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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT
OF THE UNFPA COUNTRY OFFICE
IN SOUTH SUDAN**

FINAL REPORT
N° IA/2016-11

08 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 South Sudan (the Office). 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.

Background

2. The activities covered by the audit correspond primarily to the third and fourth years of the first Country Programme 2012 – 2016, approved by the Executive Board in its first regular session of 2012, initially to cover a two-year period 2012 – 2013, with indicative resources of USD 21.2 million. The programme was extended for two and a half years (1 January 2014 – 30 June 2016), with additional indicative resources of USD 55.7 million, to allow alignment to the United Nations Development Assistance Framework and the South Sudan Development Plan 2011 – 2013, both of which were extended for a similar period. Expenses incurred in the period under review covered by the audit amounted to USD 31.0 million, executed by 14 implementing partners (USD 10.7 million) and by UNFPA (USD 20.3 million), funded from core resources of USD 8.3 million and non-core resources of USD 22.7 million. In addition, the audit covered the supply of commodities procured with funding provided by the UNFPA Supplies programme totalling USD 1.6 million (South Sudan is one of the 46 priority countries of this programme), as well as expenses incurred in previous periods amounting to USD 0.4 million, which correspond primarily to the procurement of vehicles and direct payments made by the Office to suppliers on behalf of its implementing partners.

3. Approximately 79 per cent of the expenses incurred in the period under review correspond to the Reproductive Health component. The Population and Development component accounted for 4 per cent of the expenses, and the Gender component for another 2 per cent. Programme interventions embedded a significant humanitarian response component, originating from a large increase in internally displaced persons following armed conflict in December 2013 and an earlier influx of returnees and refugees from the Republic of Sudan following the country's independence in July 2011, with related expenses of approximately USD 10.3 million in the period under review. 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 15 per cent of expenses.¹

Methodology and scope

4. 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 analysing, on a test basis, information that provided the basis for the audit conclusions.

5. The scope of the audit included a 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

6. The audit indicates that, for the period covered, the risk management performance of the Office was '**Partially Satisfactory**', which means that governance, risk management and internal control processes were 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. Ratings by key audit area are summarized in the table next page:

¹ Source: Atlas information for the year of 2014 and the first and second quarters of 2015

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		Partially satisfactory
<i>Programme planning and implementation</i>		<i>Partially Satisfactory</i>
<i>National execution</i>		<i>Partially Satisfactory</i>
<i>Inventory management</i>		<i>Satisfactory</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
Operations Management		Satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Satisfactory</i>

Key findings and recommendations

7. The audit identified some 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. Overall, the audit report includes nine high priority and four medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 13 recommendations, 3 are of strategic nature; 6 are operational; and 4 refer to compliance matters. One of the recommendations is addressed jointly to the Office, the East and Southern Africa Regional Office, and a Headquarters unit.

Good practices

8. The audit identified several good practices adopted by the Office, some of which could be considered for replication by other offices. The Office developed a robust partnership plan and updated it periodically; individual performance plans were aligned to office priorities; coordination and monitoring mechanisms for Office activities were in place, and staff was knowledgeable about their assigned roles and responsibilities.

9. The Office developed a tracking tool for commodity tracking and a checklist for monitoring donor related reporting. Early initiation of customs clearing processes ensured prompt release and delivery of commodities. Workplan preparation was initiated in a timely manner facilitating an early start to programme activities. Finally, the Office developed a number of reports and tools to support its operations, including fuel monitoring tables and staff cost monitoring reports.

Strategic level

10. From a governance point of view, the Office needs to finalize implementing the actions recommended by the human resources alignment process and complete all pending recruitments. This would allow the Office to reduce its current dependency on contract personnel and other shorter term contracting modalities. The Office should also strengthen its programme results and resources framework, and enhance the process for assessing and managing fraud risk.

Operational level

11. The Office needs to follow a competitive process for engaging implementing partners and when not possible, more clearly document the rationale for selecting them. Of paramount importance, the Office needs to significantly improve its monitoring of implementing partner activities, and design and implement appropriate tools and checklists to assist in the effort.

12. Support to the Government, to address issues impacting commodity availability and stock-outs and to improve commodity storage, controls and record-keeping at service delivery points, should be scaled-up. The Office should also improve its programmatic indicators related to commodity security, clearly identify target service delivery points on which commodity security interventions should be focused and regularly monitor commodity availability and stock-out levels.

Compliance level

13. All personnel should complete UNFPA mandatory trainings, and individual staff training needs should be more clearly identified and fulfilled. Forms prescribed by UNFPA policies should be used to document receiving, inspection and delivery of commodities. Further, compliance with policies and procedures governing the management of contract personnel should be enforced or authorization obtained for deviations mandated by the challenging operational context. Finally, conflict of interest declaration forms should be completed by members of procurement panels.

Circumstances affecting the Office programme delivery and operational activities

14. During the period under review, the Office faced multiple security and other challenges related to the context in which it operates. The audit noted that these challenges have continued in 2016, and may impact the Office ability to implement the recommendations included in this report, particularly as regards implementation timeline.

Management response

15. Management notes the good practices identified by the audit team and will continue with such. Management also notes the audit observations and the related 13 recommendations and agrees to the findings as relevant for the Office and within the context of South Sudan. Out of the 13 audit recommendations, Management observes that implementation of four is complete, while the rest are at various stages of completion.

16. The OAI team would like to thank the Management and personnel of the Office, of the East and Southern Africa 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, including 2016, 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 South Sudan.
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 a 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 OAS audit specialists, supported by staff from an external audit firm. The audit started on 31 August 2015. A field mission took place from 6 October to 6 November 2015. Findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 29 October 2015. In-country unforeseeable developments, as well as in OAS, impacted the draft report finalization. Comments and clarifications provided by Management were reflected in a draft report submitted to the Office Management on 27 October 2016, and a final Management response received on 21 November 2016.

II. BACKGROUND

6. Following decades of war and a six-year interim period under the Comprehensive Peace Agreement, South Sudan officially became an independent state on 09 July 2011. South Sudan entered statehood as one of the most underdeveloped countries in the world. At least 80 per cent of its 8.3 million people are poor, living on the equivalent of less than USD 1 per day.² Despite progress made in the establishment of state structures and essential institutions, the world's newest State faces overwhelming challenges, both in terms of scale and complexity.

7. South Sudan has some of the poorest health indicators in the world. Less than 40 per cent of the population has access to any form of health care. The HIV prevalence is estimated at 3 per cent and knowledge about HIV/AIDS is extremely low.² The maternal mortality ratio, estimated at 2,054 deaths per 100,000 live births³ is the highest in the world. Skilled birth attendants are present at only 14.7 per cent of births; South Sudan has less than one nurse-midwife per 100,000 people.² High rates of early marriage and teenage pregnancy exacerbate the situation. The teenage pregnancy rate, 300 births per 1,000 females aged 15-19, is linked to the absence of reproductive health programmes targeted at the youth.² The contraceptive prevalence rate is low at 1.7 per cent, mainly due to lack of contraceptives, as well as lack of information and sensitization at the community level.² Eighty-five per cent of the total population, and more than 90 per cent of women are illiterate.² Obstetric fistula and female genital mutilation are prevalent. Gender-based violence negatively impacts both individuals and communities.²

8. The activities covered by the audit correspond primarily to the third and fourth years of the first Country Programme 2012 – 2016, approved by the Executive Board in its first regular session of 2012, initially to cover the two-year period 2012 – 2013, with indicative resources of USD 21.2 million. The programme was subsequently extended for two and a half years (1 January 2014 – 30 June 2016), with additional indicative resources of USD 55.7 million, to allow the alignment to the United Nations Development Assistance Framework (UNDAF) and the South Sudan Development Plan 2011 – 2013 both of which were extended for a similar period. Expenses incurred in the period under review covered by the audit amounted to USD 31.0 million, executed by 14 implementing partners (USD 10.7 million) and by UNFPA (USD 20.3 million), funded from core resources of USD 8.3 million and non-core resources of USD 22.7 million. In addition, the audit covered the supply of commodities procured with funding provided by the UNFPA Supplies programme totalling USD 1.6 million (South Sudan is one of the 46 priority countries of this programme), as well as expenses incurred in previous periods amounting to USD 0.4 million, which correspond primarily to the procurement of vehicles and direct payments made by the Office to suppliers on behalf of its implementing partners.

9. Approximately 79 per cent of the expenses incurred in the period under review correspond to the Reproductive Health component. The Population and Development component accounted for 4 per cent of the expenses, and the Gender component for another 2 per cent. Programme interventions embedded a significant humanitarian response component, originating from a large increase in internally displaced persons following armed conflict in December 2013 and an earlier influx of returnees and refugees from the Republic of Sudan after the country's independence in July 2011, with related expenses of approximately USD 10.3 million in the period under review. 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 15 per cent of expenses.⁴

10. During the period under review, the Office operated under difficult conditions, facing a set of programmatic and operational challenges originating from the country's fragile context. These challenges included, *inter-alia*: (a) a highly insecure environment that at one point (January 2014), forced the evacuation of staff; (b) limited or no access to several geographical areas due to continuous fighting and flooding; (c) significant human resource capacity gaps that lead to intense competition for available local staff, even amongst United Nations organizations; (d) low implementing partner capacity; (e) destruction of health facilities and looting of humanitarian and development supplies and equipment; (f) high cost and scarcity of fuel for logistical support services; (g) unavailability of cash for day-to-day transactional needs; (h) the collapse of the country's foreign exchange system; and (i) continued insecurity in the capital city and other major towns that resulted in frequent curfews, curtailing operations.

² South Sudan Country Programme Document 2012 – 2013

³ South Sudan Country Programme Document for 2016 – 2017

⁴ Source: Atlas information for the year of 2014 and the first and second quarters of 2015

11. The UNFPA Office in South Sudan is located in the capital city of Juba. During the period under review, the Office was managed by a Representative, assisted by a Deputy Representative and an International Operations Manager.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

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

- a) The Office developed a robust partnership plan, updated periodically and complemented by a comprehensive risk assessment process;
- b) Individual performance plans were aligned to the Office annual plan outputs, activities and milestones;
- c) The Office staff were knowledgeable of their assigned roles and responsibilities; and
- d) Coordination mechanisms for the monitoring and follow-up of Office activities were in place. In particular, programme, operational, management and general staff meetings were held on a regular basis and the resultant minutes filed for reference.

A.1 – OFFICE MANAGEMENT

SATISFACTORY

13. Audit procedures performed in this area included the review of (i) the Office planning process in 2014 and 2015; (ii) the relevance of the 2014 and 2015 annual plans and the level of implementation of activities in 2014; (iii) the alignment of the 2014 and 2015 performance plans of key personnel to the Office priorities; (iv) the effectiveness of Management oversight of programme delivery and operational activities; (v) the accuracy of the Office 2014 Annual Report; and (vi) the level of familiarization of the Office personnel with UNFPA's policies and procedures.

14. No reportable matters were identified based on the audit work performed in this area.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

PARTIALLY SATISFACTORY

15. The UNFPA Office in South Sudan is located in the city of Juba. At the time of the audit field mission, the Office had 55 approved fixed-term staff posts, including 18 international posts. Sixteen of the approved staff posts (13 national and 3 international posts) were vacant at the time of the mission. An additional 61 posts were covered by contract personnel (engaged under Service Contracts and Special Service Agreements), 40 by UN Volunteers, and four by staff seconded from other UNFPA offices. Thirteen staff members were temporarily assigned to the Office at various points of time in 2014 to assist with humanitarian response activities following the December 2013 crisis.

16. Audit work performed in this area included the review of (i) the alignment of the organizational structure and staffing arrangements with the requirements for the delivery of the Office programme and operational activities; (ii) the use of proper contractual modalities; (iii) the effectiveness of the performance appraisal process; and (iv) the relevance and sufficiency of staff development activities conducted during the period under review.

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

Finalize implementation of the human resources alignment

18. An interim organogram and staffing structure were designed when the Office was established as an autonomous Country Office in 2012, at the onset of the first South Sudan Country Programme.⁵ It was based on a review undertaken by the Representative, pending a comprehensive human resources assessment. The assessment was completed in 2014 by the Headquarters Division for Human Resources (DHR). The proposed structure and staffing were approved by the East and Southern Africa Regional Office (ESARO) and DHR in May 2015.

19. As a result of the delay in completing and approving the assessment, the Office was in the process of recruiting for the approved positions at the time of the audit field mission, one and a half years after completion of the assessment and well into the final phase of the Country Programme period. The Office was forced, in the interim,

⁵ Prior to that point, as from 2006, it operated as a sub-office implementing programme activities within the framework of the Republic of Sudan Country Programme

to resort to extensive use of contract personnel – several of whom performing core functions, detail assignments and UN Volunteers to meet its programme delivery and operational needs, including those related to humanitarian response activities.

ROOT CAUSE *Guidance (Inadequate guidance at Regional Office and Headquarters level).*

IMPACT *The Office programme delivery and operational activities may be affected by insufficient human resources and the need to rely extensively on shorter-term contracting modalities.*

CATEGORY *Strategic.*

RECOMMENDATION 1

PRIORITY: HIGH

Finalize the implementation of the human resources realignment as a matter of urgency.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative; Regional Director - ESARO; and Director, DHR* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2017*

Implementation of the human resources realignment has been put on hold for posts funded under the Biennium Support Budget and core funds, in line with a directive issued by the Deputy Executive Director (Management) in November 2016. However, recruitment under funding from other resources is almost complete.

Enhance training and learning activities

20. At the time of the audit field mission, all Office personnel had completed the mandatory security training courses. However, many staff members had not completed other mandatory courses – including those related to Ethics; Integrity and Anti-fraud, Harassment; One Voice; HIV/AIDS; Procurement; and the Internal Control Framework – with completion rates ranging between 25 to 57 per cent. In addition, only 3 out of 11 programme personnel interviewed indicated that they had completed the recommended results-based management basics training.

21. The Office conducted a comprehensive training needs assessment in July 2014. The results thereof were used as a basis for preparing the 2014 training and learning plan for the second half of the year. A similar training needs assessment was not conducted in 2015. Although a list was maintained during the year to indicate individual staff participation in mandatory trainings, there was no tool or mechanism to identify other training needs raised, and plan and monitor their fulfilment.

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

IMPACT *Programme delivery and operational activities may be affected by personnel capacity gaps.*

CATEGORY *Compliance.
Operational.*

RECOMMENDATION 2

PRIORITY: HIGH

Implement a process to identify personnel training needs, monitor their fulfilment, and enforce compliance with mandatory and recommended training by all personnel.

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

MANAGEMENT ACTION PLAN: DUE DATE: *June 2017*

Lists of staff training needs have been identified, compiled, and used as a basis for preparing a Learning Afternoon (Training) schedule. Several staff members have also benefitted from training programmes locally and internationally, based on the individual staff training needs identified and training plan developed.

The system developed to track and monitor staff compliance has been improved, with all staff members required to submit certificates of completion for all mandatory courses to the Office Human Resources Unit.

In addition, supervisors are asked to ensure that all their supervisees complete mandatory courses based on evidence of certificates of completion. Learning afternoons will be arranged to allow staff members to complete mandatory courses in teams as well.

A.3 – RISK MANAGEMENT

PARTIALLY SATISFACTORY

22. Audit work performed in this area consisted of a review of the Office latest risk assessments, the process followed for identifying, assessing and tracking risks, and the actions undertaken to mitigate them.

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

Enhance the process for assessing and managing fraud risk

24. The Office completed a fraud risk assessment in November 2014, using the then existing methodology. A fraud risk assessment, as well as a strategic risk assessment, were completed in October 2015, 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.⁶

25. The audit noted that all fraud risk factors within the scope of the new ERM process were rated as having both low inherent and residual risk, an assessment which appears not to be reflective of the risks related to the challenging context in which programme delivery and operational activities take place. In addition, the 2015 fraud risk assessment results were not consistent with those of the 2014 (pre-ERM process) assessment, which identified several risks, primarily related to procurement as presenting high inherent and residual risk.

26. Further, the 2015 assessed residual fraud risk levels do not appear realistic on account of certain control gaps identified by the audit. The most significant one is the lack of regular monitoring of implementing partner (IP) activities and transactions (refer to Section B.2 of this report). The inherent risk of misuse of funds by IPs, for example, should not have been assessed as low owing to this control gap. The rationale underlying the risk levels assessed by the Office was not clearly documented.

ROOT CAUSE	<i>Guidelines (inadequate risk management process).</i>
IMPACT	<i>Unmanaged fraud risk may lead to financial and reputational loss.</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 3

PRIORITY: HIGH

With support from the East and Southern Africa Regional Office and the Enterprise Risk Management (ERM) Coordinator, and leveraging on the 2016 ERM process, perform a more rigorous fraud risk assessment, taking in consideration the audit findings and clearly documenting the rationale underlying inherent and residual risk levels assigned.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of November 2016*

The Office undertook a comprehensive and participatory process for completing the 2016 ERM assessment. All relevant units were involved in the processes of risk identification, risk rating and development of mitigation measures, and in clearly documenting the rationale underlying inherent and residual risk levels assigned. ESARO, as well as Headquarters, were consulted in the process and their input integrated into the comments. A continuous review of ERM will be undertaken in the coming year to keep it up to date and relevant.

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.*

⁶ Part of the Strategic Information System

B. PROGRAMME MANAGEMENT**PARTIALLY SATISFACTORY**Good practices identified

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

- a) Workplan preparation activities were timely initiated, both in 2014 and 2015, allowing the approval and signing of most workplans by the end of January of the respective year and an early start to implementation of programme activities;
- b) A tool was developed for tracking commodities, supplementing the functionality provided by existing corporate tools such as the 'Order Tracking System' and the 'Atlas Shipment Tracker'. The tool allows a more effective monitoring of critical milestones in the downstream logistics process, such as arrival of shipments, request and receipt of custom duty exemption certificates, and start and completion of custom clearance activities;
- c) Commodities received were timely cleared and transported to the warehouse, in many cases on the same date of arrival in the country, avoiding storage charges and reducing the risk of commodity availability issues; and
- d) The Office developed a checklist for the scheduling and control of donor reporting activities.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION**PARTIALLY SATISFACTORY**

28. During the period under review, the Office implemented activities related to six Country Programme outputs at a cost of USD 28.8 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 89 per cent in 2014 and 51 per cent as at 30 June 2015⁷ (90 per cent as at 31 December), measured based on annual budgets allocated in Atlas.

29. Programme activities focused on all 10 states of South Sudan.⁸ They were implemented directly by UNFPA, with related expenses of USD 18.1 million (63 per cent of programme implementation expenses in the period under review) and financial implementation rates of 88 per cent in 2014 and 56 per cent as at 30 June 2015 (94 per cent as at 31 December 2015), and by 14 implementing partners (IPs), with related expenses of USD 10.7 million (37 per cent of programme implementation expenses in the period under review) and financial implementation rates of 91 per cent in 2014 and 43 per cent as at 30 June 2015 (86 per cent as at 31 December 2015). A large part of the expenses related to UNFPA's implemented activities corresponded to the procurement of reproductive health commodities, personnel costs, travel, and facilities management. Additional details on IP implemented activities are provided in Section B.2 of the report.

30. Audit work performed in this area focused on three Country Programme outputs with aggregate expenses of USD 22.9 million during the period under review (79 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for both 2014 and 2015; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as monitor their implementation by the Office and with various partners; and (c) a review of workplan progress reports, standard progress reports, monitoring reports and other evidence of programme implementation, along with site visits to two locations outside of the capital city where programme activities were implemented.

31. As previously mentioned in Section II of the report, during the period under review, the Office operated in a very complex context and facing multiple programmatic and operational challenges. In spite of them, the Office achieved noteworthy results, as reported in the Country Performance Summary which accompanied the new Country Programme Document July 2016 – December 2017 submitted to the Executive Board, including *inter-alia*: (a) delivery of an integrated package of life-saving reproductive health and gender-based violence information and services to 1.5 million persons affected by the crisis; (b) coordination of programme stakeholders, including local and international non-governmental organizations (NGOs) and United Nations organizations, under the gender-based violence sub-cluster of the Common Humanitarian Fund; (c) training of over 1,178 health providers on critical reproductive health and gender-based violence topics; (d) financial and technical support for the establishment,

⁷ Based on the applicable project monitoring reports

⁸ Subsequent to the field audit mission, 28 states were created through a presidential decree in place of the 10 constitutionally established states

expansion and renovation of facilities in 9 out of 12 major Internally Displaced Persons hosting locations; (e) recruitment and deployment of over 200 health and gender-based violence staff in five conflict-affected states; (f) procurement and distribution of medicines and equipment, including 3,718 reproductive health kits and six ambulances, to Juba and four conflict-affected locations; (g) training of 16 national midwifery/nurse tutors and their subsequent deployment to four health science training institutions; (h) training of 242 midwives and nurses and 20 associate clinicians in emergency obstetric care and surgery; and (i) provision of maternal and new-born health equipment and medicines to 10 health facilities.

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

Strengthen the programme results and resources framework

33. The audit identified the following gaps in the programme resources and results framework, which can be partially attributed to the challenges affecting programme implementation but nevertheless require action on the Management side.

Baselines

34. Nine out of 15 indicators reflected in the Country Programme Action Plan (CPAP) 2014 – 2016 resources and results framework reviewed by the audit did not have baselines. The baselines were indicated as ‘to be determined’. The unavailability of relevant data, coupled with the suspension of various demographic studies following the December 2013 armed conflict – the effects of which continued to be felt in some areas of South Sudan even at the time of audit field mission – were well-documented challenges that may have prevented the Office from establishing reasonable baselines against which to measure progress. The audit noted, however, that the results and resources framework for the second Country Programme July 2016 - December 2017 submitted to the Executive Board in June 2016 has documented baselines for all the outcome indicators included therein.

Outputs and targets

35. At the time of the audit field mission, the Office had surpassed its total non-core funding target of USD 44.3 million for the period 2014 – 2016, and had already mobilized resources amounting to USD 77.3 million since 2014, some of which were used to fund the humanitarian response programme. However, the impact of the additional funds mobilized was yet to be reflected in revised programmatic outputs and targets. Management indicated that it was awaiting the results of a mid-term review (which was underway at the time of the audit field mission) to determine the need to revisit its outputs and targets.

Resource estimates and budgets

36. Following the December 2013 armed conflict, as part of a pragmatic approach adopted by the Office to allow a timelier implementation of programme activities, the 2014 workplans were developed and signed in January 2014 on the basis of a draft CPAP 2014-2016 and actual resources available to the Office at the time. The CPAP was finally approved on 4 April 2014, largely due to the unavailability of relevant Government counterparts who were affected by the armed conflict. The UNDAF 2014 - 2016, which ordinarily should have been developed first, was only completed in August 2014. The reverse sequence followed in the development of these documents may have contributed to a mismatch in the indicative resources contained therein. The audit noted that the UNDAF indicative resources amounted to USD 72 million, while the indicative CPAP resources amounted to USD 55.73 million. Total workplan budgets for 2014 amounted to USD 22 million, compared to CPAP estimates of USD 24.5 million for the same year, whilst total workplan budgets for 2015 amounted to USD 19.0 million, compared to CPAP estimates of USD 21.6 million for the year.

ROOT CAUSE	<i>Other (factors beyond the control of the Office – country context). Guidance (inadequate supervision at Office level). Programme activities may not be aligned to the UNDAF priorities.</i>
IMPACT	<i>It may not be able to establish the relevance and achievability of targets and the reasonableness of the resources required to achieve them.</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 4**PRIORITY: HIGH**

Develop a robust resources and results framework for the new Country Programme July 2016 – December 2017 with well-documented output indicators baselines and achievable targets aligned to the level of indicative programme resources.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of November 2016*

The second UNFPA/Government of South Sudan Country Programme was developed with significant input from ESARO. The process involved national consultation with a wide cross section of stakeholders including the Government, donors, NGOs, the community and youth. The Resources and Results Framework of the second Country Programme has indicators, baselines, and targets that are aligned to the indicative programme resources.

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.*

Utilize the correct programme implementation modalities

37. From its review of four grants amounting to USD 109,378 provided in 2013 and 2014, the audit noted that these were used to fund programme activities implemented by two Governmental institutions (one of them also engaged as an IP) and two NGOs, deviating from the applicable policies which do not allow the use of this modality with Government entities and require that grants be used solely for capacity-building purposes.

38. As a result of the modality used, the interventions were accounted for as direct UNFPA execution and not subject to the applicable National Execution (NEX) controls, thereby limiting UNFPA's ability to obtain assurance about the proper use of the funding provided. It should be noted that the audit was not provided with evidence that the monitoring and reporting requirements specified in the grant agreements were fulfilled.

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

IMPACT *The reported extent of national execution is understated. Management may not be able to obtain sufficient assurance about the proper use of the funds provided through grants.*

CATEGORY *Compliance.*

RECOMMENDATION 5**PRIORITY: MEDIUM**

Implement supervisory controls to enforce the use of correct programme implementation modalities and compliance with the terms and requirements reflected in the related agreements, including for reporting and monitoring.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2017*

Few NGOs are funded under the grant agreement modality. A system for supervisory controls and ongoing monitoring and reporting has been developed and will be rigorously instituted to ensure compliance. Orientation of all programme managers and staff will be done on the new system of supervisory controls. All grant agreements will be reviewed for any corrective actions.

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

39. NEX expenses reported by the Office for the period under review amounted to USD 10.7 million (37 per cent of total programme implementation expenses), related to activities implemented by 4 Government IPs and 10 NGOs. Expenses reported as NEX corresponded primarily to contract personnel costs (37 per cent of NEX expenses), training and learning costs (23 per cent of NEX expenses), and procurement and transportation of inventory items (10 per cent of NEX expenses).

40. NEX audits performed in 2015 covered 12 of the 14 IPs engaged by the Office, with aggregated expenses of USD 7.5 million (99 per cent of total NEX expenses in 2014). Of the 12 NEX audits conducted, one received a qualified audit opinion on the basis of ineligible expenses amounting to USD 0.01 million (less than 1 per cent of audited expenses). Operating Fund Account balances, representing the funds transferred to IPs for activities not yet implemented, averaged USD 1.4 million quarterly in 2014 and USD 1.8 million quarterly in 2015, and amounted to USD 3.3 million as at 31 December 2014 and USD 2.0 million as at 30 June 2015 (USD 0.1 million as at 31 December 2015).

41. Audit work performed in this area included a 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 or other means; (d) the controls implemented to record and control funds advanced to the IPs; (e) the effective implementation of activities in field locations outside the capital city; and (f) the process followed to monitor IP activities, for a sample of six IPs (one Government IP and five NGOs) engaged by the Office with reported aggregate programme implementation expenses of USD 8.5 million (approximately 80 per cent of NEX expenses) in the period under review.

42. Based on the work performed, the audit identified the following areas in need of Management attention.

Enhance monitoring of implementing partner activities

43. The audit identified several areas for improvement in the Office monitoring of implementing partner activities, as discussed below.

Monitoring plan and calendar

44. The Office did not have a centralized IP workplan monitoring calendar or plan. The 2015 Monitoring and Evaluation Plan provided to the audit for review was generic, appeared not to have been updated from 2014 and did not specify the locations and dates of planned monitoring visits, the responsible personnel, and the activities and results to be monitored. Although programme managers performed IP visits during the period under review, these were often ad-hoc in nature and, in most cases, consisted of progress meetings to assist in workplan implementation. The resultant field trip reports reviewed by the audit did not specify the progress made in the implementation of workplan activities and against set targets. Further, the field trip reports reviewed did not bear evidence of supervisory review and were often not dated.

Logging and tracking of monitoring findings

45. Although the Office maintained an analysis of recommendations collated from field trip reports, it was not sufficient to allow for an effective tracking of progress on their implementation. For example, whilst the analysis contained recommendations, it did not provide details on their implementation deadlines, key follow-up actions to be undertaken or the personnel responsible for them. It was unclear if the analysis was updated on a regular basis since some of the issues reflected therein appeared to be long outstanding and progress (if any) made in implementing the recommendations was not documented in sufficient detail.

Planning matrix for monitoring and evaluation

46. The planning matrix for monitoring and evaluation presented to the audit for review was incomplete, covering only one out of six CPAP outputs.

Financial monitoring

47. There was limited financial monitoring of IPs by the Office during the period under review. Financial monitoring activities were not incorporated in the 2015 monitoring and evaluation plan and the analysis of recommendations collated from field trip reports did not include any financial monitoring findings. Further, the Office had not developed any tools or checklists to assist in the financial monitoring of IPs. Management stated that it relied mainly on the NEX audit process for IP financial monitoring purposes. In addition, the audit noted that the 2014 NEX summary of findings and actions prepared by the Office as a basis for updating the NEX Audit Management System on the progress made in implementing the 2014 NEX audit recommendations was not updated for actions taken to address them.

48. The audit acknowledges that financial monitoring of IPs will be greatly enhanced as the Office adopts the Harmonized Approach to Cash Transfers (HACT) assurance framework, and noted that the Office’s 2016 IP assurance plan contemplates at least one spot-check (i.e., financial monitoring visit), to be completed in the last quarter of the year, as well as an audit, to be completed leveraging on a corporate long-term agreement with a global audit firm, for 11 of the IPs engaged in 2016 with budgeted expenses of USD 11 million.

Workplans

49. From its review of 12 workplans with a total of 169 activities, the audit noted that targets were not systematically documented therein. The audit also noted that quarterly workplan monitoring reports did not consistently include information on progress made against targets. The inclusion in workplans of both indicators and targets for each programme output is a mandatory policy requirement.⁹

Findings from Implementing Partner visits

50. The audit noted that one of the IPs engaged by the Office which was visited during the audit field mission reported expenses amounting to USD 0.2 million in the period under review, although it had only one staff member at its premises in Juba at the time of the audit visit – an acting Executive Director.

51. Upon inquiry, the audit was informed that the IP had been fully staffed up until July 2015 when the Executive Director was suspended by the IP’s Board of Directors. The Finance Manager absconded duty shortly after the suspension of the Executive Director, with no formal handover. All other staff were field-based outside of Juba. The audit noted that the Office was formally and promptly notified by the IP’s Board of Directors of the suspension decision in July 2015. In conjunction with other United Nations organizations, the Office conducted a comprehensive spot-check visit in October 2015 to assess the accuracy of the IP financial records and its internal controls. The resulting report noted instances of missing or inadequate supporting documents, on which the Office was actively following up.

52. From its own review of the IP records, the audit could not corroborate the validity of certain expenses reported by the IP. Upon contacting the payees of travel expense reimbursements reported by the IP in the amount of USD 4,300, three of them indicated that they had not received any reimbursement while another six confirmed receipt of the funds. In addition, the audit noted that attendance and payment lists supporting the payment of allowances at a youth event in the amount of USD 1,900 had similar signatures and incomplete contact information for the participants.

53. Further, the audit could not complete its visit to another IP selected for review, which incurred expenses amount to USD 0.6 million in the period under review, as it was represented to the audit that all IP staff had been relocated outside Juba as its premises had been attacked and looted prior to the audit visit. The audit was, therefore, unable to meet appropriate IP personnel and obtain supporting documentation and explanations for UNFPA-funded transactions.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>Programmatic and financial management issues may not be timely identified and remediated, impacting the achievement of programme results or the use of funding for the intended purpose</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 6

PRIORITY: HIGH

Leveraging on the upcoming global roll-out of the HACT framework assurance activities, enhance implementing partner programmatic and financial monitoring. Design and implement a monitoring plan and calendar covering programmatic as well as financial monitoring requirements, developing, as necessary, appropriate tools and checklists; update the planning matrix for monitoring and evaluation and include targets for programmatic implementation in workplans.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2017*

⁹ Policies and Procedures for Preparation and Management of Annual Work Plans, November 2012

The Office has commenced implementing the following measures to mitigate the gaps identified by the audit:

- (i) The Office recruited an International Monitoring and Evaluation Specialist who has provided guidance and led the process for the development of the workplans with IPs and setting of clear targets;
- (ii) Regular monitoring meetings are held with IPs to monitor programme implementation and the achievement of targets;
- (iii) A detailed monitoring and evaluation plan will be developed to ensure that comprehensive and joint monitoring is conducted and proper follow up carried out with regard to recommendations;
- (iv) Training on monitoring and evaluation is planned with IPs to ensure adequate collection, analysis and use of programme data;
- (v) HACT training was conducted for all Office staff in December 2015, as part of planning for the 2016 workplans;
- (vi) All Office staff members have been mandated to complete an online HACT course (offered on the UNICEF website) and additional HACT training will be offered to staff during learning afternoon sessions;
- (vii) Staff members also participated in the global HACT training webinars;
- (viii) A schedule of spot checks to be conducted with all IPs has been developed and is expected to be implemented in November/December 2016; and
- (ix) Audits of implementing partners will be undertaken.

Document the justification for Implementing Partner selection

54. The audit reviewed the process followed for the selection of five NGOs engaged by the Office during the period under review and noted that there was no documented evidence supporting the selection of four of them. Management stated that the process followed to select IPs and award projects considered a mix of competitive selection and consideration of strategic partnerships in a highly challenging operating context, with few relevant and capable partners. However, the justification of the strategic partnerships and why engaging these partners was in the best interest of UNFPA were either not documented in sufficient detail, or not documented at all.

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

IMPACT *IPs engaged may not have the required capabilities.*

CATEGORY *Operational.*

RECOMMENDATION 7

PRIORITY: HIGH

Going forward, follow a competitive selection process for the selection of non-governmental organization implementing partners. Should it not be feasible to follow a competitive selection process, document and maintain on file a comprehensive written justification of the partner's unique capabilities and other rationale underlying the selection, as required by the policy for Selection, Registration and Assessment of Implementing Partners.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of November 2016*

The Office completed a written justification of IPs' unique capabilities and other rationale underlying selection of the IPs at the commencement of implementation of the second Country Programme. When appropriate, the Office will also consider a competitive selection process for some new IPs.

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.*

Promptly finalize pending Implementing Partner assessments

55. The audit noted that, at the time of planning the audit, only 4 out of 14 IPs engaged during the period under review had undergone capacity assessments since the commencement of the Country Programme cycle. The assessments made available to the audit team had been conducted in 2010, 2011, and 2013. According to Management, the IPs engaged by the Office were selected partially based on assessments carried out by other UN organizations.

56. The Office set out to conduct assessments using the Implementing Partner Capacity Assessment Tool (or IPCAT, the use of which was formally discontinued by UNFPA in September 2016) for all IPs in 2015, a process that was underway as the field audit mission progressed in late 2015. From its review of draft IPCATs completed and provided to the audit for review at the time of the audit field mission, the audit identified gaps in the assessments which limited their usefulness. However, by the time of issuance of the draft audit report, the audit noted from the information reflected in the new 'Implementing Partner Assurance System' tool, that HACT¹⁰ micro-assessments were subsequently completed for the majority of the IPs currently engaged by the Office. Therefore, no recommendation is provided as regards this matter.

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

IMPACT *The effectiveness and efficiency of programme implementation may be impacted by IP capacity gaps.*

CATEGORY *Operational.*

B.3 – INVENTORY MANAGEMENT**SATISFACTORY**

57. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of USD 5.6 million, with funding provided by UNFPA Supplies – South Sudan is one of the focus 46 countries earmarked to receive funding under this global programme – and other donors. The commodities were procured by UNFPA's Procurement Services Branch, based in Copenhagen, Denmark (USD 4.8 million) and by the Office itself (USD 0.8 million).

58. The Inventory supplied consisted primarily of emergency reproductive health kits (USD 1.9 million), contraceptives (USD 1.6 million), and medical equipment for fistula surgeries and maternal health (USD 0.2 million). In addition, the Office incurred freight costs amounting to USD 0.9 million. The contraceptives, kits and medical equipment were all stored at and distributed primarily from a warehouse located at a Government facility managed by UNFPA.

59. Audit work performed included a review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied in 2014 and 2015 at a cost of USD 1.7 million (31 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) inventory controls; (iv) handover of inventory to IPs; (v) distribution to intended beneficiaries; and (vi) monitoring and recording in UNFPA financial systems. For locally procured commodities, audit work also included a review of the related procurement processes (refer to section C.2 of the report).

60. Additionally, audit work performed included site visits to: (a) the main UNFPA-managed warehouse located in Juba, one regional warehouse managed by the Ministry of Health in the city of Wau and one IP-managed warehouse at a temporary facility located at an Internally Displaced Persons camp in the town of Mingkaman; and (b) eight health facilities, to: (i) verify the receipt of commodities procured by UNFPA; (ii) assess warehouse controls in place and the reliability of inventory records; (iii) test the distribution of commodities by tracing a sample of deliveries across the supply-chain; and (iv) verify commodity availability and stock-out levels at the warehouses and health facilities visited. The audit also included a review of the country's first UNFPA Supplies commissioned reproductive health commodity security survey related to contraceptive availability and stock-outs.¹¹ A review of the existence and valuation, in accordance with International Public Sector Accounting Standards (IPSAS), of the

¹⁰ Harmonized Approach to Cash Transfers

¹¹ 2014 South Sudan Independent Facility Assessment for Reproductive Health Commodities and Services Analytical Report, December 2014

inventory of contraceptives and medical equipment in-stock and in-transit at the year-end was not undertaken as no significant inventory was held as at 31 December 2014.

61. The audit noted a number of areas needing immediate Management attention and which are highlighted below.

Support the Government to address issues impacting commodity availability and stock-outs

62. An independent reproductive health commodities and services facility assessment, conducted for the first time in South Sudan between September and December 2014 under the leadership of and with funding provided by the Office, revealed that 76.2 per cent of primary level Service Delivery Points (SDPs) offered at least three modern methods of contraception – albeit with relative large regional variances, and that 66.7 per cent of secondary level SDPs and all tertiary level SDPs offered at least five modern methods. The survey also showed that 63.9 per cent of SDPs had seven essential life-saving maternal / reproductive health medicines available, with large variances between tertiary level SDPs and primary level SDPs, on which the health service system is anchored. Further, the survey revealed that, at the time the survey was conducted, 69 per cent of facilities had contraceptive stock-outs, also with large variances between facility levels and across regions, and in certain states, with stock-outs noted at all facilities.

63. The survey report provided significant recommendations for improving commodity security in South Sudan, including *inter alia* the need to: (i) provide accelerated support to the Government of South Sudan in the implementation of the National Reproductive Health Strategy and National Family Planning policy to ensure availability of contraceptives and life-saving maternal health drugs at all SDPs; (ii) strengthen the logistics system; (iii) provide basic and refresher training on family planning services, the insertion and removal of intra-uterine devices (IUDs) and implants, as well as undertake other capacity building activities; and (iv) ensure that service delivery points and warehouses have appropriate contraceptive stocks to meet client demand at all times and avoid stock-outs.

64. From its review, the audit noted different activities implemented by the Office and its IPs in the period under review aimed at improving commodity security and addressing the issues impacting commodity availability and originating stock-outs.

65. The Office leads South Sudan's Reproductive Health Collaboration Forum, which comprises key programme stakeholders in the reproductive health sector. In particular, the audit noted that the Office was instrumental in establishing a Technical Working Group (TWG), a sub-committee of the forum, to monitor reproductive health commodity security. The TWG supported a reproductive health commodity quantification exercise, covering the period 2014-2016, jointly undertaken by the Office, the Ministry of Health and the United States Agency for International Development (USAID), a key stakeholder in the sector, under the 'USAID Deliver' Project. During a visit to a SDP, the audit noted that staff had been trained on the insertion and removal of IUDs and implants – a key recommendation of the survey. Training on the rational use of emergency reproductive health kits in the humanitarian context was provided as part of Minimum Initial Service Package (MISP) implementation, with the participation of personnel from United Nations organizations and NGOs engaged in the ordering and receipt of reproductive health commodities. Officials from the Ministry of Health participated in a supply-chain management training in Arusha, Tanzania and continuous on-the-job training was offered to staff based at the UNFPA-managed warehouse in Juba.

66. The nature and extent of these activities do not, however, appear commensurate with the challenges faced by South Sudan in this area. Based on information extracted from the Global Programming System, funding allocated to capacity building activities in 2014 amounted to USD 0.8 million, of which USD 0.1 million corresponded to the cost of the above mentioned facility survey and USD 0.5 million to funding provided to NGOs for demand generation activities. Capacity-building funding in 2015 was reduced to USD 0.3 million, of which USD 0.1 million corresponded to staff costs, and USD 0.6 million budgeted for capacity-building activities in 2016. The audit was not provided with a comprehensive mid-term capacity building action plan or strategy outlining the support activities that the Office could reasonably undertake or promote, in collaboration with other relevant stakeholders, to address the main findings and related recommendations from the survey.

67. Finally, the Office did not provide evidence of completion of the quality assurance review of the results of the survey which was completed in conjunction with the National Bureau of Statistics and the Ministry of Health.

ROOT CAUSE	<i>Other (factors beyond the control of the Office – operational context).</i>
IMPACT	<i>Capacity gaps may not be timely identified and addressed impacting negatively on commodity availability and stock-out levels.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 8

PRIORITY: HIGH

Support the South Sudan Government, in collaboration with the appropriate programme stakeholders, in the development and implementation of a strategy to address the challenges that impact commodity availability levels and originate stock-outs at Service Delivery Points.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

The Office will undertake a Reproductive Health Commodity Security Assessment/Survey and use the results to advise partners on issues that focus on improvement of commodity availability. In the 2017 workplan, the Office will prioritize support for the Ministry of Health and Central Medical Stores to develop a collective pharmaceutical supply chain strengthening plan to which all partners, including UNFPA, will contribute.

Improvement of storage conditions at the UNFPA warehouse in Juba is ongoing. In the coming year, focus will be on providing material handling equipment and enhancing safety and security.

Fourteen Service Delivery Points selected for implementation of the Strengthening Midwifery Services II Project will also be used as sites for implementation of a plan to address challenges that impact commodity availability levels and monitor stock-outs. These 14 service delivery points will thus be supported to improve logistics management, track pharmaceutical management indicators, and enhance commodity availability.

Improve the indicators related to commodity security, clearly identify target service delivery points and regularly monitor commodity availability and stock-out levels

68. The audit noted that the Country Programme Document and the CPAP 2014 – June 2016 did not reflect indicators related to contraceptive and life-saving medicines availability. An availability indicator and target were defined for the new Country Programme July 2016 – December 2017, but only for lifesaving medicines. Similarly, both Country Programmes included indicators and targets related to contraceptives stock-out levels, but not for life-saving medicines.

69. The audit also noted that the contraceptive stock-out target reflected in the CPAP 2014 – June 2016 was that “at least 60 per cent of targeted SDPs have no stock-out of contraceptives in the last six months [i.e., previous to the date of the survey]”. The audit noted, however, that at the time of the audit field mission, the Office had not defined the target SDPs – therefore, making it difficult to measure progress against achievement of the target.

70. The Office did not provide any evidence to indicate that it regularly monitored availability and stock-out levels at SDPs. Availability and stock-out issues continued to be noted in the course of the visits to eight SDPs undertaken by the audit. Further, the audit’s review of minutes of the Pharmaceuticals Technical Working Group did not reveal how stock-outs on reproductive health commodities were monitored or addressed.

ROOT CAUSE	<i>Guidance (inadequate supervision at Office level). Guidelines (inadequate planning)</i>
IMPACT	<i>The Office’s ability to measure results achieved in the area of commodity security may be diminished.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 9

PRIORITY: HIGH

Define availability and stock-out indicators and targets for both contraceptives and life-saving medicines, identify target service delivery points and perform regular monitoring of reproductive health commodities availability and stock-outs at service delivery point level.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

The Office will use the Ministry of Health definitions for availability and stock-out, and its indicators and targets for contraceptives and life-saving medicines. The Office will focus its work of training, supporting supply chain management, and monitoring and reporting on contraceptives and life-saving medicines in the 14 Service Delivery points under the Strengthening Midwifery Services II Project.

Use the prescribed forms for receiving, inspecting and delivering commodities

71. The audit noted that, during the period under review, the Office did not prepare detailed ‘Receipt and Inspection’ reports upon the physical receipt of reproductive health commodities and other inventory items, as stipulated in the inventory management policies and procedures.¹² Instead, the Office documented the receipt and inspection of goods using delivery notes issued by suppliers/transporters. Management explained that the practice was as a result of a misunderstanding on the part of Office staff that ‘Receipt and Inspection’ reports were to be prepared only when goods received were not in good condition. This results from discrepancies between the procurement and inventory management policies – which OAIS already brought to the attention of Headquarters Management and had yet to be addressed at the time of writing this report.

72. Further, although IPs generally signed delivery notes issued by suppliers/transporters as evidence of receipt of goods from UNFPA, they did not sign the requisite ‘Earmarked Goods Custody’ or ‘Inventory Receipt’ handover forms that contain appropriate language releasing UNFPA from further responsibility and liability in relation to the inventory provided.

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

IMPACT *Receipt and inspection of inventory items may not be sufficiently established and action not taken as regards shortages or damage. UNFPA may retain risks related to inventory transferred to IPs.*

CATEGORY *Compliance.*

RECOMMENDATION 10

PRIORITY: MEDIUM

Prepare Receipt and Inspection reports for all internationally and locally procured inventory items. Obtain signed ‘Earmarked Goods Custody’ and/or ‘Inventory Receipt’ forms for all reproductive health commodities and other inventory items delivered to IPs and beneficiaries as evidence of transfer of risk and ownership.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of November 2016*

In addition to all the forms and tools in use by the Office for commodity management, the Office has introduced the Receipt, Inspection and Report (RIR) forms that are now in use. The Office will produce quarterly receipt and inspection reports.

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.*

Enhance commodities storage conditions, controls and records at service delivery points

¹² ‘Receipt and Inspection’ reports should be prepared following the completion of customs clearance procedures, inspection and verification of correspondence of physical quantities and integrity of goods to the order and the bill of lading/other available transportation documentation

73. The audit visited eight SDPs located in 3 of the 10 States of South Sudan where reproductive health commodities were held at the time of the audit field mission. The audit noted that controls and storage conditions at the facilities were in need of urgent attention. In particular, different commodities were stacked together and/or mixed in boxes, hindering stock identification and verification. Further, the facilities visited were in need of proper shelving, ventilation, room temperature controls and cold-chain facilities which are critical in view of the hot climate in South Sudan and the sensitivity of some commodities to high temperatures. In four of the SDPs visited, no stock records were maintained, while in the other six, recordkeeping was inconsistent, with most of the forms designed to monitor stock movement (e.g. bin cards, registers, etc.) often containing incomplete information. Conditions and controls at the UNFPA-managed main warehouse in Juba and one regional/state warehouse visited by the audit were in better condition, with only two issues noted: (a) the need to repair room temperature controls at the main warehouse and (b) a roof leak at the regional warehouse.

74. The audit acknowledges that the problems noted should be interpreted in light of the previously mentioned challenges impacting programme implementation in South Sudan, including human resource capacity limitations and deficient physical infrastructure. For example, most of the facilities visited by the audit are located in remote rural areas where facilities, often dilapidated as a result of the long-running conflict, were all that could be put to use, with limited access to electricity and/or fuel for generators.

75. Further, the audit noted that the Office was aware of the issues identified and had prepared a detailed 'Warehouse and Inventory Management Improvement Plan 2015/2016' the implementation of which was underway at the time of the audit field mission.

ROOT CAUSE	<i>Guidelines (inadequate planning).</i> <i>Other (Factors beyond the control of the Office – operational context)</i>
IMPACT	<i>Increased risk of inventory losses due to poor storage conditions, controls and inaccurate/incomplete recordkeeping.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 11 **PRIORITY: HIGH**

In collaboration with the Ministry of Health and other relevant programme stakeholders, and within the framework of the larger capacity building strategy referred to in Recommendation 8, promote and support interventions to address the shortcomings related to commodities storage, control and record keeping at service delivery points.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

The current focus of most development partners is on the provision of life-saving commodities, and only a small amount of funds is available for systems-strengthening investments. Nevertheless, the Office will collaborate with partners to develop a joint capacity building plan for strengthening the pharmaceutical supply-chain.

Improvement of storage conditions at the UNFPA warehouse in Juba is ongoing. So far, issues of power supply, computer/internet, and racking/shelving have been addressed. In the coming year, focus will be on providing material handling equipment and enhancing safety and security.

The 14 SDPs where the Strengthening Midwifery Services II Project will be implemented will be supported to improve logistics management and enhance commodity availability. Storage condition improvement and tracking of pharmaceutical management indicators will be implemented in these facilities in a more structured manner to demonstrate positive change over time. Capacity building will be provided for supply-chain managers at the Ministry of Health and at partners to help them plan and implement similar improvements in the SDPs that they manage.

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

76. Programme implementation expenses funded from non-core resources amounted to approximately USD 22.7 million (73 per cent of total programme expenses) during the period under review. Of this amount, USD 8.2 million corresponded to funding provided by four donors in support of strengthening national capacity for reproductive health including gender-based violence and sexually transmitted infections in the prevention and

response to humanitarian emergencies, and another USD 9.1 million provided by two donors to deliver comprehensive sexual reproductive health services including the treatment and management of obstetric fistula. The remaining contributions were provided primarily for creating an enabling environment for delivering and utilizing gender-sensitive sexual and reproductive health services and by UNFPA Supplies, to enhance reproductive health commodity security.

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

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

C. OPERATIONS MANAGEMENT

SATISFACTORY

Good practices identified

79. The audit identified the following good practice in the area of operations management, which could be considered for replication by other Country Offices:

- a) The Office developed a number of reports/tools to support its operations. Examples include fuel monitoring tables, staff cost monitoring reports, a drivers' duty roster, and a rolling weekly and daily schedule of meetings.

C.1 – HUMAN RESOURCES

SATISFACTORY

80. During the period under review, the Office incurred payroll expenses amounting to USD 5.9 million. In addition, the Office made use of contract personnel and engaged 61 individuals under the Service Contract and Special Service Agreement modalities, for management and programme delivery activities, incurring related expenses in the amount of USD 1.4 million. At the time of the audit field mission, the payroll for both staff members and service Contract holders was managed by the United Nations Development Programme (UNDP). The audit also covered payments of compensation to UN Volunteers amounting to USD 3.1 million made during the period under review.

81. Audit work performed in this area included the analytical review of payroll and contract personnel costs; a walk-through of recruitment, performance management and testing of payments made to UN Volunteers; and the testing of a sample of 6 Service Contracts and 10 Special Service Agreements awarded by the Office at a cost of USD 0.5 million, for linkage to the corresponding workplans and compliance with policies and procedures and the 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.

82. Based on the audit work performed in this area, the audit noted the following matter that needs Management attention.

Enhance compliance with contract personnel policies and procedures

83. The audit noted that 4 out of 10 individuals engaged by the Office under Special Service Agreements who were tested had continuously served for periods between 16 and 28 months, without the mandatory four-month break required by the applicable policy. In addition, the audit noted that three of them had received payments in excess of the thresholds allowed by the policy¹³ in force at the time.

84. In addition, the audit noted that two out of six persons engaged by the Office under Service Contracts who were tested had served for more than five years under this contracting modality and were performing core programmatic functions. A third Service Contract holder within the sample tested had served for three years and was also performing core programmatic functions.

¹³ UNDP Guidelines for Use of Special Service Agreements, 1 July 1995

85. The audit acknowledges Management’s explanation that the above issues are primarily attributable to the operating environment in South Sudan, where availability of qualified personnel is a continuous challenge due to the country’s human resource capacity issues and intense competition within the development sector for the human resources available, as well as the delay in the approval of the Office’s staffing structure (refer to paragraph 18 of the report).

86. According to Management, service periods were extended in an effort to retain personnel who would otherwise have found alternative jobs had the mandatory four-month break been enforced. The audit noted, however, there was no documented consultation with or approval from the East and Southern Africa Regional Office and/or DHR with regard to this matter.

	<i>Guidance (inadequate supervision at Office level).</i>
ROOT CAUSE	<i>Resources (Lack of or insufficient human resources). Other (factors beyond the control of the Office).</i>
IMPACT	<i>Long term service under short-term contractual modalities may negatively impact staff morale especially where individuals are performing core functions.</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 12

PRIORITY: MEDIUM

Enforce compliance with the policies and procedures governing engagement of contract personnel. Should deviations be necessary on account of South Sudan’s complex operating environment or during periods when fast track procedures are in force, consult and obtain approval from the East and Southern Africa Regional Office and the Division for Human Resources.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

The Office will obtain required approvals from ESARO or DHR for all posts with any deviations from UNFPA’s policies and procedures, with respect to human resources management practices in the challenging context of South Sudan.

C.2 – PROCUREMENT

SATISFACTORY

87. During the period under review, the Office locally procured goods and services at a cost of approximately USD 1.8 million, issuing a total of 816 purchase orders. The most significant categories of goods and services procured corresponded to inventory items (USD 0.8 million), freight services (USD 0.5 million), and office and communication equipment (USD 0.3 million). In addition, the Office procured other goods and services at a total cost of approximately USD 5.0 million through UNFPA’s Procurement Services Branch, including vehicles (USD 0.2 million), reproductive health commodities (USD 1.6 million), emergency reproductive health kits (USD 1.9 million), freight services (USD 0.9 million) and medical equipment (USD 0.2 million).

88. Audit work performed in this area included the review of 53 local procurement transactions made at a cost of USD 1.4 million (77 per cent of local procurement value) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles,¹⁴ policies and procedures, as well as operating effectiveness of controls in the areas of (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving. 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 and payments and procurement of vehicles and direct payments made by the Office to suppliers on behalf of its implementing partners in 2013 (USD 0.4 million).

89. The following matter in need of Management attention was identified based on the work performed.

Complete conflict of interest declaration forms

¹⁴ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

90. Out of the 53 local procurement transactions reviewed, no significant issue were noted except for six transactions for which conflict of interest declaration forms were not signed by the bid evaluation teams. Declaration of conflict of interest situations with suppliers is a mandatory requirement for all members of bid evaluation committees under the applicable procurement policies and procedures.

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

IMPACT *The fairness and transparency of procurement activities could be affected by undeclared conflicts.*

CATEGORY *Compliance.*

RECOMMENDATION 13

PRIORITY: MEDIUM

Enforce the requirement to complete conflict of interest declaration forms for all bid evaluation committee members, as applicable under the procurement policy.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2017*

Declaration forms for conflict of interest will be signed by each of the panel members for all bid evaluations. In addition, the Office will conduct quarterly random checks of bid evaluations to assess compliance.

C.3 – FINANCIAL MANAGEMENT

SATISFACTORY

91. 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; and (f) the effectiveness of the financial management accountability process.

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

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

93. Work performed in this area focused on the travel, asset management and facilities management processes.

94. Travel expenses incurred by the Office during the period under review amounted to USD 1.4 million. A significant portion of the expenses corresponded to daily subsistence allowance (DSA) and local travel costs. Audit work performed consisted in the testing of a sample of 13 DSA and 4 travel services payments amounting to USD 0.2 million (15 per cent of total travel expenses) for appropriateness of business purpose and compliance with policies and procedures.

95. In the period under review, the Office procured fixed assets for its own use and that of IPs at a cost of USD 0.6 million. The most significant category of fixed assets procured was motor vehicles. Audit work in this area included a review of the motor vehicles procurement for appropriateness of business purpose and compliance with the asset management policies and procedures, including the tracking of delivery of the motor vehicles to IPs.

96. Facilities management transactions amounted to USD 0.7 million in the period under review. Audit work included the review of common facility charges for accuracy and evidence of monitoring.

97. No reportable matters were noted based on the audit work performed.

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY

SATISFACTORY

98. This area was assessed as presenting a low audit risk. Related audit work was therefore limited to the review of Atlas user profiles for compliance with segregation of duties requirements and their mandatory annual certification.

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

C.6 – SECURITY MANAGEMENT**SATISFACTORY**

100. This area was assessed as presenting a high audit risk. Programme implementation and operations in South Sudan are affected by frequent security incidents, including violent robberies, raids on NGO and other humanitarian compounds, cattle rustling, and inter-tribal clashes. The situation worsened significantly when an armed conflict started in December 2013 as a result of political issues. By January 2014, the UN Secretary-General ordered the evacuation of all non-critical UN staff from the country. Following the order, a large number of foreign nationals relocated out of the country, including non-essential staff of United Nations organizations, international NGOs, embassies and other private organizations and commercial entities. In 2014, as the crisis plateaued, most United Nations staff members were recalled to South Sudan, especially those involved in humanitarian response activities, such as was the case of UNFPA. However, insecurity remains high in most parts of the country. It is against this context that the Office implemented its development and humanitarian programme in 2014 and 2015. It is noted that these challenges remain in 2016.

101. Work performed in this area included (i) a review of the most recent MOSS (United Nations Minimum Operating Security Standards) and MORSS (United Nations Minimum Operating Residential Security Standards) assessments; (ii) an assessment of compliance with mandatory security training requirements; (iii) inquiries of the local United Nations Department of Safety and Security (UNDSS) about its relation with UNFPA, and the active engagement of UNFPA Office Management including its participation in the Security Management Team; (iv) testing of management and staff familiarity with their security management responsibilities and applicable security management guidelines; (v) a review of the timeliness of security advisories to all staff and contract personnel; (vi) a review of the Office security, contingency, and building and medical evacuation plans; (vii) a review of the timeliness of security incident reporting to UNDSS; and (viii) the existence of a dedicated security desk and hotlines.

102. No reportable matters 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
AIDS	Acquired Immune Deficiency Syndrome
Atlas	UNFPA's ERP (Enterprise Resource Planning) system
COSO	Committee Of the Sponsoring Organization of the Treadway Commission
CPAP	Country Programme Action Plan
DHR	Division for Human Resources
DSA	Daily Subsistence Allowance
ERM	Enterprise Risk Management
ESARO	East and Southern Africa Regional Office
FACE	Funding Authorization and Certificate of Expenditure
HACT	Harmonized Approach to Cash Transfer
HIV	Human Immunodeficiency Virus
INTOSAI	International Organization of Supreme Audit Institutions
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Assessment Tool
IPSAS	International Public Sector Accounting Standards
IUD	Intrauterine Device
MISP	Minimum Initial Service Package
MORSS	United Nations Minimum Operating Residential Security Standards
MOSS	Minimum Operating Security Standards
NEX	National Execution
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
SDP	Service Delivery Point
TWG	Technical Working Group
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNDSS	United Nations Department for Safety and Security
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UN	United Nations
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USD	United States dollars
WFP	World Food Programme