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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT
OF THE UNFPA RESPONSE TO
THE SYRIAN HUMANITARIAN CRISIS**

—
SYRIA COUNTRY OFFICE

FINAL REPORT

N° IA/2017-03

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the 'Response to the Syrian Humanitarian Crisis' by the UNFPA Country Office in Syria (the Office). The audit covered the period from 1 January 2015 to 31 March 2016. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

2. The engagement was conducted as part of a broader audit of the UNFPA 'Response to the Syrian Humanitarian Crisis', also covering the related activities implemented by the UNFPA Country Offices in Jordan and in Turkey, as well as by the UNFPA Syria Regional Response Hub in Amman, Jordan.

Background

3. During the period under review, the Office efforts were focused almost exclusively on the delivery of humanitarian assistance to the people of Syria under the 'Whole of Syria' approach, implemented pursuant to United Nations Security Council resolutions No. 2139, 2165 and 2191, all of them issued in 2014. Under this approach, the Office supported the Government of Syria efforts to address the needs of the population affected by the crisis, through provision of reproductive health services and commodities, dignity kits, and gender-based violence response services. Efforts to address the needs of the population living in the Northern and Southern provinces of Syria were supported thorough cross-border operations managed primarily from Turkey and Jordan. The Office's humanitarian response was implemented in a fragile and complex environment with significant challenges for an effective delivery of programme and operational activities; including the inability to access hard-to-reach and besieged areas; the limited capacity of partners; challenges in local market supply; a lengthy custom clearance process; and hurdles to dispatch reproductive health commodities.

4. Expenses reflected in the Office records in the period under review covered by the audit amounted to USD 17.4 million, related to activities executed by 15 implementing partners¹ (USD 5.7 million) and by UNFPA (USD 11.7 million), funded from core resources of USD 2.9 million and non-core resources of USD 14.5 million. In addition, the audit covered expenses incurred in 2014 amounting to USD 0.9 million, corresponding primarily to the cost of reproductive health services provided through a voucher programme funded by the Office. Expenses corresponding to cross-border assistance were covered as part of the audits of humanitarian response activities undertaken by the Jordan and Turkey Country Offices.

5. The Reproductive Health and Gender programme components accounted for the majority of expenses incurred by the Office, with approximately 40 per cent each. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any thematic area, accounted for approximately 11 per cent of expenses.

Methodology and scope

6. 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 governance, risk management and control processes in place over the in-scope areas and activities. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

7. The scope of the audit included the review of the Office governance, programme management and operations related to the activities implemented by the Office as part of the UNFPA response to the Syrian Humanitarian Crisis, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology. Activities related to cross-border humanitarian assistance managed from Turkey and Jordan were subject to separate audits, and therefore excluded from the scope of this audit.

¹ Five implementing partners are involved in cross-border humanitarian assistance activities and are directly managed by the Turkey and Jordan Country Offices, although their expenses, amounting to USD 1.5 million, are reflected in the Office records.

Audit rating²

8. The overall audit rating for the in-scope period is “**Major Improvement Needed**”, which means that the assessed governance arrangements, risk management practices and controls were, in general, established and functioning but needed major improvement to provide reasonable assurance that the objectives of the Office will be achieved. Issues and improvement opportunities identified could significantly affect the achievement of the Office objectives. Prompt management action is required to ensure that identified risks are adequately mitigated.

9. Ratings by key audit area for the in-scope period are summarized in the following table.

| Audit ratings by key audit area | | |
|--|---|---------------------------------|
| Office Governance | | Some improvement needed |
| <i>Office management</i> |  | <i>Effective</i> |
| <i>Organizational structure and staffing</i> |  | <i>Some improvement needed</i> |
| <i>Risk management</i> |  | <i>Major improvement needed</i> |
| Programme Management | | Major improvement needed |
| <i>Programme planning and implementation</i> |  | <i>Major improvement needed</i> |
| <i>National execution</i> |  | <i>Major improvement needed</i> |
| <i>Inventory management</i> |  | <i>Effective</i> |
| <i>Management of non-core funding</i> |  | <i>Effective</i> |
| Operations Management | | Effective |
| <i>Human resources management</i> |  | <i>Effective</i> |
| <i>Procurement</i> |  | <i>Some improvement needed</i> |
| <i>Financial management</i> |  | <i>Some improvement needed</i> |
| <i>General administration</i> |  | <i>Effective</i> |

Key findings and recommendations

10. 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 five high priority and seven medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 12 recommendations, 3 are of strategic nature; 8 refer to operational matters, and one to both operational and compliance matters. It should be noted that no recommendation was provided in some areas as Management took action during or following the audit field mission (see paragraph 16).

Good practices

11. The audit identified several good practices implemented by the Office. Annual activities were properly planned and reporting timely completed using the Strategic Information System (SIS). The Office effectively participated in inter-agency coordination clusters and working groups, including assuming a leading role in the Gender-Based Violence sub-cluster. A positive work environment contributed to the effective delivery of programme and operations activities.

12. From a programme management perspective, the Office successfully developed detailed workplans including detailed description of activities and sub-activities, detailed budgets and source of funds.

13. Finally, in the area of operations management, the Office registered a high completion rate of security trainings; established multiple long-term agreements for the procurement of dignity kits; and developed a detailed procurement plan.

² See complete set of definitions in Annex 1

Strategic level

14. There is an opportunity to improve the Office annual plan by defining more relevant milestones and measurable indicator targets. In addition, there is a need to develop an annual learning plan to address personnel capacity gaps and development needs. Of paramount importance, the awareness of personnel and partners as regards the prevention, detection and reporting of fraudulent and other proscribed practices should be increased through training and communication.

Operational level

15. The Office has to strengthen its programme monitoring, including financial monitoring of nationally executed programme activities. Equally important is the need to timely finalize implementing partner agreements and workplans and transfer funds to implementing partners. Finally, there are opportunities to strengthen warehouse security conditions, and to enhance the effectiveness and efficiency of the procurement process through better use of existing long-term agreements and the award of additional long-term agreements to procure recurring goods and services.

16. The audit identified two significant issues for which no audit recommendations are provided in this report in view of the actions already taken by the Office Management at the time of drafting this report, or given ongoing discussions with Senior Management at Headquarters. These include deficiencies in controls over a reproductive health services programme implemented by the Office through the use of vouchers, which was discontinued by the Office Management following completion of the audit field mission, as well as the need to implement the mechanisms mandated by the Executive Board to enable more adequate funding of humanitarian response activities, a matter which was the subject of discussions amongst Headquarters Management at the time of issuance of the audit report. Similarly, the audit did not raise recommendations to address two other medium-priority observations in the areas of financial management and travel in view of the actions taken by the Office Management before the field audit mission.

Management response

17. Generally speaking, the UNFPA Syria Country Office Management agrees on most audit report findings, which it considered caused by the operational context complexity in the country. The Office Management has already taken action to address a number of the reported issues and will continue its efforts towards full implementation of all audit recommendations; it will promptly report on progress made.

18. The OAIS team would like to thank the Management and personnel of the Office, the Arab States Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. This audit covered the activities implemented by the Office in the period from 1 January 2015 to 31 March 2016. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.
2. The audit was conducted as part of a broader engagement of the UNFPA Response to the Syrian Humanitarian Crisis, also covering the related activities implemented by the UNFPA Country Offices in Jordan and in Turkey, as well as by the UNFPA Syria Regional Response Hub in Amman, Jordan.
3. 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 Syria. Activities related to cross-border humanitarian assistance were covered by the separate audits of the UNFPA Country Offices in Jordan and Turkey and were, therefore, excluded from the scope of the current audit.
4. 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.
5. The scope of the audit included the review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.
6. The engagement was conducted by an OAI audit specialist, supported by staff from a local external audit firm and by an individual consultant. The audit started on 04 April 2016. A field mission took place from 08 to 26 May 2016. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 26 May 2016. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 30 December 2016, and a final Management response received on 23 February 2017.

II. BACKGROUND

7. More than five years into the Syrian crisis, the country's progress toward achieving the Millennium Development Goals has been reversed, as the humanitarian situation in the country deteriorated, with extensive destruction of its infrastructure and an adverse economic and social impact on its population, including large-scale displacements resulting in significant demographic shifts. According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), as of October 2016, approximately 13.5 million people were in need of humanitarian assistance, including 6.1 million internally displaced persons, and over 4.8 million Syrians who have fled the country and were registered as refugees by the Office of the United Nations High Commissioner for Refugees (UNHCR).

8. The maternal mortality ratio of 49 deaths per 100,000 live births in 2010 has continued to rise since the beginning of the crisis, reaching 68 per 100,000 live births in 2015.³ Although gender-based violence was not uncommon prior to the start of the crisis, its impact made Syrian women and girls more vulnerable to various forms of gender-based violence. Adolescent girls and women are exposed to exploitation, abuse, sexual slavery and international trafficking. Sexual violence has also been reported against men and children. Economic insecurity, the perception that marriage will provide protection for girls in an unstable environment, and lack of alternative opportunities, have contributed to a dramatic increase in child, early and forced marriage.⁴ Over 57.3 per cent of the Syrian population is below the age of 24; youth is one of the population groups' most affected by the crisis. The deteriorating security situation and limited access to some of the targeted areas challenged programme implementation, monitoring and reporting.

9. During the period under review, supplementing activities undertaken under the seventh Country Programme 2007-2011 which was extended four times until the end of 2015, and the eighth Country Programme 2016-2017 which was approved by the Executive Board on 28 January 2016, the Office focussed its efforts on the delivery of humanitarian assistance to the people of Syria under the '*Whole of Syria*' approach,⁵ in line with the strategies outlined in the 2015 '*Strategic Response Plan – Syrian Arab Republic*' (SRP) and the 2016 '*Humanitarian Assistance Response Plan - Syrian Arab Republic*' (HRP).⁶ The Office supported the Government of Syria's efforts to address the needs of the population affected by the crisis, through provision of reproductive health services and commodities, dignity kits, and gender-based violence response services.

10. Efforts to address the needs of the population living in the Northern and Southern provinces and other areas of Syria that cannot be reached by the Office were supported through cross-border operations managed primarily from Turkey and Jordan. Humanitarian assistance to Syrian refugees living in camps and host communities in neighbouring countries, primarily in Turkey, Jordan and Iraq, was also provided by the respective UNFPA Country Offices.

11. Expenses reflected in the Office records in the period under review covered by the audit amounted to USD 17.4 million, related to activities executed by 15 implementing partners⁷ (USD 5.7 million) and by UNFPA (USD 11.7 million), funded from core resources of USD 2.9 million and non-core resources of USD 14.5 million. In addition, the audit covered expenses incurred in 2014 amounting to USD 0.9 million, corresponding primarily to the cost of reproductive health services provided through a voucher programme funded by the Office. Expenses corresponding to cross-border assistance were covered as part of the separate audits of the humanitarian response activities undertaken by the Jordan and Turkey Country Offices.

³ Trends in Maternal Mortality: 1990 to 2015 – Estimates by WHO, UNICEF, UNFPA, World Bank Group and the United Nations Population Division

⁴ UNFPA Country Programme Document for the Syrian Arab Republic (2016-2017)

⁵ Implemented pursuant to United Nations Security Council resolutions No. 2139, 2165 and 2191, all of them issued in 2014

⁶ The SRP and HRP provide, for each one of 12 sectors/clusters covered within the scope of the response, a high level overview of the needs of the target population, and identifies high-level objectives and outputs, related target populations (number of people) and indicators and targets to be achieved

⁷ Five implementing partners are involved in cross-border humanitarian assistance activities and are directly managed by the Turkey and Jordan Country Offices, although their expenses, amounting to USD 1.5 million, are reflected in the Office records

12. The Reproductive Health and Gender programme components accounted for the majority of expenses incurred by the Office, with approximately 40 per cent each. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any thematic area, accounted for approximately 11 per cent of expenses.

13. The main UNFPA Office in Syria is located in the capital city of Damascus (a non-family duty station), with two sub-offices in the cities of Homs and Tartous. During the period under review, the Office was managed by an Officer-in-Charge through June 2015, and a Representative as from August 2015, assisted by a Deputy Representative, an Assistant Representative and, starting September 2015, an International Operations Manager.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SOME IMPROVEMENT NEEDED

Good practices identified

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

- a) Timely completion of annual planning and reporting using the Strategic Information System (SIS). The annual plan was prepared in compliance with the guidelines requirements to: (i) link each programme output to one Strategic Plan outcome and one Strategic Plan output; (ii) define at least one output indicator with, at least, one quarterly milestone for each output; (iii) indicate a baseline, target and source for each output indicator; and (iv) assign the responsible teams working on and tracking the achievement of the yearly output indicator targets and their quarterly milestones;
- b) Effective participation in inter-agency coordination clusters and working groups, including assuming a leading role in the Gender-Based Violence (GBV) sub-cluster; and
- c) Good working environment conducive to an effective delivery of programme and operations activities.

A.1 – OFFICE MANAGEMENT

EFFECTIVE

15. Audit procedures performed in this area included the review of (a) the Office planning process in 2016; (b) the relevance of the 2016 annual management plans and the implementation level of activities in 2015; (c) the alignment of the 2016 performance plans of key personnel to the Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2015 annual report data; and (f) the level of familiarization of Office personnel with the UNFPA policies and procedures.

16. Based on the work performed, the audit identified one matter that requires Management attention.

Improve the Office annual plan through the use of more relevant milestones and measurable targets

17. The Office timely finalized its 2016 annual plan using the Strategic Information System (SIS). The annual plan was prepared in compliance with the related guidelines requirements to: (a) link each programme output to one Strategic Plan outcome and one Strategic Plan output; (b) define at least one output indicator with at least one quarterly milestone for each output; (c) indicate a baseline, target and source for each output indicator; and (d) assign the responsible teams working on and tracking the achievement of the yearly output indicator targets and their quarterly milestones.

18. The audit noted some opportunities to improve the usefulness of the annual plan by defining more relevant milestones indicative of the intermediate results required to allow the achievement of output indicator targets. For example, for the output indicator 'Country has humanitarian contingency plans that include elements for addressing sexual and reproductive health needs of women, adolescents and youth including services for survivors of sexual violence in crises', the only milestone defined was 'RH [Reproductive Health]/GBV [Gender-Based Violence] needed interventions integrated in the IPs [implementing partners] WPs [workplans]'. For output indicator 'Percentage of non-core donor agreements expiring in a given year that have spent 95 per cent of original agreement amount by the end of the original agreement period', the only milestone defined was 'IPs agreements finalized, endorsed and activated'.

19. Similarly, the audit noted that defined output indicators were not always sufficiently specific and/or measurable. This is the case, for example, for the output indicator 'Increased knowledge and awareness of GBV prevention and response among targeted concerned personnel and communities', for which the indicated baseline and target were 'Yes', without any quantification of the number of personnel and communities for which increased knowledge and awareness was expected.

| | |
|------------|---|
| ROOT CAUSE | <i>Guidance: inadequate supervision at Office level.</i> |
| IMPACT | <i>Diminished management ability to oversee the Office's programmatic and operational activities.</i> |
| CATEGORY | <i>Strategic.</i> |

RECOMMENDATION 1

PRIORITY: MEDIUM

Assign and train adequate resources to quality-review the Office annual plan for adequacy, relevance and alignment of output indicators and milestones.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2017*

To address the audit recommendation the Office: established a new Programme Operations Support unit and recruited a Monitoring Associate. Also, a Programme Specialist from the Regional Office was deployed to the Office on a technical support mission to improve the quality of the Office annual planning and reporting.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

SOME IMPROVEMENT NEEDED

20. At the time of the audit field mission, the Office had 26 approved staff posts, including 7 international, 7 national programme and 12 general service posts. Most of these posts, including that of Representative and International Operations Manager positions, were created and filled in 2015 and 2016, as part of the scaling-up of UNFPA's humanitarian response capacity. The Representative position was filled by an Officer-in-Charge at a Director level on detailed assignment until June 2015. A new Representative was hired and assumed duties in August 2015. The International Operations Manager was transferred from another Country Office in September 2015, following the creation of the position in that year. The Office capacity was increased through the use of contract personnel engaged under Service Contracts and Individual Consultant agreements, primarily for programme delivery-related functions.

21. Audit work performed in this area included the review of (a) the alignment of the organizational structure and staffing arrangements with the Office programme and operational activities; (b) the use of proper contractual modalities; (c) the effectiveness of the performance appraisal process; and (d) the relevance and sufficiency of staff development activities conducted during the period under review.

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

Develop an annual learning plan and improve personnel capacity through training

23. The Office used the Performance Appraisal and Development (PAD) system to plan, monitor and report on individual learning and development activities. The Office did not, however, prepare an office level plan including all learning and development activities to be undertaken by its personnel.

24. Further, the audit noted that individual development plans focused on mandatory courses with limited consideration of programme delivery and operations management needs, staff members' competency gaps, and career and professional development goals. The audit noted a number of control issues which could have been prevented through training, e.g., the proper use of the new workplan management tool (Global Programming System - GPS), financial monitoring of nationally executed activities, and formal submission and approval of travel requests.

| | |
|------------|---|
| ROOT CAUSE | <i>Guidance: inadequate supervision at Office level. Resources: insufficient human and financial resources.</i> |
| IMPACT | <i>Limited management ability to holistically plan, prioritize and oversee learning activities may adversely impact the Office's performance.</i> |
| CATEGORY | <i>Strategic.</i> |

RECOMMENDATION 2**PRIORITY: MEDIUM**

Develop an annual learning plan aligned with programme and operations delivery requirements, and personnel capacity gaps and development needs identified in staff performance plans.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2017

In 2016, the Office has taken measures to address identified skill gaps:

- *One staff member has been deployed on extended detail assignment to the Regional Office;*
- *One staff member has been deployed on technical support mission to two Country Offices in the region, which contributed to boost up his management skills and provided the necessary exposure to different technical issues in other Offices; and*
- *During the technical mission of the Regional Office Programme Specialist to the Office, a number of training sessions were conducted for Office staff, including a training on GPS, a training on FACE (Funding Authorization and Certification of Expenditures) form, a training on development of workplans, and a training on SIS.*

A learning plan will be prepared by end June 2017, and will be aligned with staff PADs, to ensure the right skills mix. The plan will be based on the actual training needs highlighted by individual staff members and agreed by the respective supervisors during the upcoming 2017 PAD Phase one. The learning plan will be developed based on examples received from other Country Offices and will be shared with the Regional Office. However, in view of the limited resources available, staff will be encouraged to avail, as much as possible, of online training resources to help fill capacity gaps.

A.3 – RISK MANAGEMENT**MAJOR IMPROVEMENT NEEDED**

25. Audit work performed in this area consisted of the review of the latest Office fraud and operational risk assessments completed by the Office at the time of drafting this report; the process followed for identifying and assessing risks, and the actions undertaken to mitigate them.

26. In addition, in view of the high inherent risk associated with the delivery of humanitarian response activities, the audit also assessed the processes implemented by the Office to enhance fraud risk awareness among its own personnel, IP personnel and suppliers.

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

Raise personnel and partners' awareness of fraud risk and the way to report suspected and/or actual fraudulent and other proscribed practices

28. In September 2016, the Office completed fraud and strategic risk assessments under the umbrella of the corporate Enterprise Risk Management (ERM) process launched in August 2015, using the related functionality provided by the 'myRisks' application.⁸

29. Through inquiries, the audit noted a relatively low awareness level among Office personnel and IPs as regards proscribed practices,⁹ including fraud red flags, as well as the available tools to report suspected or actual fraudulent and other proscribed practices. No awareness training was conducted in the period under review.

30. The audit acknowledges that gaps in corporate guidelines and processes in this area impacted the Office's ability to implement a fraud awareness programme. These gaps have been acknowledged by headquarters Management who is putting actions in place.

⁸ Part of the SIS

⁹ Corrupt, fraudulent, collusive, coercive, unethical and obstructive practices

| | |
|------------|---|
| ROOT CAUSE | <i>Guidelines: unclear corporate risk management policies and procedures.</i> |
| | <i>Guidance: inadequate guidance at Country and Regional Office and Headquarters level</i> |
| IMPACT | <i>Limited ability to prevent, detect and report fraud involving UNFPA personnel, implementing partners and/or other parties with a business relationship with UNFPA.</i> |
| CATEGORY | <i>Strategic.</i> |

RECOMMENDATION 3

PRIORITY: HIGH

Through training and communication, increase the awareness of UNFPA personnel and partners as regards the prevention, detection and reporting of fraudulent and other proscribed practices.

RESPONSIBLE MANAGER: *Representative, with support from the Directors, ASRO and Division for Management Services*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

Management accepts that in situations of humanitarian crisis, UNFPA’s risks are heightened. Management plans to address this recommendation with a combination of actions as described below:

In the immediate future, and in the context of the new Anti-Fraud policy [policy against fraudulent and other proscribed practices], members of the headquarters Fraud Risk Treatment Working Group, Arab States Regional Office, and Humanitarian and Fragile Context Branch, will review the Syria Office fraud assessment, together with Office staff, to ensure that the assessment correctly reflects actual risk levels and that mitigating actions are adequate with specific reference to the context in which the Office operates. As soon as the new Anti-Fraud policy is issued, Syria and other offices involved in the Syrian refugee crisis response, will be prioritized in dissemination and awareness activities, and they will be encouraged to organize learning afternoons and other appropriate activities to enhance awareness among personnel and key stakeholders.

Fraud risk is a key component of the ERM process. Countries in humanitarian or fragile contexts and those that are experiencing significant growth in funding will receive additional support during the ERM cycle. Management will address the ERM fraud component through an integrated training and assessment approach. To this effect, in collaboration with other United Nations (UN) agencies, the ERM team will prepare training materials on fraud prevention, detection and response that are tailor-made to the specific situations in the mentioned countries. The training will be delivered so as to preface the actual risk assessment, thereby preparing the audience to conduct a risk assessment which is focused on the specific context. The training audience will include Country Office personnel, UNFPA implementing partners and relevant third parties as deemed appropriate.

In the meantime, the Syria Country Office already conducted a joint training session for UNFPA and Implementing Partners in December 2016 to raise their awareness and commitment to the UNFPA compliance requirements, including terms and conditions of the IP agreements and obligations of signing parties.

B. PROGRAMME MANAGEMENT

MAJOR IMPROVEMENT NEEDED

Good practices identified

31. The audit identified the following good practice in the area of programme management, in line with established policies and procedures:

- a) The Office developed detailed workplans, including detailed description of activities and sub-activities, detailed budgets and source of funds.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION

MAJOR IMPROVEMENT NEEDED

32. Activities undertaken by the Office in the period 1 January 2015 to 31 March 2016, with related expenses covered by the audit amounting to USD 13.8 million, corresponded to the last year (and fourth annual extension) of the seventh Country Programme 2007-2015, the first quarter of the first year of the eighth Country Programme 2016-2017, and to the 2015 SRP and 2016 HRP, which established the strategy for the Office humanitarian response activities under the framework of the ‘Whole of Syria’ approach.

33. Humanitarian response activities implemented by the Office related to the Protection, Health, Early Recovery and Livelihoods, and Water, Sanitation and Hygiene – WASH sectors of the of the SRP/HRP.

34. Activities were implemented by UNFPA, with related expenses of USD 9.6 million (70 per cent of programme implementation expenses in the period under review) and financial implementation rates of 95 per cent in 2015 and 23 per cent as at 31 March 2016 (92 per cent as at 28 December 2016). A large portion of the expenses related to UNFPA-implemented activities corresponded to personnel and facilities costs and the procurement of inventory. Activities were also implemented by 10 IPs engaged by the Office in Syria, with related expenses of USD 4.2 million (30 per cent of programme implementation expenses in the period under review) and financial implementation rates of 83 per cent in 2015 and 44 per cent as at 31 March 2016 (94 per cent as at 28 December 2016). Section B.2 of the report further details IP implemented activities. Programme implementation activities were funded from core resources of USD 1.8 million and non-core resources of USD 12.0 million.

35. Audit work performed in this area focused on two projects with aggregate expenses of USD 10.6 million during the period under review (77 per cent of programme implementation expenses) and included: (a) the review of the workplan components; (b) the assessment of the process followed to prepare, cost and approve the workplan, as well as monitor its implementation; (c) the review of monitoring reports and other evidence of programme implementation; and (d) visits to facilities delivering reproductive health services funded by the Office. In addition, the audit covered expenses incurred in 2014 amounting to USD 0.9 million, corresponding primarily to the cost of reproductive health services provided through a voucher programme funded by the Office.

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

Enhance controls over reproductive health services voucher programmes

37. During the period under review, the Office continued the implementation of a RH services voucher programme, initiated in 2011, at a cost of USD 0.9 million and USD 0.4 million in 2014 and 2015, respectively. The programme aimed at increasing the availability of high-quality, integrated RH services and information to violence-affected Syrian women, with reference to factors related to displacement, income, financial and housing conditions, and other social factors. The vouchers, which allowed beneficiaries to access comprehensive RH services (including delivery and pre- and post-natal services) were redeemable at private and public hospitals. The review of this programme revealed several issues related to its design and implementation.

38. The programme was supposed to provide access to RH services otherwise not accessible to beneficiaries. While this may have been the case in some areas where only private hospitals were functioning, it was not for areas serviced by public hospitals where beneficiaries could benefit from free-of-charge services. During the period covered by the audit, vouchers worth approximately USD 0.5 million were redeemed by public hospitals.

39. Upon inquiry, the audit noted that the stock of pre-numbered vouchers maintained by the Office was not monitored. Further, vouchers handed over to IPs for distribution to beneficiaries were not documented through formal receipts, signed by authorized IP officers, and the Office did monitor neither the number of vouchers distributed nor the voucher stocks maintained by the IPs.

40. Further to pre-numbered vouchers, original non-pre-numbered vouchers printed by a local company engaged by UNFPA were also distributed to beneficiaries and redeemed. In addition, copies of medical referral forms stamped and signed by UNFPA Programme staff, neither dated nor pre-numbered, as well as medical referral forms issued directly by one IP, also not pre-numbered, were distributed to beneficiaries and redeemed. Accordingly, it was not possible for the Office to monitor the use of these vouchers.

41. The Office established eligibility criteria, prior to the period under review, to be considered by IPs for beneficiary eligibility (e.g. displacement, income, financial and housing conditions). However, these criteria were not included in the related workplans, IP agreements or other programme documents signed with the IPs. Indeed, out of 18 partners that received UNFPA vouchers in 2015 and 2016, only two were engaged by the Office for services other than voucher distribution. Therefore, it was unclear how the vulnerability and eligibility criteria were communicated to and used by the concerned IPs.

42. Lists of redeemed vouchers were provided to UNFPA by private and public hospitals on a monthly or quarterly basis. The lists provided did not include all information and supporting documentation required for a proper validation of the vouchers. Specifically, original copies of the vouchers were not submitted and the voucher numbers were not indicated. Further, the name of the IPs distributing the vouchers and the beneficiaries' contact information were not systematically provided.

43. Financial monitoring controls implemented by the Office were limited to arithmetical verifications, and the analytical review of vouchers redeemed by type of intervention (normal deliveries, caesarean deliveries, other interventions). For a specific public hospital located in Damascus, the Office also performed periodic spot-checks of supporting documentation for samples of vouchers. The Office also established a ceiling for the number of vouchers that could be redeemed by each individual hospital per quarter. However, these controls were insufficient to ensure the achievement of programme objectives and address the risks inherent to the programme. Particularly, none of the controls in place would have allowed, inter-alia, the identification of duplicate vouchers and/or beneficiaries; the validation of the type, adequacy and actual delivery of the service; and confirmation of compliance with established eligibility criteria.

44. Based on inquiries of Office personnel and an analytical review of the vouchers redeemed over the period considered, the audit noted a large proportion of high(er) cost services. For example, at one public hospital, the percentage of caesarean deliveries for women using vouchers was three times higher than for women receiving free services. Similarly, in 18 reports submitted to UNFPA by different hospitals during the period October – December 2014, caesarean deliveries were reported for over 85 percent of women using vouchers. In seven cases, caesarean deliveries were reported for 100 per cent of beneficiaries.

45. The audit visited one public hospital and performed inquiries of three voucher beneficiaries to validate the service delivery, the type of service delivered and that vouchers were distributed and redeemed free-of-charge to beneficiaries. Inquiries were also made of 27 beneficiaries for whom contact information was available. No exceptions were identified based on this work. Additionally, the audit obtained detailed listings of vouchers redeemed by one public hospital during the period January 2015 – April 2016. The application of analytical procedures identified 94 instances of potential duplicate names. The detailed review of a sample of 10 potential duplicate names showed that these names pertain to different individuals, but it was not possible to conclude on the remaining ones.

46. Management implemented a number of actions to mitigate the risks associated with some of the matters identified. The programme was discontinued for private hospitals in 2015. Following completion of field audit work, Management communicated the suspension of the programme for public hospitals, as well.

47. It should be noted that issues related to the implementation of RH services voucher programmes were previously identified and reported by OAI with a recommendation addressed to the Deputy Executive Director, Programme, in 2015, to “design and implement a mandatory quality assurance review of the design, planning and delivery of any programme involving innovative approaches [such as vouchers] above a predefined value threshold”. This recommendation had not yet been implemented at the time of issuance of this report. The need to promptly address this recommendation has been brought to Management’s attention as part of the internal audit recommendation follow-up process.

48. In view of the actions undertaken by Office Management to reduce inherent risk – by ending the programme – and the existing audit recommendation – related to designing and implementing voucher programmes and the risk related thereto, no additional one is provided as regards this matter in this report.

Guidelines: inadequate planning at Office Level.

ROOT CAUSE *Guidelines: lack of corporate policies or procedures.*

Guidance: inadequate supervision at Country, Regional Office and Headquarters level.

IMPACT *Limited suitability of the programme for the purpose and situation. Vouchers may not be used for the intended purpose or not benefit targeted beneficiaries, hindering the Office ability to achieve expected programme results.*

CATEGORY *Operational.*

Strengthen programme implementation monitoring

49. The Office did not develop a monitoring plan, providing a description of the monitoring activities to be undertaken, their timeline, and the financial and human resources required. Also, the Office did not maintain a central log to record its monitoring activities and action items.

50. The deteriorating security situation and limited access to some of the targeted areas constrained the Office ability to monitor programme implementation. Therefore, monitoring by the Office relied heavily on IP reporting. Additionally, the Office conducted a number of field visits that were not always supported by Terms of Reference and documented in monitoring reports, detailing the objective and date of the visit, involved individuals, work performed, results and, eventually, resulting action points.

51. Finally, although implemented by other United Nations organizations and tried by the UNFPA Country Offices in Turkey and Jordan also involved in the response to the Syrian crisis, the Office did not utilize third-party monitoring services – which could constitute a viable alternative to direct monitoring by Office personnel.

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| ROOT CAUSE | <i>Guidance: inadequate supervision at Office level.</i> |
| IMPACT | <i>Limited management ability to monitor programme implementation and timely take necessary corrective actions.</i> |
| CATEGORY | <i>Operational.</i> |

RECOMMENDATION 4 **PRIORITY: HIGH**

Develop and implement a monitoring plan, taking into consideration and tailored to the security situation prevailing in the targeted areas, including at least: (i) a description of the monitoring activities to be undertaken; (ii) their timeline; and (iii) the financial and human resources required; and explore the feasibility of engaging third-party monitoring services, individually or jointly with other partners.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *August 2017*

To address the recommendation, the Office will (i) finalize the monitoring plan by the newly appointed Monitoring and Evaluation (M&E) associate taking into consideration the remote monitoring options being developed and audit recommendations; (ii) orient IPs and build their monitoring capacity; (iii) follow up on the M&E plan implementation according to the plan timeline. M&E activities will be embedded in the Office overall workplan and implementation will be conducted throughout the year, combining M&E and technical substantive expertise for each of the programmatic areas. Consolidation of M&E plans has started at the end of 2016 and documentation is available as required.

RECOMMENDATION 5 **PRIORITY: MEDIUM**

Develop, disseminate and implement guidance requiring: (i) the preparation of detailed Terms of Reference for all field monitoring visits; (ii) the preparation and submission of monitoring report detailing at least the objective and date of the visit, involved individuals, work performed, results achieved and resulting action points; and (iii) the development of a log to record all monitoring visits and their results and action items.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *July 2017*

To address the recommendation, the Office will: (i) prepare Terms of Reference for monitoring visits in line with the recommendation; (ii) strengthen the oversight of field monitoring visits through the preparation and submission of regular field monitoring visits reports; (iii) maintain a log system for monitoring visits; (iv) ensure timely follow-up on the recommendations from the monitoring missions, address the proposed corrective measures and build on good/promising practices and lessons learned.

As described under Recommendation 4, a draft M&E plan has been developed and will feed into the overall Office workplan to ensure proper implementation and monitoring in a more systematic and effective manner.

Develop Office personnel capacity to use the Global Programming System

52. The Office started to use GPS to manage its workplans as from 2015. In addition to GPS workplans, and on account of limitations in the functionality of this system, the Office developed manual workplans which included detailed description of planned activities and sub-activities, and detailed budgets and source of funds.

53. The audit noted significant differences between the 2016 workplan amounts and the related Atlas 'Commitment Control' budgets (i.e., the amounts on which Atlas budgeting checking controls are performed). Out of a total workplan amount of USD 15.6 million as of the end of July 2016, only USD 6.7 million (42 per cent) had been committed in Atlas at that date. Large differences between workplan amounts and Atlas budgets were also noted as at 28 December 2016. These significant differences raise concerns as to whether workplans were regularly updated to reflect authorized activities being implemented and related budgets. It also creates the potential for resource over-commitment. The issues noted appear to have been mainly caused by lack of training on the use of GPS.

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| ROOT CAUSE | <i>Resources: inadequate training.</i> |
| IMPACT | <i>Increased risk of committing resources with partners in excess of available resources.</i> |
| CATEGORY | <i>Operational.</i> |

RECOMMENDATION 6

PRIORITY: MEDIUM

Develop the Office personnel capacity to use the Global Programming System for workplan management.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *September 2017*

GPS and programmatic aspects will be an integral part of the capacity-building plan to be developed and implemented by the Office.

With support from the Regional Office, the Office organized a technical support mission of a Programme Specialist. During the mission, staff were trained on key programmatic aspects related to planning and monitoring, including GPS, work plan design and management, and FACE forms and monitoring progress reports among others.

In order to foster installed capacity within the Office, the established Programme Operations Support will serve to provide continued support on oversight, guidance and on the job training for programme staff on programme planning, implementation, monitoring and evaluation.

B.2 – NATIONAL EXECUTION

MAJOR IMPROVEMENT NEEDED

54. National Execution (NEX) expenses amounted to USD 4.2 million (34 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by seven non-governmental organizations (NGO) and three Government IPs, with financial implementation rates of 83 per cent in 2015 and 44 per cent as at 31 March 2016 (94 per cent at the end of 2016).

55. Per the available general ledger information, NEX expenses corresponded primarily to contract personnel salaries (USD 1.2 million – 29 per cent of NEX expenses); facilities management and services (USD 0.7 million – 18 per cent of NEX expenses); procurement of inventory (USD 0.7 million – 16 per cent of NEX expenses); procurement of fixed assets (USD 0.4 million – 11 per cent of NEX expenses); and training and learning costs (USD 0.4 million – 10 per cent of NEX expenses).

56. NEX audits performed in 2015 covered 6 of the 10 IPs engaged by the Office, with aggregated expenses of USD 3.3 million (95 per cent of total NEX expenses in 2015). Of the six NEX audits conducted, one received a qualified audit opinion due to ineligible expenses amounting to USD 0.02 million (less than 1 per cent of audited expenses). Operating Fund Account (OFA) balances, representing the funds transferred to IPs for activities not yet implemented,

averaged USD 0.8 million quarterly in 2015, and amounted to USD 0.02 million and USD 0.3 million as at 31 December 2015 and 31 March 2016, respectively.

57. Audit work performed in this area included the review of (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by IPs through the use of FACE forms; (d) the controls implemented over the OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities, for those engaged by the Office with aggregated programme implementation expenses of USD 3.6 million (approximately 86 per cent of NEX expenses) in the period under review.

58. The audit also: (a) reviewed the qualified 2015 NEX audit report, which covered NEX expenses amounting to USD 0.4 million (12 per cent of 2015 NEX expenses); and (b) visited and conducted meetings with three of the IPs engaged, with the objective of developing an appropriate understanding of (i) their overall control environment as pertains to UNFPA-funded programme activities; (ii) the controls over financial transactions for significant expense categories; and (iii) the process followed for the preparation and authorization of the FACE forms and workplan progress reports submitted to UNFPA. The visits also included inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication and the barriers and other factors potentially impacting the effectiveness of programme implementation.

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

Timely finalize Implementing Partner agreements, workplans and fund transfers

60. The review of cash transfers to two large IPs, which received funding amounting to USD 2.0 million in 2015, indicated that, in average, funds were paid 27 days after receipt of the corresponding FACE forms. In two instances, funds amounting to USD 0.5 million were transferred more than two months after receipt of the FACE forms. The audit noted that the Office did not develop performance indicators for processing FACE forms and disbursing funds to IPs.

61. Even though the implementation of 2016 programme activities started early in the year, IP agreements and workplans with two large Government IPs, with aggregate budgeted expenses of USD 0.8 million in 2016, had not been signed at the time of the audit field mission. Similarly, IP agreements and workplans with two NGO IPs, with budgeted expenses of USD 2.8 million in 2016, were only signed at the end of the first quarter in 2016. As a consequence of the delayed signature of the IP agreements and workplans, funds were not advanced to the IPs until April 2016 – which, based on inquiries of the concerned IPs, impacted their ability to deliver planned programme activities.

62. Management attributed the above mentioned delays to the timeline of collection of donor funds, as well as to uncertainties on the adoption of the new country programme – although implementation of humanitarian response programme activities had to continue. Starting implementation of programme activities before signing the required programme documentation is contrary to the dispositions of Financial Rule 109.3.

63. Management explained that a request submitted to the Headquarters Humanitarian and Fragile Context Branch for bridge funding could not be honored because of the funding constraints faced by UNFPA which prevented the allocation of the core resources required to implement the Executive Board decisions to: (a) increase the emergency fund from USD 5 million to USD 10 million; and (b) establish a humanitarian response reserve of USD 10 million to provide bridge funding mechanism in the period between the signing of co-financing agreements and the receipt of funds pledged. This matter was the subject of continued Senior Management discussions at the time of issuance of this report, and thus no recommendation is provided at this time.

Resources: insufficient financial resources.

ROOT CAUSE *Guidelines: absence of written procedures to guide staff in performing their function.*

Guidance: inadequate supervision at Office level.

IMPACT *Potential reputational risk and adverse impact on programme effectiveness.*

Compliance.

CATEGORY

Operational.

RECOMMENDATION 7**PRIORITY: HIGH**

Define and closely monitor performance indicators for processing FACE forms and disbursing funds to implementing partners.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *September 2017*

A joint UNFPA and IPs training session was held in December 2016 to create awareness on the UNFPA financial systems, rules and regulations, including submission of correct FACE forms to ensure timely release and liquidation of advances. In addition, the same training involved practical sessions on how to fill the FACE forms ensuring that all necessary details are captured according to NEX guidelines and quality assurance.

Additionally, the Programme Operations Support unit has developed a number of quality assurance checklists to be used prior to the approval of a FACE form and the disbursement and liquidation of funds. Progress reports and FACE monitoring tools also have checklists in place for quality assurance purposes.

The Office conducted two training sessions for all staff on FACE form processing and monitoring tools and checklists. The Office will continue conducting training events and on-the-job training for concerned staff on FACE form use, processing, workplan progress report templates, as well as other monitoring tools including checklists.

Further, the Office will define indicators for processing FACE forms and disbursing funds to implementing partners. Performance against defined indicators will be measured on a quarterly basis.

Promptly complete pending HACT assessments of implementing partners and enhance their financial monitoring

64. The Office used the flexibility offered by the 'Fast Track Procedures' to waive the competitive selection and assessment of IPs prior to their engagement for programme implementation.

65. The two largest NGO IPs engaged by the Office in 2015 and 2016 were assessed in 2014 by another UN organization under of the Harmonized Approach to Cash Transfers (HACT) Framework,¹⁰ receiving overall 'low' and 'moderate' risk ratings, respectively. The remaining IPs engaged by the Office had, however, not been assessed at the time of drafting this report, and there was no information available in the Implementing Partner Assurance System as to when assessments would be completed.

66. The audit noted that a newly engaged IP, which received funding amounting to USD 0.5 million in 2015, appeared to have some financial management capacity gaps, on account of ineligible expenses of USD 23,000 identified by the NEX audit of this IP conducted in 2016. Limited acquaintance with the IP capacity resulting from lack of previous working experience and absence of an IP assessment should have warranted a more prudent approach in selecting the cash transfer modality and the amount of funds advanced, as well as a more rigorous review of FACE forms, progress reports and financial monitoring activities. Funding to this partner was suspended following the audit field mission.

67. Similarly, based on the review of the accounting records of another IP, also not subjected to an IP assessment, the audit noted that expenses claimed in FACE forms corresponded to the approved workplan budget of USD 0.5 million rather than to actual expenses. The expense review revealed a budget reallocation made by the IP without prior communication to and approval of the Office. The corresponding FACE forms were reviewed by the Office programme and operations personnel and approved by the Head of the Office without identifying the issue.

68. There was limited financial monitoring of IPs to the date of the audit field mission, limiting Management's ability to ensure the appropriate use of funds by the IPs and their adequate mitigation of risks, particularly as most IPs had not yet been subject to HACT micro-assessments. From discussion with the Office personnel involved in IP financial review and monitoring, the audit noticed that the related roles and responsibilities of some operations and programme personnel were not clearly defined. Further, due to insufficient training and lack of use of the FACE form checklist, staff was unsure about which components of FACE forms need to be reviewed, and how to review them.

¹⁰ A common operational (harmonized) structure for transferring cash to both government and non-government Implementing Partners (IPs), the revised version of which currently in used was adopted in 2014

69. It should be noted that, following the UNFPA-wide launch of the HACT assurance process in 2016, the Office had scheduled ‘spot-checks’ (i.e., financial monitoring visits) to take place primarily in the third and fourth quarter of 2016 – which would provide the opportunity for a thorough examination of financial transactions executed by the IPs. In addition, NEX audits had been scheduled to take place in 2017, covering 2016 activities and expenses, for all IPs engaged by the Office. At the time of the audit field mission, no spot-checks had yet taken place, hence the audit could not assess the effectiveness of this control.

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| | <i>Guidelines: Inadequate risk management process.</i> |
| ROOT CAUSE | <i>Guidance: inadequate supervision at Office level. Resources: inadequate training.</i> |
| IMPACT | <i>Funds provided to IPs may not be used for the intended purpose.</i> |
| CATEGORY | <i>Operational.</i> |

RECOMMENDATION 8

PRIORITY: HIGH

Promptly complete pending HACT assessments of implementing partners.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2017*

A UNCT [UN country team] HACT working group was established at country level in December 2016. It is expected that this group will facilitate information sharing to optimize resources, including the sharing of HACT micro-assessments results. To date, UNFPA has been relying on reports of micro-assessments conducted by UNICEF for shared IPs.

The Office will contact the Quality Assurance Unit at Headquarters for advice on the HACT Assessment for those IPs engaged by UNFPA other than shared with UNICEF. A detailed plan will be developed during the first quarter of 2017 as part of the UNCT HACT group, leading to compliance with this recommendation on an ongoing basis. Meanwhile, the Office will rely on the results of routine spot-check visits to identify risks and inform actions needed to address identified risks.

RECOMMENDATION 9

PRIORITY: HIGH

Align cash transfer modalities to the implementing partners’ risk profile; and strengthen financial review and monitoring by (i) clarifying the related operations and programme personnel roles and responsibilities, (ii) providing training to the staff involved in FACE form processing and review, including on the use of the FACE form checklist; and (iii) performing frequent spot-checks of IPs.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2017*

In December 2016, the Office conducted training sessions and on-job training for staff members and IPs on FACE forms, workplan progress reports, and spot-check visits. The Office has developed a schedule for spot-checks. Its implementation will be closely monitored and the results thereof will be promptly reported in the Implementing Partners Assurance System.

Additionally, upon completion of IP assessments, the Office will revisit the cash transfer modality, by IP, and align it to the IP risk profile.

B.3 – INVENTORY MANAGEMENT

EFFECTIVE

70. During the period under review, the Office supplied RH commodities and other inventory items at a total cost of USD 2.1 million, primarily with funding provided by the ‘Underfunded Emergency Window’ of the Central Emergency Response Fund (USD 0.7 million) and by a donor (USD 1.0 million). Most commodities were procured based on long-term agreements awarded by the UNFPA Procurement Services Branch (PSB), located in Copenhagen, Denmark (USD 2.0 million).

71. The inventory supplied consisted primarily of dignity kits (USD 1.4 million), pharmaceutical products (USD 0.4 million) and RH kits (USD 0.2 million). Inventory held under the control of the Office amounted to USD 0.7 million at 31 December 2015 and USD 0.5 million at the time of the audit field mission. It was stored at and distributed from a World Food Programme (WFP) warehouse managed by a private company. Other warehouses were used by the Office during part of the period under review, but no inventory was stored therein at the time of the field audit mission.

72. Audit work performed included the review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied in 2015 and 2016 at a cost of USD 1.6 million (75 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) requisitioning; (b) custom clearance, receiving and inspection; (c) inventory controls; (d) handover of inventory to partners; (e) distribution to intended beneficiaries; and (f) recording in the UNFPA financial systems. For locally procured inventory, audit work included a review of the related procurement processes (Refer to section C.2 of the report).

73. Audit work performed also included site visits to WFP warehouse, in order to: (a) verify the receipt and existence of inventory procured by UNFPA; and (b) assess the warehouse controls in place and the reliability of inventory records.

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

Improve warehouse security conditions

75. The Office maintained stocks of RH and dignity kits and other relief supplies at the Logistics Cluster’s warehouse managed by the private company engaged by WFP. Upon visit to the warehouse, the audit noted that the physical security arrangements in place – which included perimeter fencing, security guards, surveillance systems and fire extinguishers – could be further improved by installing smoke detectors and fire sprinklers and posting ‘no smoking signs’ throughout the facility.

76. It should be noted that a fire at another Logistics Cluster warehouse where UNFPA and other partners’ relief supplies were stored in 2014 originated losses estimated at nearly USD 1.6 million, including UNFPA inventory worth USD 0.2 million.

77. The audit noted that the Office raised the fire safety concerns to the attention of the Logistics Cluster Lead after discussing the audit finding.

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| ROOT CAUSE | <i>Guidance: inadequate supervision at Office level.</i> |
| IMPACT | <i>Inventory under the control of the Office many not be properly safeguarded.</i> |
| CATEGORY | <i>Operational.</i> |

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| RECOMMENDATION 10 | PRIORITY: MEDIUM |
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Follow up with the Logistics Cluster Lead to ensure the implementation of adequate physical security measures at the warehouse used to store UNFPA inventory, including smoke detectors and fire sprinklers, and the posting of ‘no smoking’ signs.

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| <u>RESPONSIBLE MANAGER:</u> <i>Representative</i> | <u>STATUS:</u> <i>Agree</i> |
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| <u>MANAGEMENT ACTION PLAN:</u> | <u>DUE DATE:</u> <i>Implemented Sept. 2016</i> |
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Recommended actions were undertaken. On 19 Sep 2016, the Logistic Cluster’s Lead confirmed that smoke detectors have been installed and “No Smoking” signs affixed. All the actions are supported by photographs and email exchange which are on the record.

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

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

78. Programme implementation expenses funded from non-core resources amounted to approximately USD 12.0 million (87 per cent of total programme expenses) in the period under review. Two donors accounted for half of the funding received.

79. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for four major co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the new cost recovery policy.

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

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

81. The audit identified the following good practices in the area of operations management, which were in line with established policies and procedures:

- a) High completion rate of security training, including SSAFE Training; and emergency evacuation plan developed and periodically reviewed, and evacuation exercises periodically conducted;
- b) Multiple long-term agreements (LTA) established for the procurement of dignity kits; and
- c) Development of a detailed procurement plan.

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

82. The Office incurred staff payroll costs amounting to USD 3.5 million during the period under review. In addition, the Office made use of contract personnel and engaged 13 individuals under service contracts and another 30 individual consultants for management activities and programme delivery and support, incurring related costs in the amount of USD 0.5 million. At the time of the audit fieldwork, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

83. Work performed in this area included the analytical review of payroll and contract personnel costs; a walk-through of the payroll reconciliation controls with UNDP; and the testing of a sample of five individual consultancies awarded by the Office at a cost of USD 0.04 million (48 per cent of the costs incurred in the period), for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for two staff members hired during the audit period; and testing of 26 payments of staff benefits and entitlements amounting to approximately USD 0.1 million.

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

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

85. During the period under review, the Office locally procured goods other than inventory and services at a cost of USD 1.5 million. The most significant categories of goods and services procured corresponded to rent of facilities serving as premises for the Office (USD 0.8 million) and medical equipment (USD 0.3 million).

86. Audit work performed in this area included the review of a sample of nine local purchases made at a cost of USD 0.7 million (47 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,¹¹ and policies and procedures; and 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, as well as the review of the procurement planning process.

¹¹ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

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

As feasible, procure dignity kits from the long-term agreement suppliers offering the best prices

88. Four LTAs were awarded by PSB for the supply of male and female dignity kits to Syria, one of them with a local supplier. The request for award recommended, and the Chief Procurement Official approved, the use of three suppliers, including the local supplier, to source orders in response to emergency or urgent needs, and utilize the fourth and cheapest priced supplier when lead time was not the critical consideration as it would provide better value-for-money.

89. The audit noted that all orders for male and female dignity kits, amounting to USD 1.1 million during the period under review, were sourced from the local supplier. Some of these orders could not qualify for urgent needs, and the goods supplied remained in stock for (relatively) long periods. The Office Management explained that the choice to use the local supplier presented the advantage of avoiding custom clearance formalities and costs. However, this derogation was not formally documented and formally approved.

90. The issue of compliance with contract-award conditions has been raised in previous audit reports, with a recommendation to Management to implement controls to ensure compliance with the conditions established for their award. No additional recommendation is included in this report to that effect.

ROOT CAUSE *Guidance: inadequate supervision at Office and Headquarters levels.*
 IMPACT *Missed opportunity to increase the cost effectiveness of the procurement process.*
 CATEGORY *Operational.*

RECOMMENDATION 11

PRIORITY: MEDIUM

As feasible, procure dignity kits from the long-term agreement suppliers that offers the best prices.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2017*

The Office has already taken note of this recommendation and, each time, refers to the LTAs established by PSB for better effectiveness and efficiency.

However, in the event of urgent needs not caused by poor planning, local procurement may be more feasible.

Extend the use of long-term agreements to procure recurring goods and services

91. The audit noted that no competitive procurement process was undertaken for the selection of the car maintenance service provider, which received payments of approximately USD 14,000 during the period under review. Competition is a key UNFPA procurement principle to allow achievement of best value-for-money. Management explained that the vendor was selected by several UN organizations based on his expertise in maintaining armored vehicles, although no formal agreement had been established by any of the concerned UN organizations.

92. Similarly, the Office used the services of a local travel agency without having established a formal agreement.

ROOT CAUSE *Guidance: inadequate supervision at Office level.*
 IMPACT *Missed opportunity to increase the cost effectiveness of the procurement process.*
 CATEGORY *Operational.*

RECOMMENDATION 12

PRIORITY: MEDIUM

Negotiate long-term agreements, ideally at UN interagency level, for travel and car maintenance services, and any other goods or services frequently procured by the Office.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2017*

The Office has already approached other UN agencies to explore the possibilities of “piggy-backing” on their LTAs established for travel services and car maintenance.

C.3 – FINANCIAL MANAGEMENT

SOME IMPROVEMENT NEEDED

93. Work performed in this area included the review of: (a) the financial management capacity of the Office; (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 value-added tax control arrangements in place; (f) the budget management process; and (g) the effectiveness of the financial management accountability process.

94. Based on the work performed in this area, the audit noted one matter that requires Management attention.

Strengthen supervision to ensure that financial transactions are properly recorded

95. Based on the review of a sample of transactions, the audit identified a large number of accounting coding errors, mainly impacting consultancy and travel expenses in 2015.

96. Management is aware of the problem and attributed it to insufficient staffing and supervision in 2015. The recruitment of the International Operational Manager and additional finance staff towards the end of 2015, appears to have helped address the issue, as evidenced by the improvements noted by the audit in 2016. Accordingly, no recommendation is provided in this regard.

| | |
|------------|---|
| ROOT CAUSE | <i>Resources: insufficient human resources. Guidance: inadequate supervision at Office level.</i> |
| IMPACT | <i>Inaccurate financial reporting which may lead to incorrect decisions.</i> |
| CATEGORY | <i>Reporting</i> |

C.4 – GENERAL ADMINISTRATION

EFFECTIVE

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

98. Travel expenses incurred by the Office during the period under review amounted to USD 0.6 million. Audit work performed in the area of travel included a walk-through of the travel process and the testing of a sample of 67 travel-related transactions amounting to approximately USD 0.2 million (25 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures and operating effectiveness of the controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of DSA.

99. Procurement of assets in the period under review was not significant. As at 31 March 2016, the Office held 78 in-service fixed asset items with a net book value of USD 0.3 million. The largest fixed assets categories include vehicles and information technology equipment. Audit work performed in this area was limited to a walk-through of the asset management process.

100. Based on the work performed in this area, the audit noted one matter that requires Management attention.

Submit travel requests for approval prior to any duty travel

101. UNFPA travel policy requires that all travel be approved before the traveler departs and before any prepayments are made, to ensure that the activity is approved, funds are available for reimbursement of expenses, travel is allowable on the funds, and staff members are covered under compensation insurance.

102. The review of a sample of trips undertaken by Office staff and personnel during the period under review revealed that the requirement for formal prior approval of travel was not always adhered to.

103. Management was aware of the issue and has taken steps to address it. Specifically, a memorandum was issued in November 2015 reminding the Office personnel of their respective responsibilities in terms of submitting and approving travel requests. These steps proved to be effective as evidenced by the improvements noted by audit since issuance of the memorandum. No recommendation is issued in view of the actions already taken by Management.

ROOT CAUSE *Resources: inadequate training.*

IMPACT *Travel may be undertaken and paid without proper authorization.*

CATEGORY *Compliance.*

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,¹² are explained below:

| | | |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Effective | | <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"> ▪ Some improvement needed | | <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"> ▪ Major improvement needed | | <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"> ▪ Not effective | | <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.

¹² 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 residual 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 residual 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; they are 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 |
|---------|--|
| ASRO | Arab States Regional Office |
| Atlas | UNFPA's ERP (Enterprise Resource Planning) system |
| ERM | Enterprise Risk Management |
| FACE | Funding Authorization and Certificate of Expenditure |
| GBV | Gender-based violence |
| GPS | Global Programming System |
| HACT | Harmonized Approach to Cash Transfer |
| HRP | Humanitarian Response Plan |
| IP | Implementing Partner |
| LTA | Long Term Agreement |
| M&E | Monitoring and Evaluation |
| NEX | National Execution |
| NGO | Non-Governmental Organization |
| OAIS | Office of Audit and Investigation Services |
| OCHA | United Nations Office for the Coordination of Humanitarian Affairs |
| OFA | Operating Fund Account |
| PAD | Performance Appraisal and Development |
| PSB | Procurement Services Branch |
| RH | Reproductive health |
| SIS | Strategic Information System |
| SRP | Strategic Response Plan |
| UN | United Nations |
| UNCT | United Nations Country Team |
| UNDP | United Nations Development Programme |
| UNFPA | United Nations Population Fund |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| USD | United States Dollars |
| WASH | Water, Sanitation and Hygiene |
| WFP | World Food Programme |
| WP | Workplan |