



**United Nations Population Fund**

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**OFFICE OF AUDIT AND INVESTIGATION SERVICES**

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

**FINAL REPORT**  
N° IA/2016-10

**2 December 2016**

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## EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Bangladesh (the Office). The audit covered the period from 1 January 2014 to 30 April 2015. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

### Background

2. The activities covered by the audit correspond primarily to the third and fourth years of the eight Country Programme 2012–2016, approved by the Executive Board in its annual session of 2011, with indicative resources of USD 70.0 million.

3. Expenses incurred in the period under review covered by the audit amounted to USD 14.4 million, executed by 20 implementing partners (USD 6.5 million) and by UNFPA (USD 7.9 million), funded from core resources of USD 9.3 million and non-core resources of USD 5.1 million.

4. Approximately 59 per cent of the expenses incurred in the period under review corresponded to the Reproductive Health component. The Gender component accounted for 15 per cent of the expenses and the Population and Development component accounted for another 18 per cent. 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 8 per cent of expenses.<sup>1</sup>

### Methodology and scope

5. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

6. The scope of the audit included the review of 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.

### Audit rating

7. The audit indicates that, for the period covered, the risk management performance of the Office was **'Partially Satisfactory'**, which means that governance, risk management and internal controls processes were established and functioning well but that issues were identified that may negatively affect the achievement of the objectives of the Office, should they not be addressed by Management.

8. Ratings by key audit area are summarized in the following table.

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<sup>1</sup> Source: Cognos project monitoring reports

<b>Audit ratings by key audit area</b>		
<b>Office Governance</b>		<b>Partially satisfactory</b>
<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>
<b>Programme Management</b>		<b>Partially satisfactory</b>
<i>Programme planning and implementation</i>		<i>Partially Satisfactory</i>
<i>National execution</i>		<i>Satisfactory</i>
<i>Inventory management</i>		<i>Satisfactory</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
<b>Operations Management</b>		<b>Satisfactory</b>
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Satisfactory</i>

### Key findings and recommendations

9. 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 and compliance matters and reporting. Overall, the audit report includes 5 high priority and 12 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 17 recommendations, 3 are of strategic nature, 13 are operational, and one refers to compliance and reporting matters.

#### *Good practices*

10. The Office established a decentralized structure, with staff deployed at sub-offices and Government agencies to help support and oversee programme implementation. The Office also established the role of Field Offices Coordinator to coordinate and oversee the sub-offices.

11. The 2015 workplan preparation and planning process was initiated in a timely manner and through a consultative manner with government counterparts, resulting in the finalization and approval of most workplans by end of the previous year. A local human resources portal was developed to facilitate the receipt of local recruitment applications and the shortlisting of candidates.

#### *Strategic level*

12. The Office annual management plans should be enhanced, and the alignment of its structure and personnel to the ninth Country Programme requirements finalized. Equally important, the programme results and resources framework should be strengthened, to allow a more effective monitoring of progress towards the achievement of expected results.

#### *Operational level*

13. Management oversight over programmatic and operational activities should be formalized. Of particular importance, capacity assessments of implementing partners to be engaged for implementation of the ninth Country Programme should be finalized, and the process followed for the selection of non-governmental organization implementing partners enhanced.

#### *Reporting level*

14. Financial transactions should be recorded in the appropriate general ledger accounts.

Management response

15. The Office wishes to thank OAIS for carrying out this audit. In highlighting areas of strengths and uncovering areas of weakness in the management of the Office, the audit provided an important opportunity for both learning and addressing the identified gaps. The Office is pleased to see many of its good practices included in the audit report, a recognition that raises staff motivation. The Office will continue to strive to improve its compliance with corporate rules and policies and follow good practices to further improve systems that facilitate a more effective and efficient delivery of UNFPA's Assistance to the Country during the next ninth Country Programme (CP) 2017-2020.

16. The Office, using the OAIS Summary of Audit Findings and Recommendations document provided at the time of fieldwork, has already proceeded to implement many of the recommendations that are in this report. The status of implementation of the 17 recommendations as at 23 November 2016 is as follows:

- a. Three recommendations have been implemented - recommendations 7, 12, and 16;
- b. One recommendation have been initiated and to be completed by the end of December 2016 – recommendations 17;
- c. Eight recommendations have initiated and to be completed by end of March 2017 – recommendations 1, 2, 4, 5, 6, 9, 10, and 11;
- d. Four recommendations have been initiated and to be completed by the end of June 2017 – recommendations 8, 13, and 14;
- e. One recommendation have been initiated and to be completed by the end of September 2017 – recommendation 3; and
- f. One recommendations to be implemented by December 2017 – recommendation 15.

17. Therefore, while the Office agrees with the findings and recommendations raised in this report, the Office has revised its Management Response as some of the original recommendations and the originally proposed follow-up actions have already been addressed.

18. The OAIS team would like to thank the Management and personnel of the Office, of the Asia 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 2014 to 30 June 2015. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.
2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over UNFPA's operations in Bangladesh.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
  - a) The effectiveness and efficiency of the Office 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 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 OAI audit specialists, supported by staff from an external audit firm. The audit started on 1 June 2015. A field mission took place from 28 June 2015 to 16 July 2015. Findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 16 July 2015. Comments and clarifications provided by Management thereafter were reflected in a draft report which was completed (due to OAI unforeseeable events) and submitted to the Office Management on 10 November 2016, and a final Management response received on 23 November 2016.

## II. BACKGROUND

6. The People's Republic of Bangladesh had a population estimated at approximately 158 million in 2015, with an annual growth rate of approximately 1.2 per cent. Gross Domestic Product has grown at an annual rate of over six per cent since 2005. Economic growth, coupled with investments in education, health, food security and disaster mitigation, has led to a reduction in poverty from 48 per cent in 2005 to 32 per cent in 2010.<sup>2</sup>

7. The maternal mortality ratio was estimated at 176 deaths per 100,000 live births in 2015, compared to 319 deaths per 100,000 live births in 2005. Sixty two per cent of women still give birth at home, 58 per cent without skilled birth attendance. While contraceptive prevalence has increased to 62 per cent, the total fertility rate has remained unchanged at 2.3 since 2011. The unmet need for family planning is 12 per cent, highest in adolescent girls, and nearly one in three pregnancies, a total of 1.3 million, are terminated annually.<sup>3</sup> The HIV prevalence rate is low at 0.1 per cent of the general population infected. However, prevalence rates reach a much higher level in groups that are most at risk. Among the general population, the rate of condom use is only 4.5 per cent.<sup>4</sup>

8. Bangladesh is a United Nations Delivering-as-One (DaO) voluntary adopter country. UNFPA programme activities are guided by the Bangladesh United Nations Development Assistance Framework (UNDAF) 2012 – 2016, with indicative total resources of USD 1.8 billion for that period. Under the UNDAF, each participating agency is responsible for delivery on a set of actions that jointly contribute to shared results.

9. The activities covered by the audit correspond primarily to the third and fourth years of the eight Country Programme 2012 –2016, approved by the Executive Board in its annual session of 2011, with indicative resources of USD 70.0 million. Expenses incurred in the period under review covered by the audit amounted to USD 14.4 million, executed by 20 implementing partners (USD 6.5 million) and by UNFPA (USD 7.9 million), funded from core resources of USD 9.3 million and non-core resources of USD 5.1 million.

10. Approximately 59 per cent of the expenses incurred in the period under review correspond to the Sexual and Reproductive Health and Rights component. The Gender component accounted for 15 per cent of the expenses and the Population and Development component accounted for another 18 per cent. 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 8 per cent of expenses.<sup>5</sup>

11. The main UNFPA Office in Bangladesh is located in the city of Dhaka, with seven sub-offices located in the cities of Jamalpur, Sylhet, Rangamati, Barisal, Thakurgaon, Bagerhat, and Cox's Basar. During the period under review, the Office was managed by a Representative, assisted by a Deputy Representative, (since May 2014) and an Operations Manager (since August 2014).

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<sup>2</sup> <http://data.worldbank.org/country/bangladesh>

<sup>3</sup> Ninth Country Programme 2017-2020 - DP/FPA/CPD/BGD/9

<sup>4</sup> <http://data.worldbank.org/country/bangladesh>

<sup>5</sup> Source: Cognos project monitoring reports

### III. DETAILED FINDINGS

#### A. OFFICE GOVERNANCE

**PARTIALLY SATISFACTORY**

##### Good practices identified

12. The audit noted that the Office established a decentralized structure, with staff deployed at seven sub-offices, as well as at Government agencies responsible for the implementation of significant programme activities. These arrangements gave the Office the opportunity to interact closely with the different programme stakeholders and allowed closer oversight over programme implementation. Further, the Office established a Field Coordinator role, based in Dhaka, to allow more effective oversight of the sub-offices' activities.

#### A.1 – OFFICE MANAGEMENT

**SATISFACTORY**

13. Audit procedures performed in this area included the review of (a) the Office planning process in 2015; (b) the relevance of the Office's 2015 annual management plan and the level of implementation of related activities; (c) the alignment of the performance plans of key personnel to the Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities, including those performed by the decentralized offices; (e) the accuracy of the 2014 Office Annual Report; and (vi) the level of familiarization of the Office personnel with UNFPA's policies and procedures.

14. Based on the work performed, the audit identified the following matters that require Management attention.

##### Document better management oversight activities

15. According to Management, oversight of programme and operational activities during the period under review was conducted primarily through: (a) weekly Country Management Team meetings – to discuss and debrief the Representative on programme and operations progress and issues; (b) monthly programme staff meetings – to review progress of programme implementation activities, discuss priorities and share information on emerging issues; (c) weekly Programme Unit (e.g., Sexual and Reproductive Health and Rights and Gender) meetings, with the participation of the Deputy Representative – to review progress of programme activities planned, challenges faced and required actions, and future priorities; and (d) joint Programme and Operations Coordination meetings, conducted on an ad-hoc basis – to discuss issues and identify actions to solve them.

16. The audit noted, based on its review of meeting minutes made available by Management, that weekly Country Management Team and Programme Unit meetings either did not take place regularly during the period under review, or were not documented through meeting minutes. The audit also noted that while monthly programme staff meetings took place as planned, they may not have provided the Deputy Representative with sufficient understanding of the programme implementation progress and challenges faced.

17. Based on discussions with Management, it was noted that while formal meetings may not have taken place in accordance with the plan or were not documented, consultations with Programme Unit heads took place on a regular basis and, hence, Management was always informed of the progress of programme implementation and issues faced. The limited number of documented meetings in the past was attributed by Management to multiple commitments taking priority over planned meetings, and the lack of staff to prepare appropriate meeting minutes – a gap that Management plans to address by engaging an additional international staff member.

IMPACT	<i>The effectiveness of management oversight over programme implementation and operations may be diminished.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Resources (lack of human resources).</i>
CATEGORY	<i>Operational.</i>



**RECOMMENDATION 1**

**PRIORITY: MEDIUM**

*Develop a calendar of management oversight meetings; specify their scope and objectives, frequency, sources of information and expected outcomes; and clearly document the matters discussed and follow-up actions agreed at each meeting.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*The Office Management has done the following:*

- a) Prepared terms of references for the different type of planning, coordination and oversight meetings with a calendar, frequency, the tools to be used during the meetings, the responsible persons to organize and take notes, and expected outcome of each meeting;*
- b) Recruited a qualified international personnel to address language and writing weakness in the Office that affect report/proposal writing, minute-taking and meaningful participation in some donor meetings.*
- c) We are now starting to record and keep on file Management meeting minutes.*

*Enhance annual planning through the Strategic Information System*

18. The audit identified opportunities to enhance the relevance and usefulness of the Office annual plan which was focused on three programme outputs and was developed using the ‘myResults’ application,<sup>6</sup> rolled out in March 2015.

19. Looking at indicators, the audit noted that three of the output indicators used in the plan were not reflected in the Country Programme Results and Resources Framework (updated in November 2014, to align it to the UNFPA Strategic Plan 2014-2017). Baselines and targets used for four output indicators were different from those reflected in the related workplans, and the annual plan omitted one output for which activities were however programmed in the 2015 workplans. The audit also noted that milestones included in the annual plan for four output indicators were not adequate. Milestones for two indicators were documented under other indicators. Certain milestones were inadequate to allow the Office to track progress towards the annual targets set, as the milestones essentially reworded the output indicator.

20. Turning to the process by which the annual plan was developed, the audit noted that it was prepared based on inputs from each Programme Unit; the plan was then discussed and reviewed by the Office Management and personnel. The exceptions noted in paragraph 19 above were attributed by Management to human resource limitations, including skills limitations in the area of Monitoring and Evaluation (M&E), as well as the fact that the ‘myResults’ application was used for the first time in 2015. It is expected that annual plans will improve in future years as Office personnel and Management gain familiarity with it.

IMPACT	<i>Management’s ability to plan and track progress towards the achievement of expected results may be diminished.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at Office level). Resources (lack of human resources).</i>
CATEGORY	<i>Strategic.</i>

**RECOMMENDATION 2**

**PRIORITY: MEDIUM**

*Enhance annual plans to properly reflect all relevant outputs and indicators; accurate baselines and targets, aligned to those reflected in workplans; and adequate milestones, to allow the Office to track progress towards achieving its annual targets.*

<sup>6</sup> This application, which is a part of the Strategic Information System (SIS), allows UNFPA business units to systematically document and track the results they plan to achieve during a year, as well as the related milestones and responsible personnel.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*STATUS: *Agree*MANAGEMENT ACTION PLAN:DUE DATE: *March 2017**The Office Management has taken the following measures:*

- a) *Strengthened the human and technical capacity of the Office on results based management and M&E by recruiting an international M&E Specialist at the P4 level and a National Programme Officer at NOB level;*
- b) *Ensured that the 2016 Annual Plan in SIS reflects all country programme annual Indicators, with adequate quarterly milestones set to enable the Country Office to reach the annual target set for all output indicators;*
- c) *Ensured that the new Country Programme 2017-2020 contains appropriate baselines and targets; and*
- d) *Set out to develop state-of-the-art monitoring and reporting tools, some of which are already in use or to be fully rolled out with the beginning of the new Country Programme in January 2017.*

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

21. At the time of the audit field mission, the Office had a total of 110 posts, including 19 professional posts (8 of them international); 13 national general service posts; 8 UN Volunteers; and 48 posts covered by contract personnel engaged under the Service Contract (SC) modality, based at the main UNFPA office in Dhaka and the seven sub-offices, as well as personnel (one Technical Officer and one Finance/Administration Officer) based at the at each of the 11 governmental implementing partners (IPs) engaged by the Office. In addition, the Office had engaged 14 information technology support staff and drivers, under outsourcing agreements, in line with prevailing practices by many United Nations agencies operating in Bangladesh.

22. Audit work performed in this area included the review of (a) the alignment of the organizational structure and staffing arrangements with the requirements for the delivery of the Office programme and operational activities; (b) the use of proper contractual modalities; (c) the effectiveness of the performance appraisal process; (d) the relevance and sufficiency of staff development activities conducted during the period under review; and (e) compliance with the relevant UNFPA policy on decentralized offices.

23. Based on the work performed, the audit noted the following matters in need of Management attention.

*Timely fill vacancies in key posts*

24. The audit noted that from the start of the eighth Country Programme 2012-2016, there has been considerable Management turnover and prolonged vacancies in key Office posts.

25. The current Representative joined the Office in August 2013, with a short vacancy period in this post following the assignment of the then incumbent to another Country Office. The Deputy Representative and International Operations Manager positions became vacant shortly after the arrival of the new Representative, in September 2013. The positions were filled in May and August 2014, respectively, through the Leadership Pool,<sup>7</sup> albeit with vacancy periods of 8 and 11 months, respectively. In addition, at the time of the audit field mission, the Chief of Health and M&E Specialist posts had remained vacant since September 2014 (10 months) and November 2014 (eight months), respectively. Both posts have been filled at the time of finalizing this report.

26. The prolonged vacancies for the posts of Deputy Representative and International Operations Manager may have contributed to several control weaknesses identified by the audit, such as those related to Office Management oversight, risk assessment, work plan preparation and miscoding of expenses.

27. The issue of prolonged vacancies in key positions has been noted in previous audits of other Country Offices, and OAIS had already raised the matter to the attention of Headquarters Management. Therefore, and considering that all key vacant positions at the Office had been filled at the time of finalizing the audit report, no recommendation as regards this matter is reiterated in the present report.

<sup>7</sup> The Leadership Pool process allows the early assessment and identification of qualified candidates ready and able to fill international rotational posts including those of Country Representative, Deputy Representative and International Operations Manager

Reassess the Office structure, staffing and personnel contracting modalities and align them to the ninth Country Programme needs

28. A review of the Office organizational structure was undertaken at the time of formulating the eighth Country Programme 2012 – 2016. According to Management, the review did not yield an optimal staffing structure. As a result, during the period under review, the Office relied heavily on contract personnel engaged under the SC modality. Some carried out core programmatic functions, such as National Programme Officer – Midwifery; and Field Coordinator, for which the SC modality is not appropriate.

29. The audit noted a high number of Operations personnel (47 persons), mainly attributable to the existence of finance and administration personnel at the seven sub-offices and at each of the 11 Government IPs engaged by the Office. At the time of the audit field mission, Management had already decided to phase out the sub-offices' finance and administration posts and to consolidate support for the smaller Government IPs under a single Finance/Administration Associate based in Dhaka.

30. The audit was informed by Management that, following a mission by the Asia and the Pacific Regional Office (APRO) Human Resources Strategic Partner in April 2015, it was decided to undertake a comprehensive staff alignment review in conjunction with the submission of the ninth Country Programme 2017-2020 to the Executive Board (which took place at the Board's second regular session in September 2016). Based on discussions with the Division for Human Resources (DHR), the audit observed that, at the time of finalization of this report, the alignment review was ongoing.

31. In addition, the audit noted that, at the time of the audit field mission, six of the sub-offices in place throughout the country, initially established as project offices, were operating as decentralized offices without the preparation of a business case and the Regional Office approval, as required per the applicable policy. Since early 2015, these sub-offices have been supervised by the Field Offices Coordinator, based in Dhaka. The audit noted that, although there was some documentary evidence of the scope and responsibilities of this role, the Terms of Reference for this position did not reflect them. Further, the audit observed that during the period under review, the heads of the Programme Units and the Field Coordinator conducted few monitoring visits to the sub-offices.

IMPACT	<i>The organizational structure, staffing and personnel contract modalities may not be aligned with programme delivery and operational needs. Performance of the sub-offices may not be adequately planned and supervised.</i>
ROOT CAUSE	<i>Guidance (Inadequate Regional Office and HQ supervision and support). Guidance (inadequate supervision at Office level).</i>
CATEGORY	<i>Strategic (structure). Operational (contractual modalities, terms of reference).</i>

**RECOMMENDATION 3**

**PRIORITY: HIGH**

*Promptly complete the review and alignment of the Office structure (including sub-offices), staffing capacity and personnel contracting modalities, to the requirements of the ninth Country Programme 2017-2020, before the implementation thereof begins.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Director, Division for Human Resources and Bangladesh Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *September 2017*

*A comprehensive review of the staffing needs to effectively deliver UNFPA's Assistance in Bangladesh was initiated in August 2016 as part the development of the new Country Programme. This human resources alignment process could not be completed until the Country Programme was in its final stages of development in order to offer a clear picture of the types of programme results were expected. The Country Programme has now been approved by the Executive Board and the alignment process is in advanced stages of review by Headquarters. Implementation of the new staffing structure will begin as soon as it is approved by Senior Management, and will require approximately nine months to be completed.*

**RECOMMENDATION 4**

**PRIORITY: MEDIUM**

Prepare a clear business case for those sub-offices to be maintained during the ninth Country Programme; develop/update the Terms of Reference of the field staff aligned to the programmatic orientation of the new Country Programme, as well as the Field Offices Coordinator; and perform regular monitoring to assess the effectiveness of sub-offices' performance.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2017

As of preparing this Management Response, the Office Management has already taken the following actions:

- a) Assessed its funding situation and ability to support recurrent costs of sub-offices to support implementation of the ninth Country Programme 2017-2020;
- b) Submitted to APRO for endorsement and subsequent approval by Headquarters, a business case for six sub-offices, taking into account the planned geographic span of the new Country Programme; and
- c) The Office is currently preparing Terms of Reference for each of the field staff, as well as the field coordinator, to be hired for the ninth country programme, subject to the outcome of the human resources alignment exercise.

**A.3 – RISK MANAGEMENT**

**PARTIALLY SATISFACTORY**

32. Audit work performed in this area consisted of the review of the last risk assessments completed by the Office in January 2015, using the then existing risk assessment methodology; the process followed for identifying and tracking risks; and the actions undertaken to mitigate them.

33. Strategic and fraud risk assessments were subsequently conducted under the umbrella of the new corporate Enterprise Risk Management (ERM) process launched in August 2015, using the related functionality provided by the 'myRisks' application,<sup>8</sup> the review of the latter not being within the scope of this audit.

34. Based on the work performed, the audit noted the following matter in need of Management attention.

Enhance the fraud risk assessment process to provide a clearer identification and assessment of risks and controls related to large transactions

35. The January 2015 fraud risk assessment reviewed by the audit identified risk areas and potential fraud risk, as well as assessed the inherent and residual (i.e., after consideration of controls in place) risk ratings. The audit noted, however, that the assessment was too general, particularly as regards activities implemented by Implementing Partners (IP). While the assessment covered fraud risks related to potential IP misuse of programme funds and the general types of mitigating controls in place (mainly IP audits and spot-checks, and development and implementation of the M&E plan), it did not identify control activities that would mitigate risks associated with large transactions executed by IPs, mainly related to capacity development and training activities which accounted for a large part of programme implementation expenses.

IMPACT	<i>The Office may not be able to properly mitigate fraud risk related to large programme activities and the related financial transactions.</i>
ROOT CAUSE	<i>Guidelines (inadequate risk management process). Resources (Inadequate staff capacity).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 5**

**PRIORITY: HIGH**

Enhance future fraud risk assessments to provide a clearer identification and assessment of the specific risks inherent to large transactions executed by the Office and its implementing partners, as well as the controls in place that mitigate these risks.

<sup>8</sup> Part of the Strategic Information System

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*The Office will update the existing Fraud Risk Assessment plan based on the corporate fraud risk management tool with responsible staff in line with monitoring of activities of the work plans at the field and the project offices, in particular for the new Country Programme.*

## **B. PROGRAMME MANAGEMENT**

**PARTIALLY SATISFACTORY**

### Good practices identified

36. The audit identified the following good practices adopted by the Office in the area of programme management, in line with established procedures:

- a) The Office engaged with the Government IPs through a consultative process for the development of the 2015 workplans. The process was initiated in a timely manner, resulting in the approval and signing of most workplans by the end of the previous year, thereby facilitating an early start of programme activities;
- b) The Office positioned staff with key Government implementing partners to provide technical and financial support to programme activities funded by UNFPA; and
- c) The Office continuously debriefed and kept donors updated on progress achieved and issues faced by the projects they funded.

### **B.1 – PROGRAMME PLANNING AND IMPLEMENTATION**

**PARTIALLY SATISFACTORY**

37. During the period under review, the Office implemented activities related to 14 outputs of the eighth Country Programme 2012-2016 at a cost of USD 13.2 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 86 per cent in 2014 and 33 per cent as at 30 April 2015 (85 per cent as at 31 December 2015), measured based on annual budgets allocated in Atlas.

38. Activities were implemented directly by UNFPA, with related expenses of USD 7.3 million, with financial implementation rates of 82 per cent in 2014 and 20 per cent as at 30 April 2015 (82 per cent as at 31 December, 2015). A large portion of the expenses related to UNFPA's implemented activities corresponded to procurement of consultancy services and to personnel costs.

39. Activities were also implemented by 20 IPs engaged by the Office, with related expenses of USD 5.9 million, and financial implementation rates of 92 per cent in 2014 and 88 per cent as at 31 December 2015 (there were no IP executed activities in the first quarter of 2015). Additional details on IP implemented activities are provided in Section B.2 of the report.

40. Audit work performed in this area focused on three programme outputs with aggregate expenses of USD 7.4 million during the period under review (43 per cent of programme implementation expenses) and included (a) the review of a sample of eight workplans related to the outputs selected, for both 2014 and 2015; (b) the assessment of the process followed to prepare, cost and approve the workplans, as well as monitor their implementation; and (c) the review of workplan progress reports, monitoring reports and other evidence of programme implementation. In addition, the audit included site visits to nine 'Mother and Child Welfare Centres' in six regions.

41. Based on the work performed in this area, the audit noted the following matters that need Management attention.

Strengthen the programme results and resources framework

42. The eighth Country Programme Results and Resources Framework did not include baselines and targets for any of the seven outputs covered. In addition, indicative resources were presented by programme component rather than per output, as required by the applicable policies and procedures. It should be noted that the eighth Country Programme was developed and approved prior to the creation of the Headquarters Programme Review Committee in 2013, which now provides a systematic quality assurance of Country Programme documents prior to their submission to the Executive Board. In this regard, the audit noted that the ninth Country Programme Results and Resources Framework includes indicative resources at the output level, and that the Country Programme document received a satisfactory quality assurance rating, with a high score in the area of Results Based Management.

43. The eighth Country Programme Results and Resources Framework was updated in November 2014, to align it to the UNFPA Strategic Plan 2014-2017. The audit noted that the baselines documented in the updated Results and Resources Framework were not based on a formal baseline survey but on information from alternative data sources. The audit acknowledges the explanation provided by Management, i.e. that baseline surveys are costly and time consuming, and did not make sense in the third year of the programme cycle with limited implementation in the first and second years of the cycle.

44. A Country Programme Action Plan (CPAP) and CPAP Results and Resources Framework were not developed at the start of the programme cycle, as the United Nations Country Team (UNCT) decided to develop a United Nations Development Assistance Framework Action Plan (UNDAF AP). From the review of this document, the audit noted that it did not reflect indicator baselines and targets for several UNFPA outputs. Management attributed the absence of baselines to the non-completion of a UNDAF AP indicator baseline survey that the UNCT had originally planned to conduct.

45. For the remaining outputs, the UNDAF AP provided 2012 baselines and cumulative targets to be achieved by the end of 2016 (the last year of the programme cycle), but without an annual breakdown of targets and estimated resources required to achieve them.<sup>9</sup> This limited the UNDAF AP's usefulness and effective monitoring of progress towards programme results.

46. Using a UNDAF AP equivalent (e.g. One Plan) in lieu of a CPAP is a common approach in many countries, especially in countries that follow the Delivering-as-One approach, and is allowed by UNFPA policies.<sup>10</sup> However, given the more limited data reflected in a UNDAF AP, in the absence of a CPAP (or similar document), Management may lack a critical tool to elaborate and refine, on an annual basis, programme design and implementation strategies, including how these evolve over successive annual workplans; and to track progress towards the achievement of intended results.

47. Issues affecting programme results and resources frameworks have already been brought to the attention of Management in previous Country Office audit reports. Actions to be taken to address the matter are the subject of ongoing discussions.

IMPACT	<i>The lack of a detailed, annualized, Results and Resources framework may limit Management ability to manage the programme and monitor progress towards achieving programme results.</i>
ROOT CAUSE	<i>Guidance (Inadequate corporate policies or procedures).</i>
CATEGORY	<i>Strategic.</i>

**RECOMMENDATION 6****PRIORITY: HIGH**

*Develop a comprehensive Results and Resources Framework for the ninth Country Programme 2017-2020, providing, for all output indicators, adequately supported baselines, annual targets and milestones, as well as estimated resources by output, broken down by year, to allow for more effective tracking of progress towards achievement of programme results, and for ease of linkage to annual workplans and management plans.*

<sup>9</sup> Guidelines for the development of UNDAF Action Plans do not require that indicators targets be broken down on an annual basis

<sup>10</sup> Policies and Procedures on the Development and Approval of Country Programme Action Plan (CPAP). Section VII.B. Page 9

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*The Office Management has already taken concrete steps to address this recommendation. Now adequately staffed with an International M&E Specialist and a National M&E Officer, the upcoming Country Programme 2017- 2020 Results and Resources Framework includes carefully selected baselines and targets for each identified indicator, opting as much as possible for nationally agreed indicators for which major surveys/baselines already exist.*

*In the absence of an output-level action plan that accompanies the new UNDAF 2017-2020, the Office Management has decided to formulate a CPAP that contains annualized targets for each output indicator for those that lend themselves for annual measuring, as well as clear resources estimates and milestones. A Theory of Change has been developed for each Output and a technical note developed for each output level indicator.*

Enhance workplans to consistently include output indicators, reliable baselines and clear targets

48. The audit noted a significant improvement in workplan quality between 2014 and 2015, based on its review of a sample of eight work plans – four in 2014 and four in 2015.

49. All 2015 workplans reviewed included indicators, baselines and targets, whereas none of those reviewed for 2014 did. Testing of the 2015 baselines showed, however, that some of them were inaccurate. In addition, targets relating to facilities (Mother and Child Welfare Centers and District Hospitals) did not clearly identify those where support would be focused in 2015 – thereby limiting the Office ability to measure success as expected in the related workplans. Based on discussion with Management, gaps in the 2014 workplan quality were mainly attributed to the Deputy Representative vacancy.

IMPACT	<i>In the absence of accurate baselines and clear targets, it may not be possible to monitor and to assess whether expected results have been achieved.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Resources (lack of human resources).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 7**

**PRIORITY: HIGH**

*Include accurate baselines, and clear and well-documented targets for all annual workplan output indicators.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Already implemented*

*The Office has ensured that appropriate output indicators, baselines and targets were reflected in its 2016 workplans, both for IP and Office implemented plans.*

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The status of implementation of the recommendation reported by Management is acknowledged, and will be validated as part of the internal audit recommendation follow-up process.*

**B.2 – NATIONAL EXECUTION**

**SATISFACTORY**

50. National Execution (NEX) expenses amounted to USD 5.9 million (45 per cent of total programme implementation expenses) in 2014, corresponding to activities implemented by 12 governmental IPs and 8 non-governmental organizations (NGOs). There were no NEX expenses reported as at 30 April 2015 (end of audit testing period). Per the available general ledger information, NEX expenses during the period under review corresponded primarily to training activities (USD 3.3 million – 55 per cent of NEX expenses) and consultancies (USD 1.0 million or 17 per cent of NEX expenses).

51. NEX audits performed in 2015 covered expenses incurred in 2014 by 11 of the 20 IPs engaged, amounting to USD 5.5 million or 93 per cent of total NEX expenses in that year. All NEX audit reports were unqualified. Operating Fund Account balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 1.4 million quarterly in 2014, and amounted to USD 0.1 million as at 31 December 2014 and USD 1.6 million as at 30 April 2015.

52. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes; (b) the existence of appropriate agreements signed with the IPs; (c) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by the IPs through the use of Funding Authorization and Certificate of Expenditure (FACE) forms; (d) the controls implemented over the OFA, used to record and control funds advanced to the IPs; and (e) the process followed to monitor IP activities, for a sample of five IPs (three Government and two NGO IPs) engaged by the Office with reported aggregate programme implementation expenses of USD 3.1 million (approximately 52 per cent of NEX expenses) in 2014.

53. The audit also: (a) reviewed the 2014 NEX audit reports for the same IPs noted above; and (b) conducted site visits to and meetings with three of them, 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 workplan 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.

54. The audit identified the following area in need of Management attention.

*Complete capacity assessments of all Government implementing partners*

55. The HACT<sup>11</sup> assessments of the 11 Government IPs engaged by the Office, responsible for the implementation of the majority of NEX activities and approximately 76 per cent of total NEX expenses in the period under review, had not yet been completed at the time of the audit field mission. Based on discussions with the Office and other United Nations organizations at the time of the mission, authorization of the Bangladesh Government to complete the assessments was awaited.

56. From its review of the 'Implementing Partner Assurance System' information at the time of issuance of the draft audit report, the audit noted that only 2 of the 13 Government IPs engaged in 2016 had been assessed. The audit also noted that, as a risk mitigation strategy – with which the audit concurs – the Office continued to maintain staff at key Government IPs, and that all IPs not yet assessed were considered 'high risk', with spot-checks scheduled for all of them to be completed in the last quarter of 2016, as well as financial audits to be completed by 30 April 2017, covering expenses incurred in 2016.

IMPACT	<i>The effectiveness and efficiency of programme implementation may be impacted by IP capacity gaps not identified by the Office.</i>
ROOT CAUSE	<i>Other (factors beyond the control of UNFPA).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 8**

**PRIORITY: HIGH**

*In collaboration with the Resident Coordinator and other United Nations organizations operating in Bangladesh, advocate to obtain Government approval and complete the assessment of Governmental implementing partners before the start of the ninth Country Programme cycle. Should this not be possible, maintain rigorous programmatic and financial monitoring over these partners.*

<sup>11</sup> Harmonized Approach to Cash Transfers



MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2017*

*The Ministry of Finance, which oversees all development partners' support to the Country, has given the United Nations its written authorization for the United Nations to carry out Government implementing partner capacity assessments. An inter-agency working group led by UNDP has been formed. By end December 2016, micro-assessments for a total of 10 Government IPs will have been completed. Micro-assessments for civil society organizations (CSOs) have started but cannot be completed until the competitive process now underway of selecting IPs for the next Country Programme is completed. It is estimated that by June 2017, all micro-assessments for both Government and CSOs will be completed and the HACT system fully implemented by all relevant UN agencies, including UNFPA.*

*Enhance the selection and capacity assessment process of NGO implementing partners*

57. The audit was not provided with documentation evidencing the selection process of two NGOs included in the audit test. A file pertaining to the selection process of one of the NGOs was in the process of being completed at the time of the audit field mission while, for the other one, the file was located two weeks into the mission. There were no formal governance arrangements in place, such as an IP management committee, to oversee NGO selection, project award and performance.

58. In addition, from its review of available capacity assessment for the six NGOs engaged during the period under review, the audit noted one NGO where the assessment was finalized nine months after being engaged; another NGO had not been assessed in the eighth Country Programme cycle and its last capacity assessment had been conducted in March 2008 (the audit noted that the Office was conducting a new assessment at the time of the audit field mission). The audit also noted that the responses to the capacity assessment questions and risk scores assigned to each assessment area were not always adequately supported with commentary and other appropriate evidence; in addition, relevant documentation for the areas assessed, including summaries of IP policies and procedures related to these areas, was not always available on file. Further, for two assessments tested, proposed capacity building activities and recommendations were not clearly documented.

59. From its review of the 'Implementing Partner Assurance System' information, the audit noted that most NGO IPs engaged by the Office in 2016 had not yet been subject to HACT assessments at the time of issuance of the draft report. The audit also noted that, as a risk mitigation strategy – with which the audit concurs – the Office rated all NGO IPs not yet assessed as 'high risk' and scheduled spot-checks for all of them to be completed in the last quarter of 2016, as well as financial audits to be completed by 30 April 2017, covering expenses incurred in 2016.

IMPACT	<i>The effectiveness and efficiency of programme implementation may be impacted by IP capacity gaps not identified by the Office.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 9**

**PRIORITY: MEDIUM**

*Implement a more rigorous and better documented NGO selection process, along the lines of the recently released policy and procedure for selection, registration and assessment of implementing partners.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*Following approval of the ninth Country Programme and completion of the corresponding CP Action Plan, the Office Management has mapped out prospective CSO/NGO partners with capacity to deliver the planned results.*

*A two-pronged approach was adopted for the NGO partner selection: 1) As for those results for which specific NGOs have been pre-chosen and in case the projected budget to be allocated to the NGO exceeds USD 500,000 during the Country Programme cycle, the Office has already submitted for APRO's approval a request for a waiver to the*

competitive selection process. 2) For the remaining result areas where UNFPA plans to work with CSO/NGO partners, a competitive selection process has been followed through the normal bidding process.

The Office Management will develop a TOR and form a “NGO selection and assessment committee” comprising selected members of the Office Management team, Programme and Operations staff, to be activated for the next Country Programme 2017-2020. The Country Office will then form a selection committee to screen, rank by capacity strength and strategic interest, and recommend CSO IPs. The Country Office Management will then make final decision based on the review committee’s recommendations.

**RECOMMENDATION 10****PRIORITY: MEDIUM**

Complete HACT micro assessments for all NGOs to be engaged for the ninth Country Programme 2017-2020, ensuring that the assessments (i) clearly document the rationale underlying risk scores assigned and their implications as regard IP management and monitoring; (ii) provide relevant information and documentation of key IP processes and controls; and (iii) and clearly identify capacity gaps and recommended capacity building activities.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2017

The Office agrees that there is a need for a more transparent and rigorous selection and capacity assessments of CSO IPs. There are more than 1,000 CSOs in Bangladesh working in the key components of the current Country Programme. The selection was informed by the Office knowledge of those NGOs’ past performance in terms of capacity to deliver and technical expertise. For the ninth Country Programme, a more rigorous process will be put in place. Some remedial actions will be taken as outlined below:

- a) Form an office “NGO selection and assessment Committee”;
- b) Review all IP capacity assessments and address any shortcomings;
- c) Finalize the capacity assessment using the new assessment tools.

**B.3 – INVENTORY MANAGEMENT****SATISFACTORY**

60. During the period under review, the Office supplied inventory worth USD 0.5 million, consisting mainly of medical products procured by UNFPA’s Procurement Services Branch based in Copenhagen, Denmark.

61. Given the low audit risk assessed for this area, audit work performed was limited to testing the related procurement processes undertaken locally, with satisfactory results.

**B.4 – MANAGEMENT OF NON-CORE FUNDING****SATISFACTORY**

62. Programme implementation expenses funded from non-core resources amounted to approximately USD 4.7 million (39 per cent of total programme expenses) in the period under review. The largest contributions corresponded to funding provided by three different donors to support the acceleration of progress towards maternal and neonatal mortality and morbidity reduction (USD 1.9 million), the 2011 population and housing census (USD 1.4 million) and the ‘Generation Breakthrough’ project, designed to prevent gender-based violence, meet sexual and reproductive healthcare needs and establish rights of adolescents (USD 1.0 million).

63. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for three major co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the new cost recovery policy. Inquiries of representatives of the three major donors were made to obtain an understanding of their working relationship with the Office and their assessment of UNFPA’s performance and achievements.

64. Based on the audit work performed in this area, the audit noted no matter that needs Management attention.

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

65. The audit identified the following good practices adopted by the Office in the area of operations management [practice b) could be considered for replication by other offices]:

- a) The Office kept comprehensive and well documented procurement files;
- b) A local human resources portal was developed to receive recruitment applications online using a local website. This portal has been in use since 2012. This tool was used primarily for shortlisting candidates, but its scope could be enhanced to include other steps of the recruitment process; and
- c) Customized travel authorization forms and guidance note for local and international travel were developed to facilitate the processing of travel transactions.

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

66. During the period under review, the Office incurred payroll expenses amounting to USD 1.9 million. In addition, the Office made use of contract personnel and engaged 48 individuals under the SC modality and another 36 under the Special Service Agreement (SSA) modality, for management and programme delivery activities, incurring related expenses in the amount of USD 2.1 million. At the time of the audit field mission, the payroll for both staff members and SC holders was managed by the United Nations Development Programme (UNDP).

67. Audit 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 at UNDP; (c) a walk-through of the recruitment process for three staff members; and (d) the testing of a sample of 12 SCs and 10 SSAs awarded by the Office, at a cost of USD 0.4 million, for linkage to the corresponding workplans, and compliance with policies and procedures, and operating effectiveness of controls in the areas of (i) recruitment; (ii) contract award; and (iii) contract management. Audit procedures also included a review of the Office leave management process and benefits.

68. Based on the audit work performed in this area, the audit noted the following matters that require Management attention.

Strengthen compliance with service contractor modalities

69. From its review of a sample of 12 SCs, the audit noted that there were no clearly documented criteria for determining pay levels, and that these were not independently reviewed to ensure that they correspond to approved pay scales. In one case, the interview panel recommended a specific level for a SC applicant who was, however, selected at a higher level.

70. The audit also noted that most SCs awarded during the period under review had been issued by the Office itself, instead of UNDP, as required by the applicable policy.

IMPACT *Contract personnel pay levels may exceed the approved scales.*

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

CATEGORY *Operational.*

**RECOMMENDATION 11****PRIORITY: MEDIUM**

*Establish a mechanism for SC post classification and determination of pay levels in accordance with the established scales.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2017*

*The Office Management will request UNDP to confirm the existence of UNDP classification panel and to provide UNFPA support in classification of TORs of SC posts and fixation of salary bands and quarterlies.*

**RECOMMENDATION 12**

**PRIORITY: MEDIUM**

*Process service contract issuance through UNDP.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Already implemented*

*This recommendation has already been addressed. All SC contracts, new or extensions are now being issued by UNDP following a formal request by the Office to UNDP.*

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The status of implementation of the recommendation reported by Management is acknowledged, and will be validated as part of the internal audit recommendation follow-up process.*

*Update job classifications to prevent differences between budget and encumbered post levels*

71. The audit noted differences between the budgeted and encumbered levels of four national fixed-term posts and that, in two cases, the concerned staff was hired at a level above the budgeted one. The overall financial impact of the issue identified is not material, yet requires Management attention to avoid future occurrences.

IMPACT *The budget allocated to cover payroll expenses may not sufficient.*

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

CATEGORY *Operational.*

**RECOMMENDATION 13**

**PRIORITY: MEDIUM**

*In consultation with the APRO Human Resource Strategic Partner, resolve the classification exceptions identified by the audit and implement supervisory controls to prevent similar instances in the future.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2017*

*The issue of classification exception was discussed again with APRO and the HR Alignment Mission. The agreement was to consider this matter as part of the HR Alignment process under way. The implementation of the approved Organizational Chart will be carried out in the first half of 2017.*

**C.2 – PROCUREMENT**

**SATISFACTORY**

72. During the period under review, the Office locally procured goods and services at a cost of approximately USD 4 million, issuing a total of 1,400 purchase orders. The most significant categories of goods and services procured corresponded to communication services, assets, office management and occupancy costs.

73. Audit work performed in this area included the review of 40 procurement transactions made at a cost of USD 0.8 million (20 per cent of local procurement level) for (a) linkage to the corresponding workplans, (b) compliance with the UNFPA procurement principles,<sup>12</sup> policies and procedures, as well as (c) 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; (vii) receiving and (viii) vendor management. Audit work also included the review of the procurement planning process and the management of charges related to common services shared with other United Nations organizations.

74. The following matters in need of Management attention were identified based on the work performed.

<sup>12</sup> Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

Enhance the use of long-term procurement agreements to obtain best value for money

75. The audit noted that the Office procured computing equipment and peripheral devices, at a cost of USD 49,100, leveraging a year-old, fixed-price long term agreement (LTA) awarded by another United Nations organization operating in Bangladesh, at the prices established at the time of LTA award. Considering the volume and type of equipment procured and the trends in the information technology equipment market, the Office should have performed a market survey or obtained additional quotes from other potential vendors to ensure that the LTA prices continued to be favorable and provide best value-for-money.

IMPACT	<i>The Office may not have obtained best value for money by procuring IT equipment at prior years' prices.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 14**

**PRIORITY: MEDIUM**

*Complete market surveys or undergo secondary bidding before awarding large procurements leveraging fixed-price long-term agreements.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*                      STATUS: *Agree*

MANAGEMENT ACTION PLAN:                                                              DUE DATE: *June 2017*

*The Office will carry out market surveys for the establishment of long-term agreements where necessary and feasible. When using LTAs with fixed price basis from other agencies, the Office will undertake a quick market survey before placing an order for products subject to frequent change of technology and price.*

**C.3 – FINANCIAL MANAGEMENT**

**SATISFACTORY**

76. Work performed in this area included the review of: (a) the Office financial management capacity; (b) the authorization and proper processing of financial transactions; (c) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; (d) the operating effectiveness of controls over the accounts payable and payments process; (e) the budget management process; (f) the effectiveness of the financial management accountability process; and (g) the value-added tax (VAT) control arrangements in place at UNFPA.

77. The following matters in need of Management attention were identified based on the work performed.

Clarify the scope of the value-added tax exemption and implement procedures to prevent taxation of exempt transactions

78. The audit noted that there is no process in place to ensure that VAT built into prices billed by vendors (i.e., not separately disclosed in invoices) for taxed goods and services procured is segregated and removed from the amount paid to the vendor. Upon inquiring with other UN organizations in country, the audit noted that there was a lack of clarity about the scope of VAT exemption on procurement made either by United Nations organizations or by IPs using United Nations funds. Upon inquiry with IPs, the audit subsequently confirmed that the latter are not currently exempt from VAT when procuring of goods and services using United Nations organizations' funding.

IMPACT	<i>The Office may pay VAT costs from which it may be exempt.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

**RECOMMENDATION 15**

**PRIORITY: MEDIUM**

*Work with the United Nations Country Team to obtain clarity on the scope of the value-added tax exemption and, if applicable, to extend it to purchases of goods and services undertaken by implementing partners using funding provided by United Nations organizations. In addition, implement supervisory controls to enforce the exemption in those instances where VAT is not separately disclosed in vendor invoices.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

*The Office Management will continue to raise this issue with the United Nations Country Team and the Local Consultative Group (LCG), an official and formal forum of consultation between the Government of Bangladesh and Development Partners. Once the issue is clarified and a decision is made by the Government, the Office Management will proceed in seeking refunds of VAT paid on goods and services procured by the Office.*

Record financial transactions in the appropriate general ledger accounts

79. The audit noted that the costs of services procured from different vendors were incorrectly charged to a 'Local Consultants' general ledger account instead of the appropriate 'Service Companies' account.

IMPACT *Inaccurate financial accounting and reporting may lead to incorrect decisions and limit the effectiveness of financial monitoring.*

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

CATEGORY *Reporting.*

**RECOMMENDATION 16**

**PRIORITY: MEDIUM**

*Establish appropriate supervisory controls to ensure the use of correct general ledger codes for recording expenditures.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Already implemented*

*The Office has carried out a reversal and recoding of transactions in ATLAS incurred in 2015. The Office has also put in place a systematic review process that involves the project manager and the assigned Finance Officer to avoid similar errors in the future.*

OAIS COMMENTS ON THE MANAGEMENT RESPONSE: *The status of implementation of the recommendation reported by Management is acknowledged, and will be validated as part of the internal audit recommendation follow-up process.*

**C.4 – GENERAL ADMINISTRATION**

**SATISFACTORY**

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

81. Travel expenses incurred by the Office during the period under review amounted to USD 0.7 million. A significant portion of the expenses corresponded to Daily Subsistence Allowance (DSA) payments for training workshops, meetings, and consultancy services for approximately USD 0.5 million. Audit work performed in this area consisted of a walk-through and testing of a sample of 20 DSA payments amounting to approximately USD 0.07 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 (a) the procurement of travel services; and (b) the authorization, calculation and payment of daily subsistence allowances.

82. In the period under review, the Office procured fixed assets for its own use and for use by IPs at a cost of USD 1.0 million. The most significant categories of fixed assets procured were motor vehicles, and IT and other equipment in relation to the population and housing census project. Audit work performed in this area included a walk-through and testing of a sample of 10 assets procured for use in 2014, at a cost of USD 0.2 million (20 per cent of total fixed asset procurement) for appropriateness of business purpose and compliance with the asset management policies and procedures.

83. No reportable matters were identified based on the audit work performed.

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

**SATISFACTORY**

84. Work performed in this area was limited to the review of Atlas access rights, the Office backup policy and IT Disaster recovery plan. The audit also performed a physical inspection of the server room.

85. The audit noted the following matter in need of Management attention.

*Expedite the installation of the new server and finalization of the disaster recovery plan and back-up policy*

86. The audit team noted that a planned upgrade of the Office server, as well as the disaster recovery plan and back-up policy had not been finalized at the time of the audit field mission.

IMPACT	<i>The Office's activities may be affected by information technology availability and reliability issues.</i>
ROOT CAUSE	<i>Guidance (Inadequate supervision at Office level).</i>
CATEGORY	<i>Compliance.</i>

**RECOMMENDATION 17**

**PRIORITY: MEDIUM**

*Expedite the planned server upgrade and complete the development of the disaster recovery plan and back-up policy.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2016*

*At the time of the audit, the Office had already initiated action to procure a server and carry out all necessary steps as recommended. Following steps were taken/to be taken:*

- a) Finalized the set up and launched the newly procured server;*
- b) Finalized and now implementing the Disaster Recovery plan;*
- c) Implement the server backup policy as per the Disaster Recovery Plan;*

**C.6 – SECURITY MANAGEMENT**

**SATISFACTORY**

87. Work performed in this area included (i) the review of the most recent Minimum Operating Security Standard (MOSS) assessment; (ii) the assessment of compliance with mandatory security training requirements; and (iii) inquiries to the local United Nations Department of Safety and Security about its relation with UNFPA, the active engagement of UNFPA Office Management including its participation in the Security Management Team.

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

## ANNEX 1

### Definition of Audit Terms

#### A. AUDIT RATINGS

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

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

#### B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

#### C. PRIORITIES OF AUDIT RECOMMENDATIONS

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

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



entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

#### **D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES**

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

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

## GLOSSARY

Acronym	Description
<b>APRO</b>	Asia and the Pacific Regional Office
<b>COGNOS</b>	Corporate reporting system used by UNFPA
<b>CP</b>	Country Programme
<b>CPAP</b>	Country Programme Action Plan
<b>CSO</b>	Civil Society Organization
<b>DaO</b>	Delivering-as-One
<b>DHR</b>	Division for Human Resources
<b>DSA</b>	Daily Subsistence Allowance
<b>ERM</b>	Enterprise Risk Management
<b>FACE</b>	Funding Authorization and Certificate of Expenditures
<b>HACT</b>	Harmonized Approach to Cash Transfers
<b>HIV</b>	Human Immunodeficiency Virus
<b>IP</b>	Implementing Partner
<b>LTA</b>	Long Term Agreement
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MOSS</b>	Minimum Operating Security Standards
<b>NEX</b>	National Execution
<b>NGO</b>	Non-Governmental Organization
<b>OAIS</b>	Office of Audit and Investigation Services
<b>OFA</b>	Operating Fund Account
<b>SSA</b>	Special Service Agreement
<b>SC</b>	Service Contractor
<b>SIS</b>	Strategic Information System
<b>UNCT</b>	United Nations Country Team
<b>UNDAF</b>	United Nations Development Assistance Framework
<b>UNDAF AP</b>	United Nations Development Assistance Framework Action Plan
<b>UNDP</b>	United Nations Development Programme
<b>UNFPA</b>	United Nations Population Fund
<b>UNICEF</b>	United Nations Children's Fund
<b>UNOPS</b>	United Nations Office for Project Services
<b>USD</b>	United States Dollars
<b>VAT</b>	Value-Added Tax