automatically accruing at year-end the value of the goods received.

IMPACT	<i>The transparency, fairness, competitiveness and value-for-money of the procurement process may be diminished.</i>
ROOT CAUSE	<i>Guidance - inadequate supervision at Office level. Resources – insufficient Office procurement capacity.</i>
CATEGORY	<i>Strategic (recommendation 14); Compliance (recommendations 15 and 16).</i>

RECOMMENDATION 14

PRIORITY: HIGH

Perform an assessment of the Office's procurement capacity vis-a-vis programme and operational needs, as a basis to identify and implement capacity enhancement activities, including procurement and Atlas training for Office personnel, increasing the number of buyers and issuance of standard operating procedures, as appropriate.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 September 2015*

The assessment of the procurement capacity of the office was undertaken as part of the Change Management process referred to above. The Office is of the opinion that the proposed structure includes sufficient procurement capacity in terms of number of staff. Capacity enhancement activities/training on procurement and Atlas will however be included in the 2015 training and learning plan as will procurement level 2 training for alternate buyers to increase the number of buyers in the office from 2 to 4. An Inter-Office Memo on procurement has been issued to the Office staff and a second one will follow in April 2015.

RECOMMENDATION 15

PRIORITY: HIGH

Implement supervisory controls to (i) enforce compliance with procurement procedures and Contract Review Committee contract award conditions, and (ii) promote open and fair competition and obtain better value-for-money in future procurement processes.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Partially Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Completed*

The Office does not agree with the observation that the Office was not in compliance with the Contract Review Committee (CRC) decision. In any case, an inter-Office Memorandum has been issued by the Country Representative reiterating the procurement procedures and emphasizing lead times to be observed to ensure compliance with the policies and procedures manual and to eliminate post facto transactions in Atlas. An approver for purchase orders under USD 5,000 has been designated to ensure that the procurement process is being observed. The Office in addition, maintains a roster of suppliers for recurring and regular procurement.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The audit notes the above management response. After considering all the comments and information provided by the Office, the audit maintains its recommendation. The continued use of the more expensive long term agreement throughout the emergency response periods, without proper procurement planning to establish the overall 30-day requirements and delivery time lines, was inconsistent with the CRC's condition and recommendation. While recognizing that steps are taken to improve compliance with procurement procedures, the audit reiterates its recommendation that the Office implements supervisory controls to ensure that procurement procedures, including the CRC's contract award conditions and requirements, are in compliance with established procedures. Follow up action by the Office is required.*

RECOMMENDATION 16

PRIORITY: MEDIUM

Regularly complete vendor performance evaluations utilizing the corporate Vendor Performance Evaluation tool.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2015*

An Inter-Office Memorandum to the Office staff on non-compliance with the procurement procedures will be issued emphasizing the importance of and expected compliance with vendor performance evaluations. The Memorandum will include the designation of a vendor performance evaluation compliance focal point and will be tasked to report compliance updates to the Operations Manager on a monthly basis.

C.3 - FINANCIAL MANAGEMENT**UNSATISFACTORY**

110. During the period under review, the Office processed 2,314 financial transactions, including 1,869 accounts payable vouchers used to process payments, and 445 accounts payable journal vouchers, used primarily to process adjustments and record expenses reported by IPs.

111. Work performed in this area included the review of (i) the Office financial management capacity; (ii) the authorization and proper processing of financial transactions; (iii) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; (iv) the operating effectiveness of controls over the accounts payable and payments process; (v) the value-added tax control arrangements in place; (vi) the budget management process; and (vii) the effectiveness of the financial management accountability process.

112. The audit noted the following matters which require management attention.

Enhance financial transaction processing and supervisory controls

113. The testing of financial transactions revealed exceptions indicative of the need to enhance transaction processing and supervisory controls, as detailed below.

Receipt of goods and services

114. The audit noted that, in general, receiving and inspection procedures were either not carried out or not documented in a manner sufficient to demonstrate that goods and/or services had been received before payments were effected.

Transaction processing controls

115. No documentation was available to support a payment for transportation of medical equipment amounting to USD 15,800. The audit noted that the price charged by the transportation services vendor had not been pre-agreed with UNFPA. Further, no documentation was made available to the audit team to evidence equipment delivery.

Payment approval

116. Certifications of payment²⁰ were not consistently prepared prior to effecting payments to nine contract personnel engaged under the Special Service Agreement modality, for an aggregate value amounting to USD 0.3 million during the period under review. The audit noted that the Office has now taken steps to ensure that complete certifications of payments before payments are released to contractors.

Transaction recording

117. The audit noted that contract personnel costs amounting to USD 64,000 were either not charged to the project budgets indicated in the contracts or to the correct general ledger accounts. In addition, expenses totalling approximately USD 0.5 million, corresponding primarily to payments made to or on behalf of IPs for expenses related to learning workshops, were incorrectly recorded as contract personnel expenses. The audit also noted two purchase orders amounting to USD 11,000 issued for logistics services and payment to contract personnel that were wrongly categorized as travel.

²⁰ The certification of payment provides the basis for both the consultant and the supervisor to confirm the satisfactory completion of work and the amount to be paid

IMPACT *Payments make take place for goods and services not effectively received.
The nature of expenses incurred may not be accurately reported.*

ROOT CAUSE *Guidance - inadequate supervision at Office level.
Guidelines - Lack of or inadequate Office policies or procedures.*

CATEGORY *Reporting.*

RECOMMENDATION 17

PRIORITY: HIGH

Provide appropriate guidance to all Office staff and strengthen supervisory controls to ensure that transactions are recorded in the appropriate accounts and that payments are made based on appropriate evidence of receipt of the goods and services procured.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *August 2015*

Current supervisory controls will be supplemented with quarterly review of a sample of the transaction details in ATLAS will be done to test accuracy of account charging or transaction tagging at account code level and to take corrective actions if warranted.

Establish a more effective filing system

118. The audit faced multiple situations where the Office was unable to provide documentation required for completion of audit tests or was unable to provide them promptly following the audit request. Several documents requested were provided only in the final stage of the field audit mission or subsequent to its completion, creating challenges for the audit team to finalize planned audit work. In addition, the audit team noted multiple instances where supporting document were either not available on file or had not been properly filed, indicating the absence of an effective filing system.

IMPACT *The validity of the activities and transactions undertaken by the Office may not be established.*

ROOT CAUSE *Guidelines - inadequate Office policies and procedures.*

CATEGORY *Compliance.*

RECOMMENDATION 18

PRIORITY: HIGH

Implement an effective filing system to safeguard relevant records and documents supporting the activities and transactions executed by the Office and facilitate their retrieval.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2015*

An Inter-Office Memorandum was issued to the Office staff in 2014 with a view to strengthen the filing system and process. However, improvements are still needed in terms of compliance with the Memorandum. The Office will institute a system of quarterly spot-checks scheduled to start in July 2015.

C.4 - GENERAL ADMINISTRATION**SATISFACTORY**

119. Work performed in this area focused on the travel and asset management processes.

120. Travel expenses incurred by the Office during the period under review amounted to USD 1.4 million. Audit work performed in this area consisted in the testing of a sample of 19 travel related transactions amounting to USD 0.15 million (10 per cent of total travel expenses) for appropriateness of business purpose and compliance with policies and procedures and operating effectiveness of the controls over (i) the procurement of travel services; and (ii) the authorization, calculation and payment of daily subsistence allowances.

121. As at 31 December 2013, the Office held assets procured for its own use at a cost of USD 0.5 million. Fixed assets procured by the Office during the period under review for own use and for delivery to IPs amounted to USD 0.9 million. Audit work performed in this area included the review of a sample of assets procured for use by the Office in 2012 and 2013, at a cost of USD 0.2 million for appropriateness of business purpose and compliance with the asset management policies and procedures. The management of the assets procured for IPs, primarily for humanitarian response efforts, such as mobile clinics and programme, was covered as part of the inventory management testing, and referred to in section B.3 of the report.

122. No reportable issues were identified based on the work performed.

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

123. Work performed in this area was limited to testing for compliance with the annual Atlas access rights review. The latter was completed in a timely manner, and the review of Atlas profiles assigned to the Office personnel for appropriateness and segregation of duties. The audit also conducted a survey on backup and recovery procedures in the Office. No reportable issues were identified based on the work performed.

C.6 – SECURITY MANAGEMENT**SATISFACTORY**

124. Work performed in this area was limited to inquiries of security officers, at headquarters and in the Philippines, regarding coordination with the United Nations Department of Safety and Security at country level, the Office's representation at Security Management Team meetings, arrangements in place for prompt communication of security matters to Office personnel, and the level of compliance with mandatory security courses. No reportable issues were identified based on this work.

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

Atlas	UNFPA's ERP (Enterprise Resource Planning) system
CERF	Central Emergency Response Fund
Cognos	UNFPA's Management Reporting System
CRC	Contracts Review Committee
DFID	The Department for International Development of the United Kingdom
FACE	Funding Authorization and Certificate of Expense
HACT	Harmonized Approach to Cash Transfers
HFCB	Humanitarian Fragile & Context Branch
ICF	Internal Control Framework
IP	Implementing Partner
ITB	Invitation to Bid
LOU	Letter of Understanding
LTA	Long term agreement
NEX	National Execution
OAIS	Office of Audit and Investigation Services
PSB	Procurement Services Branch
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars