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**OFFICE OF AUDIT AND INVESTIGATION SERVICES**

**REMOTE AUDIT AND MONITORING**

**UNFPA OFFICES IN THE  
EASTERN EUROPE AND CENTRAL ASIA REGION**

**FINAL REPORT**

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## EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed a remote audit (the audit) of the UNFPA Offices in the Eastern Europe and Central Asia (EECA) region (the EECA Offices). The audit covered selected programme and operations management activities and transactions executed by the EECA Offices in the period from 1 January to 31 December 2015.

### Background

2. The UNFPA EECA region comprises 17 Field Offices, operating primarily in middle-income countries, some of them affected by humanitarian emergencies caused by conflict or natural disasters, supported and overseen from a Regional Office located in Istanbul, Turkey, and a Sub-Regional Office located in Almaty, Kazakhstan.

3. Expenses incurred by EECA Offices in the period under review amounted to USD 32.8 million, corresponding to activities and transactions executed either directly by the EECA Offices (USD 25.8 million) or by 113 implementing partners (USD 7.0 million). Expenses were funded from core resources of USD 22.7 million and non-core resources of USD 10.1 million.<sup>1</sup>

### 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 operations 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. The work was conducted out of Headquarters and no field missions to any of the EECA countries were undertaken.

5. The scope of the audit included the assessment of the operating effectiveness of internal controls over national execution; inventory management; human resources management; procurement; financial management; travel; and asset management activities and transactions. Activities and transactions reviewed were selected using a risk-based approach. Staff payroll expenses, amounting to USD 9.9 million in the period under review, were excluded from the scope of the audit as payroll is managed by another United Nations organization on behalf of UNFPA which relies on the internal controls implemented by that organization.

### Audit rating

6. The overall audit rating is “**Some Improvement Needed**”, which means that the assessed controls were adequately established and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited area should be achieved. Issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

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

Audit ratings by key audit area	
<b>Programme management</b>	<b>Some improvement needed</b>
<i>National execution</i>	<i>Some improvement needed</i>
<i>Inventory management</i>	<i>Some improvement needed</i>
<b>Operations management</b>	<b>Some improvement needed</b>
<i>Human resources management</i>	<i>Some improvement needed</i>
<i>Procurement</i>	<i>Some improvement needed</i>
<i>Financial management</i>	<i>Some improvement needed</i>
<i>Travel</i>	<i>Some improvement needed</i>
<i>Asset management</i>	<i>Effective</i>

<sup>1</sup> Based on 2015 Atlas expense figures

Key findings and agreed Management actions

8. The audit identified a number of areas that require Management attention, related to operational, compliance and reporting matters. Overall, the audit report includes three high priority and seven medium priority agreed Management actions to help the Office improve its programme delivery and operations.

*Operational level*

9. Some improvement is needed in controls over the processing of Funding Authorization and Certificate of Expense forms, which are used by implementing partners to request funding and report expenses incurred for nationally executed programme activities. Procurement plans should also be enhanced, so that they can be used as a coordination and management monitoring tool.

10. Of particular relevance, EECA Offices need to ensure financial resources are timely committed in Atlas at the time of contract award, minimizing the issuance of *ex post-facto* requisitions and purchase orders.

11. Further, EECA Offices should explore alternatives to reduce the number and value of check payments, given the additional transactional costs they originate and the added risk to the payment process.

*Compliance level*

12. Some improvement in compliance with UNFPA policies and procedures is required in the areas of contract personnel management, procurement, and travel. Further, receipt of goods procured should be systematically documented using Receiving and Inspection reports.

*Reporting level*

13. In order to enhance financial reporting and the use of financial information for monitoring, accuracy in financial accounting needs to be improved through training relevant staff as well as implementing appropriate supervisory controls.

*Agreed Management actions*

14. The EECA Regional Office Management agrees with the findings included in the report. Refresher training will be provided during 2017 to all EECA Offices for those areas in which the remote audit identified issues. Additional agreed Management actions as regards the issues noted are reflected in Section III of the report.

15. The audit team would like to thank the Management and staff of the offices in EECA region for their cooperation and assistance throughout the audit.

## I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The objective of the remote audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance on the operating effectiveness of internal controls over activities and transactions executed by the EECA Offices<sup>2</sup> in the period from 1 January to 31 December 2015, for the following processes:

- Programme management
  - a) National execution; and
  - b) Inventory management.
- Operations management
  - a) Human resources management;
  - b) Procurement;
  - c) Financial management;
  - d) Travel; and
  - e) Asset management.

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

- a) The appropriateness of the activities and transactions reviewed in the context of the Offices' programmes;
- b) The operating effectiveness of the internal controls in place over the activities and transaction;
- c) The level of compliance with the rules, regulations, policies and procedures applicable to the activities and transactions; and
- d) The accurate recording of the activities and transactions.

3. Audit procedures applied as part of the audit included the analytical review of Atlas financial information; the review of supporting documents, records and other documentary evidence related to the activities and transactions reviewed; and inquiries from Management on matters arising from the procedures applied. All work was conducted out of Headquarters and no field missions were undertaken to any of the EECA offices.

4. Activities and transactions reviewed were selected using a risk-based approach. Staff payroll transactions were excluded from the scope of the audit as they are managed by another United Nations organization on behalf of UNFPA, which relies on the internal controls implemented by that organization.

5. The engagement was conducted by a team of OAI audit specialists, starting on 21 March 2016. Findings resulting from the audit and potential management actions to address them were discussed with Management at an exit meeting held on 11 October 2016 at EECARO. Comments received and clarifications provided at the exit meeting and throughout the report preparation period were incorporated in a draft submitted to the EECARO on 25 November 2016. Final management actions agreed with EECARO, received on 14 December 2016, are reflected in the report.

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<sup>2</sup> These include the UNFPA Eastern Europe and Central Asia Regional Office in Istanbul, Turkey, the Sub-Regional Office in Almaty, Kazakhstan, and the UNFPA Field Offices in Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Serbia, Kosovo, Tajikistan, the former Yugoslav Republic of Macedonia Turkey, Turkmenistan, Ukraine, and Uzbekistan

## II. BACKGROUND

6. The UNFPA EECA region comprises a Regional Office, located in Istanbul, Turkey; a Sub-Regional Office located in Almaty, Kazakhstan; and 17 Field Offices located in: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Serbia, Kosovo, Tajikistan, the Former Yugoslav Republic of Macedonia, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

7. Most EECA Offices operate in middle-income countries, with lower needs and higher ability to finance them,<sup>3</sup> with programme activities focused primarily on advocacy and policy dialogue/advice; knowledge management and capacity building. Service delivery interventions in the areas of maternal health and gender violence are also undertaken, primarily in countries affected by humanitarian emergencies caused by conflicts or natural disasters.

8. Expenses incurred in the period under review amounted to USD 32.8 million, corresponding to activities and transactions executed directly by the EECA Offices (USD 25.8 million – ‘direct execution’) and by 113 implementing partners (USD 7.0 million – ‘national execution’ or NEX). Major individual expense categories are presented in Table 1 below.

**Table 1** - Key expense categories (Amounts in millions of US dollars)

Activities implemented by	Total	Percentage of total
<b>EECA Offices</b>	<b>25.8</b>	<b>79</b>
Staff payroll	9.9	31
Contract personnel costs	3.4	10
Procurement of inventory items	3.4	10
Procurement of other goods and services	6.2	19
All other (aggregated)	2.9	9
<b>Implementing partners (NEX expenses)</b>	<b>7.0</b>	<b>21</b>
Training	2.4	7
Consultancies and salaries	2.2	7
All other costs (aggregated)	2.4	7
<b>TOTAL</b>	<b>32.8</b>	<b>100</b>

9. Expenses were funded from core resources of USD 22.7 million and non-core resources of USD 10.1 million.<sup>4</sup> Approximately USD 26.2 million corresponded to programme expenses, with 50 per cent allocated to the Reproductive Health component (USD 13.2 million), approximately 19 per cent to the Gender component (USD 4.9 million), 16 per cent to the Population and Development component (USD 4.2 million), 8 per cent to the Adolescents component (USD 2.2 million), and 7 per cent to Organizational efficiency and effectiveness (USD 1.7 million).<sup>5</sup>

<sup>3</sup> 14 of the 17 field offices are located in countries classified in the “pink quadrant” of the UNFPA Strategic Plan 2014-2017

<sup>4</sup> Based on 2015 Atlas expense figures

<sup>5</sup> UNFP Annual Report for 2015 <http://www.unfpa.org/annual-report/Section504>

### III. DETAILED FINDINGS

#### A. PROGRAMME MANAGEMENT

**SOME IMPROVEMENT NEEDED**

##### A.1 – NATIONAL EXECUTION

**SOME IMPROVEMENT NEEDED**

11. During the period under review, implementing partners (IPs) engaged by the EECA Offices for the implementation of programme activities incurred expenses amounting to USD 7.0 million. Per the available general ledger information, expenses incurred by IPs corresponded primarily to training costs, and consultancies and salaries (see details in Table 1).

12. Audit work performed in this area included an analytical review of NEX expenses in the period under review, as well as detailed testing of: (a) the selection, capacity assessment and registration process, and existence of IP agreements, for a sample of eight IPs initially engaged for programme delivery during the period under review; and (b) a sample of 33 Funding Authorization and Certificate of Expenditure (FACE) forms (amounting to approximately USD 2.5 million or 36 per cent of NEX expenses in the period under review), as regards: (i) existence of appropriate agreements and signed workplans with the concerned IPs; (ii) controls implemented for the review, authorization and processing of the FACE forms; (iii) reconciliation, for a sample of activities, of expenses reported in the FACE forms to transaction details and copies of supporting documents obtained from the concerned IPs; (iv) submission of Workplan Progress Reports by the IPs; and (v) controls implemented over the Operating Fund Account, used to record and control the funds advanced to the IPs.

13. Based on the work performed, the audit identified the following matter in need of Management attention.

*Improve controls over FACE form review and approval*

14. While not individually significant or pervasive in nature, the audit revealed exceptions for 10 out of the 33 FACE transactions tested (USD 0.8 million) – which are reflective of gaps in the effectiveness of FACE form review and approval. These exceptions included: (a) two instances of late submission (with a delay of more than two weeks) of FACE forms (USD 0.1 million); (b) two instances where FACE forms were either not dated or did not indicate the name and title of the IP approvers, which could prevent verification against the corresponding IP agreement (USD 0.2 million); (c) one instance of lack of completion of the FACE form checklist, designed to ensure that FACE forms are subject to a rigorous and well documented review (USD 0.1 million); and (d) two instances of transfer of funds to bank accounts different from those indicated in the IP agreements (USD 0.2 million).

15. Further, the audit was not provided with the FACE form, Workplan Progress Report and supporting transaction records and supporting documents related to expenses amounting to USD 50,187 reported by one of the IPs selected for testing. This matter, assessed by the audit as an isolated exception, was communicated to the concerned EECA Office for remedial action.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>Errors and other issues may not be identified and remediated in a timely and effective manner.</i>
CATEGORY	<i>Compliance. Operational.</i>

#### AGREED MANAGEMENT ACTION NO. 1

**PRIORITY: MEDIUM**

- Heads of EECA Offices (Representatives and Assistant Representatives) and Programme Managers will enforce the application of the procedures and controls over the processing of FACE forms.*
- FACE form controls will be monitored through the Strategic Information System (SIS) annual plans on a quarterly basis.*
- The responsibility for the operating effectiveness of controls in this area will be reflected in the staff performance plans and appraisals.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices; Programme Managers, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

**A.2 – INVENTORY MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

11. During the period under review, EECA Offices supplied inventory worth USD 3.4 million, consisting primarily of dignity and medical kits for humanitarian response activities. The inventory supplied was procured by the UNFPA Procurement Services Branch, based in Copenhagen, Denmark (USD 0.9 million), and by the EECA Offices (USD 2.5 million).

12. Audit work in this area included an analytical review of inventory transactions in the period under review, as well as detailed tests of a sample of 11 transactions amounting to USD 2.0 million (60 per cent of the inventory supplied), as regards: (a) linkage to annual work plans or other appropriate evidence of the transactions’ business purpose, and (b) compliance with the applicable policies and procedures, and operating effectiveness of controls in the areas of: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) handover of the inventory to IPs; and (iv) transaction recording. For locally procured inventory, audit work also included a review of the related procurement processes (refer to section B.2 of the report for details on the work performed).

13. From the work performed, the audit noted the following matter that requires Management attention.

*Document receipt of goods and receiving and inspection controls through ‘Receiving and Inspection’ reports*

14. Receiving and inspection reports were not provided to demonstrate goods receipt and evidence of completion of receiving and inspection controls for 4 out of 11 transactions tested. Receiving and Inspection reports should be prepared to document inspection of physical quantities and integrity of goods procured – including inventory and assets procured for delivery to IPs – and verification of matching to corresponding orders and bills of lading, or other transportation documents.

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

IMPACT *Management may not obtain adequate assurance about the conformance of goods received to those ordered.*

CATEGORY *Reporting.*

**AGREED MANAGEMENT ACTION NO. 2**

**PRIORITY: MEDIUM**

1. *Heads of EECA Offices (Representatives and Assistant Representatives) will enforce the requirement to consistently use Receiving and Inspection reports to evidence receipt of goods and receiving and inspection controls. The completed forms will be attached to payment vouchers.*
2. *Receiving and inspection controls will be monitored through the Strategic Information System (SIS) annual plans on a quarterly basis.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

**B. OPERATIONS MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

**B.1 – HUMAN RESOURCES**

**SOME IMPROVEMENT NEEDED**

15. During the period under review, EECA Offices incurred staff payroll expenses amounting to USD 9.9 million (out of audit scope). In addition, the Offices made use of contract personnel and engaged 67 individuals under service contracts (SCs), at a cost of USD 3.4 million, and 518 individual consultants, at a cost of USD 1.8 million, for operational and programme delivery activities.



16. Audit tests performed included an analytical review of contract personnel transactions in the period under review, as well as detailed tests of a sample of 26 contracts awarded by the Offices at a cost of USD 0.2 million (8 per cent of the contract personnel costs), as regards: (a) linkage to annual work plans or other appropriate evidence of the business purpose of the transactions; (b) use of appropriate personnel contracting modalities; and (c) compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (i) recruitment; (ii) contract award and management; (iii) performance assessment; (iv) transaction recording; and (v) payments.

17. Based on the work performed, the audit noted the following matter that needs Management attention.

*Enforce compliance with policies and procedures applicable to contract personnel*

18. One instance where an individual performing core programmatic functions had been engaged under the SC modality for over five years was identified. Further to this case, upon enquiry of Management, the audit was informed that, based on the outcome of a review performed by the EECARO Human Resources Strategic Partner (Regional Human Resources Advisor), proposals had already been submitted in 2016 for converting to Fixed Term Appointments 21 posts held by SC holders who perform core functions. Headquarters approval of the proposed conversion was pending at the time of drafting the audit report.

19. Other exceptions noted, while not individually significant or pervasive in nature, indicate gaps in the effectiveness of contract personnel management activities. These exceptions affected 15 of the 26 transactions tested. The most notable of these exceptions were: (a) one contract signed after the start of service date, deviating from the policy requirement that contracts be signed prior to that date; (b) engagement of a consultant by two different Offices over partially overlapping periods; one of the Offices paid the consultant on a per-day basis, increasing the risk of payment for services not provided; and (c) two instances where pay rates exceeded the approved pay ranges, resulting in additional consultancy costs and inconsistencies in the treatment of individual consultants.

20. Further, for one of the contracts selected for testing with payments worth USD 1,100, a Certificate of Payment form signed by the hiring officer and evidencing satisfactory delivery of services was not provided. This matter, assessed as an isolated exception, was communicated to the concerned EECA Office for remedial action.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>The effectiveness of the Office programme delivery and operations may be affected by the contracting modalities utilized.</i>
CATEGORY	<i>Operational.</i>

**AGREED MANAGEMENT ACTION NO. 3**

**PRIORITY: HIGH**

1. *The Regional Office will closely follow-up with UNFPA Headquarters to ensure a prompt approval of the Human Resource realignment proposals so as to rationalize personnel contracting modalities.*
2. *Heads of EECA Offices (Representatives and Assistant Representatives) will enforce the requirement that core functions are not performed by personnel engaged under the Service Contract or the Individual Consultant modality.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices; Human Resources Strategic Partner and International Operations Manager, EECARO*

DUE DATE: *June 2017*

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>The effectiveness of consultant management activities may be affected by lack of compliance with the applicable policies and procedures.</i>
CATEGORY	<i>Compliance.</i>

**AGREED MANAGEMENT ACTION No. 4**
**PRIORITY: MEDIUM**

1. *Heads of EECA Offices (Representatives and Assistant Representatives) will ensure that consultancy services are included in the EECA Offices procurement plans.*
2. *Heads of EECA Offices (Representatives and Assistant Representatives) will ensure that the hiring process is completed and contracts signed before individual consultants commence the provision of services.*
3. *The EECA Regional Office and Country Offices will utilize the new Consultant Management Tool once it is released to prevent issuing overlapping contracts.*
4. *Heads of EECA Offices (Representatives and Assistant Representatives) will ensure individual consultant rates are compared with established ranges and obtain approval when they exceed the established ranges.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

**B.2 – PROCUREMENT**
**SOME IMPROVEMENT NEEDED**

21. During the period under review, the EECA Offices locally procured goods (other than inventory items) and services, at a cost of approximately USD 6.2 million. The most significant ones procured locally were event services for workshops and trainings; facilities services; and office supplies.

22. Audit work in this area included an analytical review of procurement transactions in the period under review, as well as detailed tests of a sample of 50 local purchases made at a cost of USD 0.6 million (10 per cent of the total of locally managed procurement transactions), as regards: (a) linkage to annual work plans or other appropriate evidence of the business purpose of the transactions, and (b) compliance with the UNFPA procurement principles<sup>6</sup> and applicable policies and procedures, and operating effectiveness of controls in the areas of: (i) procurement planning; (ii) requisitioning; (iii) solicitation and bidding; (iv) bid assessment; (v) vendor selection; (vi) contract award; and (vii) accounts payable and payments.

23. Based on the work performed in this area, the following matter requires Management attention.

*Improve the use of the procurement plan as a managerial tool*

24. The 2015 procurement plans prepared by many EECA Offices were not complete, omitting significant procurement needs such as workshop and meeting services, as well as goods and services for humanitarian response activities – which, the audit acknowledges, are more difficult to plan. In addition, there was no evidence that procurement plans were regularly updated and monitored. Procurement plans could facilitate better coordination between programme and operations teams as regards procurement needs – including expected completion timeframe; and in turn, allows operations staff to plan their work more effectively. Procurement plans, regularly monitored with appropriate actions taken to address any issues, could constitute an effective management tool to help minimize any adverse impact on programme implementation as a result of delays in procurement completion.

25. Two other exceptions revealed certain gaps in managing long-term agreements (LTA). These gaps, which are under further review, referred to: (a) the use of a more than three year-old LTA, which would normally be considered as expired, in accordance with applicable procurement policies and procedures, unless its extension was authorized by the Chief, Procurement Services Branch; none was provided; and (b) procurement solicitation specifications not reflecting services delivered.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>The effectiveness and efficiency of the procurement process, as well as its transparency and fairness, may be diminished.</i>
CATEGORY	<i>Compliance.</i>

<sup>6</sup> Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

**AGREED MANAGEMENT ACTION No. 5**

**PRIORITY: HIGH**

1. *EECA offices will share their procurement plans with the EECA Regional Office by the end of January 2017 (and of each subsequent year). Updated procurement plans will be shared with Regional Office by the end of June 2017 (and of each subsequent year).*
2. *EECA Offices annual procurement plans will be monitored through the Strategic Information System (SIS) annual plans on a quarterly basis.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

**B.3 – FINANCIAL MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

26. During the period under review, the EECA Offices processed approximately 12,000 financial transactions, including 10,000 Accounts Payable Vouchers, used for payments; and 700 Accounts Payable Journal Vouchers used primarily to process adjustments and record expenses reported by IPs. The remaining transactions corresponded to payroll and other automated transactions, mainly of an accounting nature (e.g., accruals, asset and inventory capitalization, exchange gains and losses, etc.), which were not tested as they were assessed to present low risk.

27. Work performed in this area included detailed tests, for all transactions within the scope of the audit as indicated in the other sections of this report, as regards: (a) the authorization and proper processing of the related financial transactions; (b) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; and (c) the operating effectiveness of the accounts payable and payments process controls.

28. From the work performed, the audit noted the following matters that required Management attention.

*Commit funds in Atlas before completing transactions*

29. Requisitions and purchase orders for several transactions reviewed were issued and approved on an “*ex post facto*” basis, either after notifying suppliers of the contract award or receiving the goods and services procured. Transactions affected included: (a) four consultancy contracts (out of 26 tested), for which Atlas requisitions were approved after commencement of service; (b) two travel services transactions (out of 37 tested), for which the requisition and purchase order were issued and approved after travel date; and (c) two asset procurement transactions for which the requisition and purchase order were raised after receipt of the assets.

30. Processing of requisitions and purchase orders on an “*ex post facto*” basis could significantly diminish the effectiveness of UNFPA’s commitment controls, creating the risk that resources are no longer be available to pay for goods and services procured if the required funds are committed for other purposes before the transactions are processed. As such, as a matter of fiscal prudence and organizational discipline, ‘*ex post facto*’ transactions should remain a rare and duly authorized exception.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>Buying goods and services without committing the necessary funds in Atlas reduces the effectiveness of budgetary management controls, exposing the Offices to the risk of not having sufficient resources to settle obligations.</i>
CATEGORY	<i>Operational.</i>

**AGREED MANAGEMENT ACTION No. 6**

**PRIORITY: HIGH**

1. *Heads of EECA Offices (Representatives and Assistant Representatives) will enforce the requirement that Atlas requisitions and purchase orders be completed in ATLAS prior to the placing of orders for goods and services.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

Improve the coding of financial transactions

31. The audit noted eight instances of inaccurate recording of expenses, in the amount of USD 129,810, charged to incorrect general ledger accounts. Further, the audit noted that, as part of the 2015 financial statement preparation process, the Headquarters Finance Branch had to process reclassification adjustments of transactions incorrectly recorded by EECA Offices in the amount of USD 1.0 million. This problem could be a result of insufficient (a) knowledge of UNFPA accounting practices; (b) insufficient diligence by approving managers who are responsible, *inter alia*, for ensuring that transactions are coded to the correct account and project codes; and (c) inadequate or lack of supervisory controls.

ROOT CAUSE	<i>Human error: unintentional mistakes. Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Accounting data inaccuracies limit management's ability to use the information for monitoring and could distort the presentation of UNFPA financial information.</i>
CATEGORY	<i>Reporting.</i>

**AGREED MANAGEMENT ACTION NO.7**

**PRIORITY: MEDIUM**

1. *The International Operations Manager, EECARO will coordinate with the Headquarters Finance Branch to conduct training for administrative and finance staff (using webinars or workshops, subject to availability of funds).*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *International Operations Manager, EECARO*

DUE DATE: *September 2017*

Accurately classify vendors in the Atlas Vendor Master File

32. Multiple instances of Atlas Vendor Master File vendor types not matching the nature of these vendors were found. For example, some vendor records for staff members were created with the vendor type 'Supplier - Private Sector Co'. Similarly, some Non-Governmental Organizations were classified as 'Service Contract', and some UN organizations as 'Outside party'.

33. Incorrect vendor master file information may limit the Management ability to monitor financial transactions and identify potential exceptions needing attention. This problem could be a result of insufficient diligence by approving managers who are responsible, *inter alia*, to ensure the accuracy of vendor master file information.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Management ability to monitor financial transactions and identify potential exceptions in need of attention may be hindered.</i>
CATEGORY	<i>Compliance.</i>

**AGREED MANAGEMENT ACTION NO. 8**

**PRIORITY: MEDIUM**

1. *The EECA Regional Office and Country Offices will undertake a Vendor Master Records clean-up exercise in June and December each year and report to the Regional Office on the results.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017.*

Explore alternatives to reduce the volume of payments by check

34. In 2015, 3,373 payments were made by check for a total value of USD 5.3 million, to IPs, local vendors and staff members.

35. While the EECA Offices' ability to limit payments by check may be affected by local banking system processes and regulations as well as other factors outside their control, the number of checks should be reduced to the greatest possible degree, as they originate additional transaction costs (in average, approximately USD 28 per check) and introduce additional risks, inherent to the use of checks, in the payment process.

ROOT CAUSE	<i>Other: Factors beyond the control of UNFPA.</i>
IMPACT	<i>Check payments carry additional transaction costs and create additional risks in the payment process.</i>
CATEGORY	<i>Operational.</i>

**AGREED MANAGEMENT ACTION NO. 9**

**PRIORITY: MEDIUM**

1. *The International Operations Manager, EECARO will hold discussions with the Headquarters Finance Branch and EECA Offices to determine possible alternatives for reducing the use of checks.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *September 2017*

*Use the inter-agency settlement process for paying charges from UNDP*

36. The audit noted that one Office made 16 check payments to the United Nation Development Programme (UNDP), for support services provided to UNFPA for a total of USD 64,264. UNFPA policies require that inter-agency charges be processed through the ATLAS billing module and inter-agency settlement process. In addition to unnecessary transactions processing costs (as UNDP charges a transaction processing fee for each payment it manages), the use of local payments limits UNFPA Headquarters ability to control inter-agency billings. This matter, assessed as an isolated exception, was communicated to the concerned Office for remedial action.

**B.4 – TRAVEL**

**SOME IMPROVEMENT NEEDED**

37. Travel expenses incurred by EECA Offices during the period under review amounted to USD 1.9 million. A significant portion thereof corresponded to Daily Subsistence Allowance (DSA) payments for training workshops, meetings, and consultancies.

38. Audit work performed in this area included an analytical review of travel transactions in the period under review, as well as detailed testing of a sample of 37 travel transactions amounting to approximately USD 0.4 million (25 per cent of total travel expenses), as regards: (a) linkage to annual work plans or other appropriate evidence of the business purpose of these transactions; and (b) operating effectiveness of controls in the areas of: (i) procurement of travel services; (ii) security clearance; (iii) authorization, computation and payment of DSA; and (iv) submission and approval of travel expense reports.

39. From the work performed, the audit noted the following issues that require Management attention.

*Improve travel planning and ensure that security clearances are provided ahead of travel*

40. The travel policy requirement to purchase airline tickets at least 21 days in advance of travel – was not consistently followed. The review of a sample of travel requests identified 12 instances (out of 37) where requests were submitted between 1 to 18 days prior to travel date, 11 of which could not qualify for emergency needs (e.g., participation in training events). While the testing did not reveal any significant price differentials when comparing prices paid to current prices (absent contemporaneous quotes), there is a potential that Offices may not be able to obtain the lowest fare available.

41. Two further exceptions were noted, namely: (a) one ‘Voucher for reimbursement of Expenses’ (F10 form) was not provided; and (b) DSA calculations proved to be inaccurate in two cases, albeit for immaterial amounts. These matters, assessed as isolated exceptions, were communicated to the concerned EECA Offices for remedial action. In addition, security clearances were not on file for five travel transactions tested.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Late procurement of tickets may prevent the Offices from obtaining the lowest fares available. Travel of personnel without security clearance may expose UNFPA to legal risk.</i>
CATEGORY	<i>Operational. Compliance.</i>

**AGREED MANAGEMENT ACTION No. 10**

**PRIORITY: MEDIUM**

1. *Heads of EECA Offices (Representatives and Assistant Representatives) will share the Offices' Quarterly Travel Plans with the EECA Regional Office. In addition, Heads of EECA Offices will enforce the requirement that tickets are purchased in advance, in line with the travel policy only upon the presentation of proof of Security clearance, among the other required considerations.*
2. *The EECA Regional Director will issue a memorandum directing all EECA offices to enforce these requirements.*

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: *Heads, EECA Offices and International Operations Manager, EECARO*

DUE DATE: *June 2017*

**B.5 – ASSET MANAGEMENT**

**EFFECTIVE**

42. During the period under review, the EECA Offices procured fixed assets for their own use and that of IPs, at a cost of USD 1.0 million. The most significant categories of fixed assets procured were motor vehicles.
43. Audit work in this area included the review of a sample of assets procured, for use either by Offices or IPs, in 2015, at a cost of USD 0.5 million (51 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures, including the procurement and tracking of delivery of vehicles.
44. No reportable matters were identified based on the work performed in this area.

## ANNEX - DEFINITION OF AUDIT TERMS

### A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016<sup>7</sup>, are explained below:

<ul style="list-style-type: none"> <li>▪ <b>Effective</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.</p>
<ul style="list-style-type: none"> <li>▪ <b>Some improvement needed</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> <li>▪ <b>Major improvement needed</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> <li>▪ <b>Not effective</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

### 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.

<sup>7</sup> Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

### C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories 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 management actions, 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
Atlas	UNFPA’s Enterprise Resource Planning system
DSA	Daily Subsistence Allowance
EECA	Eastern Europe and Central Asia Region
EECARO	Eastern Europe and Central Asia Regional Office
FACE	Funding Authorization and Certificate of Expenditure form
IP	Implementing Partner
LTA	Long-Term Agreement
NEX	National Execution
OAIS	Office of Audit and Investigation Services
SC	Service Contract
SIS	Strategic Information System
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars