United Nations Population Fund

Ensuring Reproductive Rights for All.

OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN CENTRAL AFRICAN REPUBLIC

FINAL REPORT

N^{o} IA/2018-01

10 January 2018

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Central African Republic (the Office). The audit covered the period from 01 January 2016 to 31 March 2017. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. The activities covered by the audit correspond to (a) the fifth year of the seventh Country Programme 2012–2016, approved by the Executive Board in its first regular session 2012, with indicative resources of USD 28.0 million; and (b) the first quarter of the Programme's one-year extension approved by the Executive Director with information provided to the Executive Board in its second regular session of 2016. The extension was to align the Country Programme with the United Nations Development Assistance Framework and the National Development Plan 2018–2022, with additional indicative resources of USD 4.0 million.

3. Expenses covered by the audit amounted to USD 6.5 million, executed by 13 Implementing Partners (USD 0.8 million) and by UNFPA (USD 5.7 million), funded from core resources of USD 3.1 million and non-core resources of USD 3.4 million. In addition, the audit covered the supply of reproductive health commodities, procured primarily with funding provided by the UNFPA Supplies programme, totalling USD 0.3 million.

4. Approximately 66 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Population and Development, and Gender Equality components accounted for 9 per cent and 7 per cent of expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 18 per cent of expenses.[1]

Methodology and scope

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

6. The scope of the audit included the review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology.

Audit rating[2]

7. The overall audit rating is ***"Not Effective"***, which means that the assessed governance arrangements, risk management practices and controls were not adequately designed and operating effectively to provide reasonable assurance that the objectives of the Office should be achieved. The issues identified could seriously compromise the achievement of the Office's objectives. Urgent Management action is required to ensure that the identified risks are adequately mitigated.

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

[1] Source: Cognos reports
[2] See complete set of definitions in Annex 1

Audit ratings by key audit area	
Office Governance	**Major improvement needed**
Office management	*Some improvement needed*
Organizational structure and staffing	*Major improvement needed*
Risk management	*Major improvement needed*
Programme Management	**Not effective**
Programme planning and implementation	*Not effective*
National execution	*Not effective*
Inventory management	*Not effective*
Management of non-core funding	*Major improvement needed*
Operations Management	**Major improvement needed**
Human resources management	*Some improvement needed*
Procurement	*Major improvement needed*
Financial management	*Major improvement needed*
General administration	*Some improvement needed*
Information and communications technology	*Not covered due to low assessed risk*
Security	*Some improvement needed*

Key findings and recommendations

9. 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, reporting and compliance matters. Overall, the audit report includes 19 high priority and 8 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 27 recommendations, 3 are of strategic nature; 16 refer to operational, 1 to reporting, and 7 to compliance matters.

10. At the time of the audit field mission, the OAIS Investigations Branch was reviewing and analyzing potential financial irregularities in relation to seven Implementing Partners engaged by the Office. Accordingly, the audit did not cover testing of the concerned Implementing Partners in order to not interfere with the investigation process.

Good practices

11. The audit identified several good practices implemented by the Office, some of which could be considered for replication by other offices. From a governance perspective, the Office actively participated in inter-agency coordination activities, including leading some of them. The Office planned its annual activities effectively using the corporate Strategic Information System; established a Staff Advisory and Solidarity Committee to help improve the Office work environment and staff wellbeing; conducted an ethics training for all personnel in an effort to raise and/or refresh awareness on the topic; and registered high completion rates for the performance appraisal and development process. From a programme management perspective, the Office registered high financial implementation rates and proactively undertook intense resource mobilization efforts. Finally, in the area of operations management, the Office registered high completion rates for mandatory security training courses.

Strategic level

12. There is a need to expedite the development of the new Country Programme 2018 – 2022 to allow sufficient time for its review and approval before expiry of the current Country Programme. The Office structure should be reviewed, in the context of the organization-wide structural review, for better alignment to programme and operations delivery requirements. Further, there is a need to improve the use of the Strategic Information System to better manage risks, as well as the use of the Global Programming System for better programme planning.

Operational level

13. From a governance perspective, the Office needs to improve its use of the Strategic Information System to monitor progress towards achievement of Office outputs and milestones. The Office should strengthen the quality of the staff performance appraisal and development process by systematically defining targets for all outputs, and developing its personnel skills through training. In the area of programme management, the Office should not

undertake renovation and rehabilitation works without obtaining the requisite prior approvals and should closely monitor ongoing works to their completion and handover. There is need to use competitive procedures in selecting Implementing Partners and assess Implementing Partners' capacity using policy prescribed templates prior to their engagement. Further, the Office should strengthen budgeting and financial monitoring of Implementing Partner workplans and significantly improve the inventory management process by more effectively tracking commodities using the corporate Shipment Tracker. In the area of operations management, the Office needs to improve its procurement planning process to allow timely procurement and sufficient time to undertake competitive procurement processes.

Reporting level

14. The Office needs to strengthen supervisory controls to prevent the recording of transactions to erroneous account codes.

Compliance level

15. The Office should enhance controls over compliance with co-financing agreements' expense eligibility and reporting requirements, as well as contractual timelines and reporting requirements for the transfer of funds to money transfer service providers, to ensure efficient use of financial resources and to help reduce the risk of financial loss. Further, the Office should improve its travel management practices with regard to timely submission of travel requests and implement recommendations made by the United Nations Department of Safety and Security. Also, the Office needs to timely renew consultants' contracts and raise awareness amongst relevant staff on the mandatory use of Atlas in managing personnel leave absences. Finally, the Office should utilize the correct programme implementation modalities and adhere to IP agreement policy requirements.

Management response

16. The Office thanks OAIS for the recommendations and for the overall rating. The Office values the recognition of its good practices, as well as the areas that require urgent management attention. Action has already been taken on all recommendations in 2017 and further action will be taken in 2018 to improve the governing arrangements, risk management and strengthening of the internal control mechanisms.

17. The Office would like to stress that since the audit field mission, the overall security situation in the country has rapidly deteriorated. The next Country Programme will have to be implemented in a situation of chronic emergency, which will affect the results that the Office will be able to achieve.

18. The national capacity to implement the Country Programme remains extremely weak with little transparency and high risks. The next Country Programme will have to be implemented through a wider partnership with the Government, non-governmental organizations the civil society and UNFPA's direct execution. The Office has already started selecting Implementing Partners and signing corresponding agreements, strictly respecting the Organization's policies and guidelines.

19. The Office has also requested support from the West and Central Africa Regional Office and from the Department for Human Resources, to review its staffing. A revision and alignment of the current staffing to the new Country Programme is required to implement and address all recommendations in the audit report.

20. The OAIS team would like to thank the Management and personnel of the Office, the West and Central Africa Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered activities implemented by the Office in the period from 01 January 2016 to 31 March 2017. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over UNFPA's operations in the Central African Republic.

3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:

a) The effectiveness and efficiency of the Office operations;
b) The conformity of expenses with the purposes for which funds were appropriated;
c) The safeguarding of assets entrusted to the Office;
d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
e) The reliability of the Office financial and operational reporting.

4. The scope of the audit included the review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.

5. The engagement was conducted by an OAIS audit specialist, supported by individual consultants. The audit started on 24 April 2017. A field mission took place from 24 May to 09 June 2017. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 09 June 2017. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 05 December 2017, and a final Management response received on 08 January 2018.

II. BACKGROUND

6. The Central African Republic has a population of approximately 4.6 million, mostly rural (62 per cent). Despite the presence of valuable natural resources, the population is predominately poor, with more than 80 per cent living on less than USD 1 a day. Since the beginning of the century, the country has experienced armed conflict and insecurity, which have hampered development efforts, including a recent major political crisis which resulted in a violent conflict that affected nearly the entire population. According to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), as of May 2017, some 2.3 million people, over half the population, was in dire need of humanitarian assistance, including over 0.5 million internally displaced persons, and as much registered refugees by the Office of the United Nations High Commissioner for Refugees (UNHCR) in four neighbouring countries.[3]

7. The population is relatively young, with 33 per cent under the age of 25. The fertility rate is high (4.5 children per woman) and the modern contraceptive prevalence rate is low (12.6 per cent). The maternal mortality ratio is among the highest worldwide at 890 maternal deaths per 100,000 live births. Women experience numerous types of gender-based violence, including female genital mutilation, sexual violence and witchcraft-related violence, as well as early marriage. The protracted crisis has made women and girls even more vulnerable to various forms of gender-based violence.

8. The activities covered by the audit correspond to (a) the fifth year of the seventh Country Programme 2012–2016, approved by the Executive Board in its first regular session 2012, with indicative resources of USD 28.0 million; and (b) the first quarter of the Programme's one-year extension approved by the Executive Director with information provided to the Executive Board in its second regular session of 2016. The extension was to align the Country Programme with the United Nations Development Assistance Framework (UNDAF) and the National Development Plan 2018–2022, with additional indicative resources of USD 4.0 million.

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11. The UNFPA main Office in the Central African Republic is located in the city of Bangui, with three sub-offices in the cities of Bambari, Kaga-Bandoro and Bossangoa. During the period under review, the Office was managed by a Representative, who left in June 2016 and was replaced by the incumbent in November 2016, assisted by a Deputy Representative, an Assistant Representative (retired in June 2017) and an International Operations Manager. An Officer-in-Charge was appointed from July to November 2016.

[3] Cameroon – 259,145; Chad – 72,955; Democratic Republic of Congo – 102,568; and Republic of Congo – 30,585.

[4] Source: Cognos reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE — MAJOR IMPROVEMENT NEEDED

Good practices identified

12. The audit identified the following good practices in the area of governance, some of which could be considered for replication by other Country Offices:

a) The Office engaged effectively with other United Nations (UN) organizations by actively participating in inter-agency coordination clusters and working groups, including assuming a lead role in the Gender-Based Violence (GBV) sub-cluster of the Humanitarian Country Team, an inter-organizational mechanism which is in charge of coordinating the humanitarian response and prevention of GBV in the country;

b) Annual Office activities were properly planned: (i) each programme output was linked to a Strategic Plan outcome and output; (ii) each output had at least one output indicator with, at least, one quarterly milestone; and each output indicator was assigned a baseline, target and source; and (iii) each output indicator was assigned a responsible team, working on and tracking the achievement of the annual targets and of the related quarterly milestones;

c) The Office established a Staff Advisory and Solidarity Committee to help improve the Office work environment and staff wellbeing. In particular, the Committee advises the Representative on staff wellbeing and coordinates the Office's social activities;

d) The Office conducted an ethics training for all personnel; and

e) The Office registered high completion rates for all three phases of the performance appraisal and development (PAD) process.

A.1 – OFFICE MANAGEMENT — SOME IMPROVEMENT NEEDED

13. Audit procedures performed in this area included the review of: (a) the Office planning process in 2017; (b) the relevance of the 2017 annual management plan and the implementation level of activities in 2016; (c) the alignment of the 2016 performance plans of key personnel to Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2016 annual report data; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.

14. The audit also included inquiries of representatives of three UN organizations to obtain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements.

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

Strengthen Management oversight over the accuracy of results reported in the Strategic Information System

16. Based on inquiries and review of the Office 2016 annual report, the audit noted that reported results were not always accurate or supported. For example: (a) for the output indicator '*Number of kits 2A distributed to pregnant women*', the reported results (i.e. 10,800 kits) corresponded to the component pieces of the kits and not the number of complete assembled kits distributed. Further, for the same indicator and same period, only 688 distributed kits were reported as UNFPA's contribution in the Interim Strategic Framework (CSI);[5] (b) for the output indicator '*Number of women newly accepting family planning methods*', the Office reported results that were three times higher than the set target (i.e. 12,000 women versus a target of 4,000). Audit inquiries indicated that, in the absence of reliable data, the Office estimated the results. The Office did not, however, provide documentation to support the basis of estimation; (c) for the output indicator '*Percentage of service delivery points in targeted areas offering at least three modern methods of contraception*', reported results (43 per cent) were not supported by any documentation. A similar milestone '*Number of service delivery points in targeted areas offering at least three modern methods of contraception*' was defined for the same output indicator for which the reported results in the

[5] The Interim Strategic Framework 2016-2017 is the strategic results framework that describes the collective vision and response of the UN system to the Central African Republic national development priorities and results for the period 2016-2017.

last quarter of 2016 and first quarter of 2017 were 133 and 10, respectively, presenting an unrealistic difference in the results achieved.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*Limited Management ability to take informed decision*
CATEGORY	*Operational*

RECOMMENDATION 1 ***PRIORITY: MEDIUM***

Strengthen existing supervisory controls to ensure systematic documentation and accuracy of reported progress towards achievement of planned results in the Strategic Information System.

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

MANAGEMENT ACTION PLAN: DUE DATE: *April 2018*

Action has been taken. The Monitoring and Evaluation Programme Officer is working on a reference database which is supported by documented results from available reports. He has been placed under the supervision of the Representative to ensure a closer follow-up.

Key staff has participated in the regional training to update their knowledge on the Global Programming System (GPS) and Strategic Information System (SIS).

The systematic quarterly review of Office activities which was started in 2017 will continue. Specific attention will be given to monitoring and oversight of the results.

However, as a result of the continuous deterioration of the security and the lack of access to many of the health units, accurate data may not always be available. The Office is collaborating with UNICEF to prepare the next Multiple Indicator Cluster Survey, in order to ensure that data is being collected on reproductive health indicators.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING — MAJOR IMPROVEMENT NEEDED

17. At the time of the audit field mission, the Office had 27 approved staff posts, including 3 international and 5 national professional posts, 9 general service posts, one United Nations Volunteer (UNV), and an additional 9 posts filled by contract personnel. In addition, the Office structure included one expert engaged under the Standby Partnership Programme (SBPP) modality,[6] and four individual consultants.

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

19. Based on the work performed the audit noted the following three matters that need Management attention.

Promptly review the Office structure for better alignment to programme and operations delivery requirements

20. In response to the humanitarian crisis that started in 2013, implementation of the Country Programme 2012 – 2016, which was approved in 2012, shifted focus primarily to the provision of humanitarian support. Further, in order to spread its presence to locations beyond the capital city of Bangui, the Office established decentralized offices in three regions. The Office structure and staffing were, however, not reassessed to ensure continued alignment to programme delivery and operational requirements. During the period under review, Office staffing was augmented by SBPP experts, UNVs and individual consultants.

21. Further, at the time of the audit field mission, the Office had vacancies in two key programme positions – i.e. Reproductive Health Programme Specialist and HIV/Youth Programme Specialist – that remained vacant following the retirement of previous incumbents in May and September 2016, respectively. Based on discussions with Office Management, limited financial resources were the main reason for the delay in recruiting for the two key programme positions. In addition, the Assistant Representative position became vacant subsequent to the retirement of the previous holder in June 2017.

[6] The modality allows for the deployment of personnel through UNFPA's standby partners, who provide appropriately qualified personnel from their own rosters, at short notice, for periods of approximately three to six months at a time, often at no cost to UNFPA.

22. The audit notes that a broader UNFPA organization-wide structural review, covering all business units, was underway at the time of writing this draft report and may impact on the Office structure and staffing.

ROOT CAUSE	*Resources: Insufficient financial resources.*
IMPACT	*Misalignment of the Office structure and personnel to programme and operations needs adversely affects the achievement of intended results.*
CATEGORY	*Strategic*

RECOMMENDATION 2	***PRIORITY: HIGH***

With the support of the West and Central Africa Regional Office and the Division for Human Resources, and leveraging on the development of the new Country Programme 2018 - 2022, review the Office structure and staffing for better alignment to programme delivery and operational requirements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Directors, West and Central Africa Regional Office (WCARO) and Division for Human Resources*	STATUS:	*Agree*
MANAGEMENT ACTION PLAN:	DUE DATE:	*July 2018*

A mission request to support the Office with a review of the Office structure and staffing for better alignment to programme delivery and operational requirements will be submitted to the Regional Office and to Headquarters.

The Office would like to reiterate the need for external support to help realign human resources with staff needs to respond to the new Country Programme, especially in a situation of chronic emergency.

A new International Operations Manager is in place since October 2017.

Develop and monitor comprehensive annual training plans to address personnel development needs

23. During the period under review, the Office did not have a comprehensive training plan to provide Office Management with an overview of planned training activities and the related costs so as to help prioritize training needs and allocate resources, as necessary. Instead, the performance planning and appraisal process was used by Office Management to identify individual personnel training activities, making the prioritization of training needs and allocation of resources cumbersome.

24. A review of six 2016 individual performance and development plans indicated that planned training activities were not always completed by Office personnel. Based on work performed in the various in-scope areas and the significance of the issues identified, the audit noted the following areas where the capacity of Office personnel could be further strengthened through appropriate training: (a) supply chain management, including procurement planning, compliance with procurement policies and procedures, and inventory management; (b) Implementing Partners (IP) management, including IP selection, capacity assessment, and financial monitoring; and (c) Workplan management in the Global Programming System (GPS).

25. Further, the audit noted that, with the exception of the mandatory security courses, the Office did not monitor completion of other mandatory training courses, including those related to Ethics; Integrity and Anti-fraud, Harassment and Abuse of Authority in the Workplace; One Voice; HIV/AIDS; Procurement; and the Internal Control Framework.

ROOT CAUSE	*Guidelines: Inadequate planning.*
IMPACT	*Capacity gaps may adversely impact programme delivery and operational activities.*
CATEGORY	*Operational*

RECOMMENDATION 3	***PRIORITY: MEDIUM***

Develop Office-level costed annual training plans to include all mandatory training courses and align them with development needs identified in individual performance and development plans. Use the developed training plans as a basis for prioritizing training activities, taking into account programme delivery and operational needs, as well as availability of funding; and closely monitor implementation of the training plan.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2018*

The Office retreat which was held in October 2017 included training on conflict resolution, on Implementing Partners' management, selection, capacity assessment and financial monitoring. After the first phase of the 2018 Performance Assessment and Development (PAD) process, a comprehensive training plan will be drafted, costed and monitored. Key staff has been sent to a regional training on GPS, and information sessions with all staff are planned in the first quarter of 2018.

Systematically define targets for individual performance and development plan output indicators

26. A review of individual performance and development plans for six key staff members prepared in 2016 indicated that the plans were generally relevant, complete, and aligned to the 2016 Office annual plan. Five out the six plans reviewed, however, did not consistently define the targets to be achieved for all the output indicators included therein.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*Lack of clarity of expected results may limit the ability to effectively measure progress and objectively assess staff performance.*
CATEGORY	*Operational*

RECOMMENDATION 4	***PRIORITY: MEDIUM***

Define the targets to be achieved for each individual performance and development plan output indicator and use the targets to measure progress and assess staff performance.

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

MANAGEMENT ACTION PLAN: DUE DATE: *February 2018*

For the preparation of the first phase of the 2018 PAD, a training session will be held for orientation of supervisors and all staff to ensure that the individual performance and progress towards targets is clearly communicated.

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

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

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

Improve the use of the Strategic Information System to manage risks

29. The 2016 – 2017 cycle risk assessment, including fraud risk assessment, was prepared in consultation with all programme and operations staff and finalized in the '*myRisks*'[7] application in December 2016. In addition, the Office conducted two training sessions, during the period under review, to raise personnel awareness on proscribed practices that could affect the Office's programme activities, the minimum controls required to prevent or detect them, and the tools and processes in place to report related allegations.

30. A review of the risk assessment indicated that assessed risk levels were not always commensurate with the financial materiality and complexity of the areas to which they relate. For example, the risk factors '*Country office constraints (e.g. weak Implementing Partners capacity) leading to risk of non-delivery of agreed programme results*' and '*Operational constraints (e.g. Country's fragility or security situation) leading to risk of non-delivery of programme results*' were both assessed as 'Medium'. Owing to the fragile, complex and challenging environment in which programme delivery and operational activities are undertaken, a 'High' rating would appear more realistic. Other risks considered significant by the audit were assessed as 'Low' by the Office. Examples include: (a) '*Risk of not having qualified or knowledgeable staff*'; (b) '*Risk of staff and office security and safety being compromised*'; and (c) '*Risk of disrupted operations during major calamities*'. Similarly, all 10 identified fraud risk factors were assessed 'Low' –

[7] Part of the Strategic Information System (SIS)

which appears unrealistic on account of the inherent high risk related to the country context and to previously known fraud cases.

31. Further, the audit noted that action plans to address identified risks were not systematically developed. For instance, no action plans were developed for 4 out of the 5 strategic risk factors assessed as 'Medium', and for 7 out of the 13 strategic risk factors assessed as 'Low'. Similarly, no action plans were developed for 9 out of the 10 identified fraud risk factors.

32. The audit acknowledges that the limitations of the corporate Enterprise Risk Management (ERM) framework, a matter that has already been brought to the attention of Headquarters Management by OAIS, may have impacted the Office ability to develop an adequate fraud risk response.

ROOT CAUSE	*Guidelines: Inadequate risk management process.*
IMPACT	*The ability to develop and implement appropriate mitigating measures to address identified risks is limited.*
CATEGORY	*Strategic*

RECOMMENDATION 5 — ***PRIORITY: HIGH***

With support from the West and Central Africa Regional Office and Headquarters, and leveraging on the 2018 ERM process, perform a more rigorous strategic and fraud risk assessment, taking into consideration, inter alia, the assignment of appropriate risk ratings in accordance with the materiality and complexity of the assessed areas, and develop appropriate action plans to address identified risks.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative with support from the Directors, WCARO and Division for Management Services*	STATUS:	*Agree*
MANAGEMENT ACTION PLAN:	DUE DATE:	*June 2018*

Leveraging on the findings of the 2017 internal audit and the 2016 IP audits, the Office has already identified the key risk areas, taking into consideration the overall operating and security environment, as well as assessed areas' materiality and complexity. This will be reflected in the 2018 strategic and fraud risk assessment as well as in the Office risk treatment plan.

B. PROGRAMME MANAGEMENT — NOT EFFECTIVE

Good practices identified

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

a) The Office registered high financial implementation rate of 95 per cent in 2016 for the UNFPA-implemented workplan activities; and

b) Office Management proactively undertook intense resource mobilization efforts, seeking to engage with donors through submission of proposals for donors' funding, including joint proposals with other UN agencies.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION — NOT EFFECTIVE

34. Activities implemented by the Office during the period under review, with related expenses covered by the audit of USD 5.4 million, inclusive of programme coordination and assistance costs, corresponded to eight outputs of the fifth year of the seventh Country Programme 2012–2016 and the first quarter of its one-year extension through 2017, corresponding to financial implementation rates of 92 per cent in 2016 and 20 per cent as at 31 March 2017, measured based on annual budgets allocated in Atlas. Programme implementation activities during the period under review related mainly to the provision of humanitarian support, including: (a) reproductive health supplies such as clean delivery kits, male and female contraceptives, and medical equipment; (b) youth friendly services; and (c) prevention and response to GBV.

35. Activities were implemented by UNFPA, with related expenses of USD 4.6 million (86 per cent of programme implementation expenses in the period under review) and financial implementation rates of 95 per cent in 2016, and 22 per cent as at 31 March 2017. 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 13 IPs engaged by the Office, with related expenses of USD 0.8 million (14 per cent of programme implementation expenses in the period under review) and financial implementation rates of 11 per cent in 2016 and 18 per cent as at 31 March 2017. Section B.2 of the report provides further details on IP-implemented activities. Programme implementation activities were funded from core resources of USD 2.0 million and non-core resources of USD 3.4 million.

36. Audit work performed in this area focused on four outputs with aggregate expenses of USD 2.9 million during the period under review (54 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for both 2016 and 2017; (b) an assessment of the process followed to prepare, cost and approve the workplans; (c) the review of monitoring reports and other evidence of programme implementation; and (d) site visits to three facilities delivering reproductive health services funded by the Office. The audit also included a review of the process followed in the development of the eighth Country Programme 2018–2022.

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

Expedite the development of the new Country Programme Document

38. The seventh Country Programme 2012–2016 was developed in line with the UNDAF and national priorities. Following the 2013 crisis, the UNDAF was suspended and initially replaced with the Interim Strategic Framework (CSI) 2014 – 2015 and, subsequently, CSI 2016–2017, under which UNFPA contributes to nine outputs, including three where UNFPA is the lead agency. Further, under the leadership of OCHA, a Humanitarian Response Plan (HRP) was developed for 2016, followed by another to cover the period 2017–2019.

39. Programme implementation during the period under review was guided by the seventh Country Programme Document (CPD) and its extension through 2017 to align it to the UNDAF and the country planning cycle. The Office, however, did not undertake a mapping exercise to ensure continued alignment of the Country Programme to the subsequent CSIs, HRPs and changing national priorities.

40. In addition, the audit noted that the seventh Country Programme extension's Results and Resources Framework was linked to the then suspended UNDAF outcomes instead of those in the CSI 2016–2017, an issue that Office Management explained as having been caused by the unavailability of the CSI at the time of developing the extension. The audit notes, however, that the 2017 workplan outputs were adequately linked to the CSI 2016–2017 outcomes.

41. Further, at the time of the audit field mission, the Office was in the initial stages of developing the eighth CPD which, in view of the impending end of the current CPD, may not allow sufficient time to: (a) undertake extensive consultations with the national Government, members of the United Nations Country Team and other stakeholders; (b) complete the internal quality assurance process; and (c) address any potential comments and recommendations made by Member States with regard to the draft CPD. As per applicable policy, the draft CPD should be submitted for review by WCARO no later than 27 weeks prior to the Executive Board session in which the CPD is to be reviewed, generally in the year prior to the first year of the new CPD's implementation (i.e. a draft should have been submitted to the Regional Office by end of February 2017 for the second regular session of the Executive Board 2017, or by end of June for the first regular session of the Executive Board 2018).

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.* *Resources: Insufficient human resources.*
IMPACT	*Lack of or limited strategic alignment of the country programme may adversely impact the effectiveness of programme implementation.*
CATEGORY	*Strategic*

RECOMMENDATION 6	***PRIORITY: HIGH***

Expedite the development of the new Country Programme Document and align it to the United Nations Development Assistance Framework, other relevant implementation frameworks, and national priorities.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2018*

The new Country Programme has been finalized in collaboration with the Regional Office. It will be presented at the January 2018 Executive Board meeting. It is aligned with the UNDAF and the national development priorities reflected in the National Recovery and Peacebuilding Plan 2017-2021. Particular attention has been given to aligning the new Country Programme with the new UNFPA strategic plan.

Strengthen the use of the Global Programming System for programme planning

42. The audit noted significant issues in the area of workplan management using GPS, which relate to: late finalization of workplans; lack of segregation of duties; workplan budgeting, including differences between workplan amounts and the corresponding budgets; and budgeting at high account levels (i.e. "budgetary" accounts) instead of the corresponding sub-account levels (i.e. "monitoring" accounts) – which would provide greater details on the nature of inputs budgeted. The specific instances noted are discussed as follows:

Late finalization of workplans in GPS

43. The 2015 and 2016 UNFPA-implemented workplans were both finalized in December of the respective years. In 2016, the Office implemented activities with corresponding financial transactions amounting to USD 3.9 million without a finalized workplan – a significant deviation from applicable policy. According to Office Management, programme component workplans were manually prepared outside of GPS. The audit, however, noted significant improvement in 2017 with the UNFPA-implemented workplan having been finalized in April 2017.

44. Similarly, significant delays were noted in finalizing the 2016 IP-implemented workplans. Specifically, one workplan was finalized in April, three in May, one in July, and two in October.

Lack of segregation of duties

45. There were two instances where workplans were approved by the same individuals who submitted them in GPS.

Workplan budgeting issues

46. The audit noted that 19 different workplans had differences between workplan budget amounts and commitment control[8] budgeted amounts, for an absolute total value of USD 0.9 million. Detailed review of two workplans with an aggregate absolute difference of USD 0.7 million (83 per cent of total absolute difference) indicated that the differences corresponded to workplan budget revisions that were not properly and timely processed by the relevant Programme Officers in GPS.

47. Further, expenses amounting to USD 2.5 million and USD 1.6 million in 2016 and 2017, respectively, relating to 12 workplans in 2016 and 5 workplans in 2017, were budgeted at high account levels – limiting the Office's ability to effectively monitor budgets.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.* *Resources: Inadequate training.*
IMPACT	*Implementation of programme activities may be delayed due to late finalization of workplans.* *The ability to prevent and detect errors due to lack of proper segregation of duties may be limited and the effectiveness of budgetary controls be diminished.*
CATEGORY	*Operational*

[8] Atlas module where all financial transactions are subjected to budgetary controls

RECOMMENDATION 7	***PRIORITY: HIGH***

Establish a more effective workplan preparation process, with clearly defined responsibilities, milestones, and deadlines for finalizing workplans (in collaboration with the Office Implementing Partners); a supervisory review process to ensure the development of quality workplans; and further a plan to enhance Office personnel skills to use the Global Programming System for workplan management.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *February 2018*

A more effective work plan preparation process has been started, under the responsibility for the Deputy Representative and a newly recruited Assistant Representative. The Monitoring and Evaluation Programme Officer has started supervisory quality-reviews of developed workplans. Key staff has been attending the regional "global programming system for work plan management" workshop which was held in Benin.

Strictly comply with policy requirements in undertaking renovation works

48. In support of UNFPA's emergency response to the humanitarian crisis, the Office, directly, and also through three IPs, supported the renovation and rehabilitation of 13 reproductive health facilities, youth centers and safe spaces for GBV survivors, for a total amount of USD 0.4 million. The Office, however, did not comply with applicable policy requirements for prior clearance by the Humanitarian and Fragile Context Branch and approval by appropriate UNFPA senior management.

49. The audit noted issues related to renovation works for 10 facilities (USD 0.3 million or 74 per cent of the total amount), ranging from incomplete works at three facilities, to completed works not yet formally handed over to the Office (five facilities). For the remaining two facilities, Management was unable to provide any progress status of the works.

50. While acknowledging that the deteriorating security situation and limited access to some of the targeted areas may have constrained the Office ability to effectively manage and monitor planned renovations, it is the audit's view that renovation activities are inherently complex and risky, and that stringent compliance with applicable policy requirements could have prevented, or at least alleviated, the impact of the identified issues.

ROOT CAUSE	*Guidelines: Inadequate risk management process.* *Guidance: Inadequate guidance at the Office level.*
IMPACT	*The effectiveness and efficiency of the implemented programme may be diminished.*
CATEGORY	*Operational.*

RECOMMENDATION 8	***PRIORITY: HIGH***

Implement controls to obtain prior clearance and approvals before undertaking any renovation or rehabilitation work, as required by applicable policy, and closely monitor ongoing renovation and rehabilitation works to their completion and handover, without further delay.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *Implemented August 2017*

All renovation and rehabilitation works have stopped with the arrival of the new Representative. No new renovation or rehabilitation works have been undertaken since December 2016. All ongoing works were completed and handed over to the Government in August 2017.

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.2 – NATIONAL EXECUTION	**NOT EFFECTIVE**

51. National Execution (NEX) expenses amounted to USD 0.8 million (14 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by six Government IPs and seven non-governmental organizations (NGO), with financial implementation rates of 11 per cent in 2016 and 18 per cent as at 31 March 2017.

52. As per the available general ledger information, the majority of NEX expenses were not booked under specific expense categories. NEX expenses amounting to USD 0.6 million (76 per cent of NEX expenses) were booked under the sundry general ledger account. Expenses recorded under specific categories corresponded primarily to; contract personnel salaries (USD 0.06 million – 7 per cent of NEX expenses); payments to service companies (USD 0.05 million – 6 per cent of NEX expenses); and travel costs (USD 0.03 million – 4 per cent of NEX expenses)

53. IP audits performed in 2017 covered 8 of the 13 IPs engaged by the Office, with aggregated expenses of USD 0.6 million (82 per cent of total NEX expenses in 2016). Out of the eight IP audits conducted, five received qualified audit opinions and the remaining three received adverse audit opinions. Ineligible expenses were reported in all eight audit reports, for an aggregate amount of USD 0.3 million (42 per cent of total audited amount).

54. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.2 million quarterly in 2016, and amounted to USD 0.1 million and USD 0.3 million as at 31 December 2016 and 31 March 2017, respectively.

55. Audit work performed in this area included a 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 Funding Authorization and Certificate of Expenses (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. As noted in paragraph 10, audit work in this area excluded some IPs due to ongoing investigations.

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

Use competitive procedures to select non-governmental Implementing Partners

57. The audit reviewed the process followed for the selection of seven NGOs engaged by the Office during the period under review, mainly to implement activities in response to the humanitarian situation, and noted that there was no documented evidence supporting their competitive selection. Further, justification of strategic partnerships, if any, and why engaging the partners was in the best interest of UNFPA were either not documented, or not documented using the policy prescribed non-competitive partnership template.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*IPs engaged may not be the best available to implement workplan activities with the highest quality and in cost-effective manner.*
CATEGORY	*Operational*

RECOMMENDATION 9	***PRIORITY: HIGH***

Going forward, follow a competitive selection process for the selection of non-governmental organization Implementing Partners. Should the Office decide to use a non-competitive selection process, document and maintain on file a comprehensive written justification of the partner's unique capabilities and other rationale underlying the selection, as required by the policy for' Selection, Registration and Assessment of Implementing Partners'.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*March 2018*

A competitive selection process for non-governmental organization Implementing Partners has been initiated. A new Implementing Partner has been selected on a competitive basis. The Office activated the fast track procedures in September 2017. A non-governmental agency mapping exercise has been undertaken to identify Partners' unique programmatic capabilities. This mapping will be the basis for further selection of potential Partners. No more Partners have been selected on a non-competitive basis in 2017.

Promptly undertake implementing partner assessments

58. At the time of the audit field mission, none the 13 IPs engaged by the Office during the period under review had been assessed using the HACT[9] micro assessment questionnaire and terms of reference. The IPs had been previously assessed using the Implementing Partner Capacity Assessment Tool (or IPCAT), the use of which was formally discontinued by UNFPA in September 2016) and, hence, need to be HACT micro-assessed, as required by applicable policy.

59. Further, the audit noted that the cash advance transfer modality[10] was used for all IPs engaged during the period under review, irrespective of their assessment, and therefore capacity. Similarly, the choice of the nature and extent of assurance activities to be conducted with respect to the IPs was not guided by the results of IP capacity assessments. The IP audits performed in 2017 (2016 audit cycle) revealed significant issues (see paragraph 62), including ineligible expenses amounting to USD 0.3 million, reflective of IP capacity gaps, as well as gaps in the effectiveness of the Office's risk management and IP financial monitoring processes.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Implementing Partners' capacity gaps not timely identified and addressed may adversely impact the effectiveness and efficiency of programme implementation.*
CATEGORY	*Operational*

RECOMMENDATION 10 — **PRIORITY: HIGH**

Promptly undertake Implementing Partner HACT micro-assessments and use the results to guide the choice of cash transfer modality and the extent of assurance activities to be undertaken.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*March 2018*

Formal HACT micro-assessments by an external service provider are planned for the first quarter of 2018. A memorandum of understanding for inter-agency collaboration between UNICEF and UNDP is in the process and will be signed shortly.

Utilize the correct programme implementation modalities and adhere to IP agreement policy requirements

60. The audit identified three IPs engaged by the Office with related expenses of USD 244,000 during the period under review without any signed IP agreements. Further, the Office provided funds approximating USD 31,000 and reproductive health kits worth over USD 90,000 for programme implementation activities to several NGOs outside of the OFA process, based on Memorandums of Understanding and procurement contracts signed with these entities. The activities funded outside of the OFA process were reflected as "direct UNFPA execution" and were, therefore, not subject to applicable NEX assurance process; thereby limiting UNFPA's ability to obtain assurance about the proper use of the funding and commodities provided.

61. In addition, three IP agreements tested were not prepared using the correct IP agreement template.

[9] Harmonized Approach to Cash Transfers

[10] Cash payments made to IPs on an advance basis and subsequently accounted for.

62. Further, the audit identified three instances where FACE forms were signed by individuals other than those authorized in the respective IP agreements, without formal IP request and UNFPA approval. Another IP agreement did not identify the IP authorized officer to sign off on FACE forms.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Increased exposure to legal, financial and reputational risks and diminished protection of UNFPA interests.* *The reported extent of national execution is understated. Management may not be able to obtain sufficient assurance about the proper use of funds and commodities provided outside the OFA process.*
CATEGORY	*Compliance*

RECOMMENDATION 11 — ***PRIORITY: HIGH***

Systematically sign Implementing Partner agreements with Implementing Partners prior to commencing any implementation activities, using the correct version of the implementing partner agreement template, and ensure that any amendments to the list of authorized officers are properly processed, as prescribed by applicable policy.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *March 2018*

With the start of the new Country Programme, a systematic signature of the updated template for implementing partner agreements will be introduced and signed before starting any activities.

Strengthen the budgeting and financial monitoring of implementing partner workplans

63. This audit identified the following matters that are indicative of an urgent need to strengthen budgeting and financial monitoring of Implementing Partners:

Budgeting of IP workplans

64. The audit conducted a walkthrough of the process followed in developing the 2017 IP workplans and noted that planning of programme activities was performed in GPS by Programme Officers based on proposals from the respective IPs. The audit noted, however, that detailed workplan budgets, by activity, were only requested by the Office and reviewed at the time that IPs submitted FACE forms for advances – contributing to delays in disbursing funds to IPs. The workplan budgets should have been reviewed earlier, as part of the annual planning process prior to signing the workplans.

Submission and review of FACE forms and progress reports

65. The IP audits performed in 2017 revealed significant issues and ineligible expenses in all eight IP audits performed in 2017, reflective of gaps in the effectiveness of the Office's IP financial monitoring. Ineligible expenses reported by IPs in FACE forms were not detected by the Office's review and financial monitoring processes. The issues identified included unsupported or unbudgeted expenses, payment of travel and daily subsistence allowance (DSA) entitlements in excess of eligible rates, and use of non-existent employees, beneficiaries and vendors to make payments. In all cases noted, the corresponding FACE forms were reviewed by both programme and operations personnel and approved by the Head of Office, without identifying the issues.

66. Based on discussion with Office staff, the audit noted that quarterly progress reports were not consistently submitted by IPs to the Office. In addition, FACE forms were not always submitted on time. For example, two IPs submitted the 2016 fourth quarter FACE form so late that the corresponding expenses amounting to USD 25,000 were recorded after closure of the 2016 UNFPA accounts, necessitating their undue recording in 2017. It should be noted that the Office undertook some steps to help address the identified reporting issues. In particular, the Office conducted a training in 2016, to familiarize its partners on UNFPA programme and financial reporting requirements.

HACT spot-checks

67. As part of the HACT assurance process and leveraging on the global roll-out of the HACT process in 2016, the Office conducted six spot-checks in 2017. The results of the spot checks, including the related action points assigned to individuals and due dates for implementation, were documented in the corporate Implementing Partner Assurance System (IPAS). However, six other planned spot-checks had not been completed at the time of the audit field mission, including two that related to IPs that did not undergo any HACT audits.

68. In addition, all six spot-checks conducted covered periods corresponding only to the last quarter for which FACE forms were available. The audit noted the limited understanding, on the part of Office personnel, of the spot-check guidance requirements for coverage.

69. Further, in parallel to the OAIS investigation process mentioned in paragraph 10, Office Management commenced a process for recovery of ineligible expenses incurred by the IPs and outstanding OFA balances advanced to three IPs since the last quarter 2016.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.* *Resources: Insufficient resources (skills) to carry out an activity or function.*
IMPACT	*Delays in disbursing funds may negatively impact programme delivery.* *Funds provided to IPs may not be used for the intended purpose, adversely impacting the achievement of intended programme results.*
CATEGORY	*Operational.*

RECOMMENDATION 12 — ***PRIORITY: HIGH***

Further strengthen the budgeting and financial monitoring processes of implementing partner workplans through: (a) establishing a more effective workplan budgeting process, with clear requirements to request, review and agree on detailed budgets for all planned activities prior to signing workplans; (b) closer monitoring of IPs' compliance with reporting requirements; (c) more thoroughly reviewing submitted FACE forms and progress reports; and (d) systematically undertaking all planned HACT assurance activities, including spot-checks, in compliance with HACT policy coverage requirements.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2018*

Since July 2017, a much more effective work plan budgeting and financial monitoring process has been put in place with quarterly monitoring of program progress and financial implementation rate. All available funding is now reflected in annual work plans. The Monitoring and Evaluation Programme Officer is now the custodian of all reporting of Implementing Partners with a closer monitoring of Implementing Partners. Programme Officers have been asked to prepare the FACE form jointly with the Implementing Partners, and to reduce transaction time and improve the quality of financial reporting against planned activities. Spot-checks have been started and will continue throughout the rest of the Country Programme implementation.

RECOMMENDATION 13 — ***PRIORITY: HIGH***

Expedite the recovery of ineligible expenses and long outstanding Operating Fund Account balances from the concerned Implementing Partners.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2018*

Progress has been made in clearing aged OFA balances, reducing aged OFAs from five at the end of October 2017 to two at the end of December 2017. The amount of ineligible expenditures as per 2016 IP audits has been reduced from USD 225,450 to USD 169,238 during the IP audit follow-up actions. Three IPs have been fully cleared of outstanding ineligible expenditures.

To avoid aged OFAs and ineligible expenditures by IPs, the Office has started taking systematic measures not to give new advances until the outstanding OFAs are cleared – which will continue in the future.

In the first quarter of 2018, the Office is planning to conduct IP micro-assessments in collaboration with UNDP and UNICEF, in line with the HACT framework – which should contribute to a realistic assessment of potential risks affecting with working with individual IPs.

Starting from 2018 onwards, the Office will systematically implement IP assurance plans, including spot-checks, IP audits and follow-up thereof.

B.3 – INVENTORY MANAGEMENT — NOT EFFECTIVE

70. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of approximately USD 1.2 million,[11] with funding provided mainly by the UNFPA Supplies programme, for which Central African Republic is one of the 46 priority countries. The inventory supplied consisted mainly of medical and pharmaceutical products (USD 0.39 million) and contraceptives (USD 0.35 million), procured by the UNFPA Procurement Services Branch (PSB), located in Copenhagen, Denmark, on behalf of the Office. Inventory transportation and handling services costs accounted for approximately USD 0.24 million. Additionally, the Office locally procured dignity kits for nearly USD 0.24 million.[12] The reproductive health commodities were mainly stored at and distributed from a warehouse managed by an NGO. A government IP warehouse was used to store inventory items requiring cold chain management.

71. 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 2016 and 2017 at a cost of approximately USD 0.38 million (30 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) procurement planning, requisitioning and ordering; (b) custom clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA’s possession); (d) handover of the inventory to IPs; (e) distribution to intended beneficiaries; and (f) monitoring. For locally procured commodities, audit work also included a review of the related procurement processes.

72. Audit work performed also included site visits to: (a) two warehouses managed by a non-governmental organization and by a Government IP; and (b) two service delivery points to: (i) verify the receipt of commodities procured by UNFPA; (ii) assess the warehouse controls in place and reliability of inventory records; (iii) test the distribution of commodities by tracing a sample of deliveries through the supply-chain; and (iv) verify commodity availability and stock-out levels at the warehouses and service delivery points visited. The audit also included a review of the results of the 2016 Reproductive Health Commodities and Services Availability Survey in Central African Republic.

73. From the sample testing and visits, the audit found the following matters that needed Management attention.

Promptly finalize the 2016 Reproductive Health Commodities and Services Availability Survey

74. As one of UNFPA Supplies programme priority countries, the Central African Republic benefited from the Office’s support in conducting Reproductive Health Commodity Security (RHCS) surveys aimed at providing an overall picture, at national level, of the availability and level of stock-outs of modern contraceptives and essential lifesaving maternal/reproductive health medicines at service delivery points. In 2016, the Office engaged a Government IP to conduct the survey for a total amount of USD 89,500, out of which USD 77,695 were expensed.

75. A draft report was submitted by the IP in January 2017, but had not been finalized and approved at the time of the audit field mission. Therefore, corresponding survey results were not used to inform the Office programming. Office Management explained that the prevailing security situation in the country did not allow timely completion and finalization of the survey before the end the validity of the related signed workplan i.e. 31 December 2016. Accordingly, the IP was requested to discontinue implementation of the workplan and reimburse the unused funds. The decision to request a reimbursement reflects the limited knowledge by Office personnel of applicable policy that permits the use of multiple-year workplans within a programme cycle. In the audit’s view, the signed workplan should have been extended beyond the initial period to provide sufficient time to finalize the survey report. A recommendation to enhance personnel capacity in the area of workplan management in GPS has already been provided (see paragraph 33 above). Therefore, no additional recommendation is raised here in this regard.

[11] This amount included USD 0.24 millions of procurement of dignity kits unduly recorded under ‘Sundry’ General Ledger account.

[12] These expenses were not properly recorded under inventory account category.

ROOT CAUSE *Resources: Insufficient resources (skills).*

IMPACT *Inefficient use of scarce resources.*

CATEGORY *Operational*

RECOMMENDATION 14 ***PRIORITY: HIGH***

Promptly update and finalize the reproductive health commodities and services availability survey and closely work with the Government and other stakeholders to address the root causes of any issues that may emerge from the survey.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2018*

The survey will be completed and an action plan will be prepared thereafter.

Significantly improve inventory management

76. The audit identified the following matters that are indicative of an urgent need to improve inventory management.

Use of the corporate Shipment Tracker

77. The Office did not consistently use the corporate Shipment Tracker[13] (hereafter referred to simply as the tracker) to record, track and report on procured inventory items. Specifically: (a) inventory distributions in 2016 were not regularly, timely and accurately recorded in the tracker. None of the inventory distribution undertaken in 2017 was recorded in the tracker; (b) international procurements of inventory in 2016 were not consistently captured in the tracker due to erroneous category coding by Office personnel when raising procurement requisitions; (c) information on locally procured inventory, ordinarily not directly recorded in the tracker, was not timely submitted to the UNFPA Finance Branch at Headquarters in order to facilitate the updating and adjusting of tracker records; and (d) the Office did not undertake any of the three mandatory inventory certifications in 2016, including the preparation of an inventory count report that is fully reconciled to tracker records.

78. As a result of the above, a mission commissioned by WCARO to undertake a physical inventory count at the end of 2016 noted significant differences between inventory balances recorded in the tracker and actual physical quantities. Based on the mission's report, inventory balances were adjusted by a net total of USD 0.3 million, to correct an understatement of USD 0.2 million and an overstatement of USD 0.1 million.

Warehousing conditions and monitoring of inventory expiry dates

79. The audit noted two instances where inventory items with a cost approximating USD 50,000 were destroyed by the Office in January 2016 and February 2017 due to two reasons: (a) damage caused by temperature, humidity and poor ventilation to dignity kits and condoms, which were stored under improper conditions in containers inside the Office premises; and (b) expiry date, with past due expiry dates ranging from a few months to over three years. An additional USD 30,000 worth of inventory was mistakenly destroyed by the Office during the period under review.

Inventory distribution process

80. Distribution of commodities from the NGO-managed warehouse was processed by a logistician based on requests made by Programme Officers and approved by the Head of the Office, using standard inventory issuance authorization forms that indicate inventory item descriptions, the quantities to be distributed, and the service delivery points. Inventory receipt forms were then issued by the warehouse and signed by the beneficiaries to record the actual physical handover of inventory.

81. Review of the forms indicated that inventory issuance authorization forms were not serially pre-numbered to allow traceability and verification of completeness of records. Out of 44 forms tested, the audit was unable to trace Office Management's authorization for 12 inventory transactions (27 per cent of forms tested). Further, the audit noted 24 instances of differences between authorized and actual inventory quantities issued (55 per cent of

[13] Atlas integrated system

forms tested). Office Management explained that the differences were caused by unavailability or shortages in requested items or use of different units of measure in authorization forms compared to those used in the inventory receipt forms (e.g. boxes of kits versus individual kits).

82. Due to the control issues noted above, the audit was unable to test the distribution of commodities across the supply-chain.

ROOT CAUSE	*Resources: Insufficient resources (skills) to carry out an activity or function.* *Guidance: Lack of supervision at the Office level.*
IMPACT	*The ability to efficiently achieve programme objectives, improve UNFPA visibility and discharge its fiduciary oversight and contractual obligation is diminished.* *The risk of inventory losses due to poor storage conditions, inadequate controls and inaccurate/incomplete recordkeeping is increased.*
CATEGORY	*Operational*

RECOMMENDATION 15 ***PRIORITY: HIGH***

Significantly improve the inventory management process by: (a) enforcing consistent use of the Shipment Tracker to record track and report on inventory; (b) closely monitoring inventory expiry dates; (c) immediately discontinuing the use of unsuitable storage containers to store commodities; and (d) expediting the inventory distribution process.

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

MANAGEMENT ACTION PLAN: DUE DATE: *June 2018*

Substantial improvements have been made to the inventory management process in 2017 and will continue in the first six months of 2018. Changes in staffing were made: a new International Operations Manager has been recruited; the national logistics officer has been replaced by an international logistics expert until the end of May 2018. The recruitment of a national Logistics Officer at the professional level has been initiated.

The shipment tracker reconciliation has now been done until February 2016 and a mission from the Headquarters Finance Branch was undertaken to validate the reconciliation results. Systems have now been set up with proper documentation of all the processes involved in reception, distribution and reporting of reproductive health commodities.

RECOMMENDATION 16 ***PRIORITY: HIGH***

Enhance the inventory distribution process through: (a) use of serially pre-numbered inventory issuance authorization forms; (b) systematically cross-referencing the inventory issuance authorization forms to the corresponding inventory receipt forms signed by service delivery points upon receipt of commodities; (c) Improving filing of inventory distribution documentation; and (d) implementing a monitoring process to ensure compliance thereof.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2018*

The implementation has already started in October 2017: (a) pre-numbered inventory issuance form is in place; (b) the Logistician will start systematically cross-referencing inventory issuance authorization forms to the corresponding inventory issuance forms issued by the warehouse, by writing the number of the inventory issuance form on the inventory receipt form before uploading the supporting documents in the shipment tracker; (c) filing system of inventory distribution documentation has been improved significantly by the international Logistician; (d) monthly inventory counts have started being conducted by the warehouse service provider from August 2017 onwards and quarterly physical counts are planned to be done in presence of the UNFPA Logistician, with follow-up reconciliation processes. Upon request of the Office, a mission from the Headquarters Finance Branch has been fielded in Bangui from 13 to 20 December 2017. The implementation of the recommendation of the mission will also contribute towards improving inventory management at the Office.

Improve warehouse security conditions and insure inventory

83. The Office maintained an inventory of reproductive health and dignity kits and other relief supplies at a warehouse managed by an NGO. The audit noted that the physical security conditions at the warehouse could be enhanced. In particular, broken-down motor vehicles, used car wheels, used and new boxes, and used furniture and IT equipment were all stored close to the area allocated for storage of UNFPA inventory and should to be removed or stored in a different area.

84. Further, the audit noted that the Office neither communicated to PSB the amount and kind of inventory held, for purposes of its inclusion in the corporate inventory insurance coverage; nor did the Office purchased local insurance coverage. At the time of the audit field mission, the NGO had insurance covering only condoms stored in the warehouse.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Increased exposure to inventory loss and damage.*
CATEGORY	*Operational*

RECOMMENDATION 17 — ***PRIORITY: MEDIUM***

In collaboration with the non-governmental organization, improve the physical security conditions in the warehouse and secure appropriate insurance coverage for inventory held under the Office's control, either through the corporate insurance arrangements or locally procured insurance.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *February 2018*

The Office and the Regional Security Adviser conducted a security assessment at the inventory warehouse. The Office will start implementing the recommendations as soon as the mission report is finalized. The inventory held by the Office will be included, through PSB, in the corporate insurance for goods held in warehouses, with monthly update of inventory values.

B.4 – MANAGEMENT OF NON-CORE FUNDING — MAJOR IMPROVEMENT NEEDED

85. Programme implementation expenses funded from non-core resources amounted to USD 3.4 million (63 per cent of total programme expenses) in the period under review. Of this amount, USD 0.9 million corresponded to funding from the Central Emergency Response Fund (CERF) managed by OCHA; USD 0.8 million to funding from the United Nations Central African Republic Trust Fund administered by the United Nations Development Programme (UNDP) on behalf of United Nations Participating Organizations; USD 0.6 million to a credit provided by the World Bank to the Government of the Central African Republic to finance the health systems support project; USD 0.3 million contributed by a donor in support of innovation programmes to eliminate GBV in humanitarian contexts; USD 0.2 million to funding from the Humanitarian Fund in the Central African Republic, also managed by OCHA. The remaining contributions were provided primarily by UNFPA Supplies, to enhance reproductive health commodity security, and by the Maternal Health Thematic Trust Fund.

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

87. Based on the audit work performed, the audit noted the following matter that require Management attention.

Strengthen management oversight over the non-core fund management process

88. Based on enquiries and review of documentation, the audit noted that a proposal to secure funding amounting to USD 0.8 million from the Humanitarian Fund was submitted by the Office after the specified submission deadline and consequently rejected by OCHA.

89. In addition, an analytical review of staff costs incurred by the Office in 2017 indicated that staff salaries were exclusively funded from core resources, reflecting a lack of compliance with the cost recovery policy requirements. It should be noted that staff salaries amounting to USD 144,000 were approved by the respective budget owners to be funded from the Maternal Health and UNFPA Supplies trust funds, both of which being non-core resources, but were not utilized by the Office.

90. Further, the audit noted several instances of non-compliance with co-financing agreement reporting requirements. In all the six co-financing agreements selected for testing, the requisite reports were either not submitted at all (seven reports) or submitted after the due dates (three reports) with delays ranging from a few days to over six months.

91. The review of expenses funded from non-core resources revealed that eligibility conditions stipulated in the respective co-financing agreements were not always satisfied. In particular, expenses incurred after expiration dates amounting to USD 0.5 million were noted for two agreements.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*The continued cross-subsidization of non-core funded activities by core funds, at a time of diminished core funding, may impair the Funds' financial sustainability.* *The perceived inability to timely report on the use of funds may diminish the Office's ability to mobilize/receive additional resources, and adversely impact programme delivery.* *The exposure to financial and reputational loss is increased.*
CATEGORY	*Compliance*

RECOMMENDATION 18 — ***PRIORITY: HIGH***

Where applicable, charge all direct costs to relevant non-core funding codes to which they relate and establish a close monitoring process to ensure: (a) timely submission of proposals for donor funding; (b) compliance with reporting requirements, leveraging on report monitoring capabilities of the corporate Donor Agreement Report Tracking System; and (c) fulfilment of expense eligibility conditions specified in co-financing agreements.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *March 2018*

A more detailed timeframe for proposal submission, follow-up and reporting has been setup under direct responsibility of the Deputy Representative, with active detailed follow-up of DARTS, including quality of reports. A staff salary monitoring sheet has been established to ensure that all eligible staff-related costs associated with the implementation of programme activities are charged to the relevant non-core fund codes.

C. OPERATIONS MANAGEMENT — MAJOR IMPROVEMENT NEEDED

Good practices identified

92. The audit identified the following good practice in the area of operations management which was in line with established policies and procedures:

a) At the time of the audit field mission, the Office registered a completion rates of 100 per cent for both the basic and advanced mandatory security trainings.

C.1 – HUMAN RESOURCES MANAGEMENT — SOME IMPROVEMENT NEEDED

93. The Office incurred staff payroll costs amounting to USD 2.1 million during the period under review. In addition, the Office made use of contract personnel and engaged nine individuals under service contracts and another 34 under individual consultant contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 0.6 million. At the time of the audit fieldwork, the payroll for both staff members and service contract holders was managed by UNDP.

94. Work performed in this area included an analytical review of payroll and contract personnel costs; a walk-through of payroll reconciliation controls with UNDP; and the testing of a sample of nine individual consultancies awarded by the Office at a cost of USD 0.1 million (52 per cent of total individual consultant 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 one staff member hired during the audit period; and testing of four payments of staff benefits and entitlements amounting to approximately USD 0.1 million. The audit further included the review of outstanding staff salary advances.

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

Expedite the recovery of outstanding staff salary advances

96. Salary advances provided to eight staff members amounting to USD 15,728 had not been recovered at the time of the audit field mission. Out of the outstanding amount, approximately USD 9,000 was due from four individuals no longer working for the organization. The amounts were outstanding for long periods of time, exceeding two years on average. Despite multiple follow-up communications from UNFPA's Finance Branch at Headquarters starting early 2015, there was no evidence that the Office made any efforts to recover the balances.

97. The audit notes that a new corporate tool in Atlas was introduced in 2016 to automate the management of salary advances, including the submission of requests, approvals, and recovery workflows. Utilization of the new tool by the Office to manage salary advances could help avoid similar issues in the future.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Increased risk of financial loss to UNFPA.*
CATEGORY	*Operational*

RECOMMENDATION 19 **PRIORITY: MEDIUM**

Expedite the recovery of outstanding staff salary advances and use the newly introduced Atlas eServices application to process future staff salary advances.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2018*

Recovery of long outstanding salary advances through the payroll process for active and retired staff members has started in October 2017. Submissions of write-off requests for separated staff, whom the Office has been unsuccessful to contact, are in process, compiling supporting documentation. The Office Management stopped issuing any new salary advance outside the Atlas eServices application.

Use of Atlas to manage leave and other personnel absences

98. The Office used spreadsheet-based records to monitor annual leave balances during the period under review. A review of Atlas leave records for three staff members indicated that annual leave days taken were not consistently recorded in the spreadsheets, and vice versa. For example, for one staff member, only 6 out of 21 leave days recorded in Atlas in 2016 were recorded in the corresponding spreadsheet. Conversely, 10 leave days taken by the staff member in 2016 and recorded in the spreadsheet were not registered in Atlas. For a second staff member, 11 leave days taken in 2016 were not recorded in Atlas. The differences noted between the spreadsheet and Atlas leave records in 2016, for all three staff members, ranged from 4 to 11 days.

99. The audit notes that Atlas records form the basis for calculating staff members' leave and pay entitlements, as well as the accrual of UNFPA leave liabilities. The use of Atlas for leave absence management was, therefore, made mandatory under the applicable policy.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Leave accruals for financial reporting purposes may be misstated and inaccuracies in recording of leave balances may result in overpayments and/or underpayments of corresponding entitlements.*
CATEGORY	*Compliance*

RECOMMENDATION 20 — ***PRIORITY: HIGH***

Reconcile leave balances recorded in Atlas and the spreadsheet-based records and raise awareness of the relevant staff on the need to exclusively use Atlas eServices to manage leave absences, and closely monitor compliance thereof.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *January 2018*

Quarterly reconciliations of leave balances have been conducted between Atlas records and manual records. All staff has started exclusively using Atlas eServices for managing leave/absence transactions since September 2017.

Timely renew consultants' contracts

100. Individual consultants' contracts were not always timely renewed. In two out of nine contracts tested, contract amendments were formally signed 4 and 16 days after their effective start dates, respectively. During the interim periods before signing the contract amendments, the consultants continued to provide services to the Office, in breach of applicable policy requirements not to execute contracts retroactively. In another instance, a contract was renewed 16 days after expiry of the previous contract, originating an unplanned break in service for the consultant.

101. A new corporate Consultant Monitoring Tool (CMT) was launched February 2017. The CMT is intended to serve as an online checklist and centralized data repository when hiring Individual Consultants, and allows easy access to all relevant information pertaining to Individual Consultants for purposes of monitoring compliance and data analysis. At the time of the audit field mission, the Office was yet to start making use of the tool.

ROOT CAUSE	*Guidelines: Inadequate planning.* *Guidance: Inadequate supervision at the Office level.*
IMPACT	*Programme activities may be disrupted and exposure to legal, financial, and reputational risks is increased.*
CATEGORY	*Compliance*

RECOMMENDATION 21 — ***PRIORITY: MEDIUM***

Timely renew individual consultants' contracts, as necessary, leveraging on the newly launched Consultant Monitoring Tool to monitor contract expiry dates and other consultants' data and information.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *January 2018*

The Consultant Monitoring Tool will be used to monitor consultants' data and information, including contract expiry dates, to prevent post-facto contract extensions.

C.2 – PROCUREMENT — MAJOR IMPROVEMENT NEEDED

102. During the period under review, the Office locally procured goods and services at a cost of USD 1.0 million. The most significant categories of goods and services procured corresponded to facilities costs, including rent for Office premises and connectivity charges (USD 0.3 million); inventory[14] (USD 0.2 million); payments to service companies for construction and rehabilitation works (USD 0.2 million); maintenance and operation of transportation equipment (USD 0.1 million); and office supplies, printing services and publications (USD 0.1 million).

[14] Locally procured inventory corresponded to dignity kits that were incorrectly recorded under 'Sundry' GL account.

103. Audit work performed in this area included the review of a sample of 60 local purchases made at a cost of USD 0.8 million (approximately 73 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,[15] 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.

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

Further improve the procurement planning process, including pre-solicitation activities

105. In both 2016 and 2017, the Office complied with the requirement to enter estimated annual quantities of all reproductive health commodities, medical devices and pharmaceuticals to be purchased by PSB into the annual Procurement Plan application. The Office, however, did not develop a local procurement plan consolidating all products and services foreseen to be procured locally by the Office during the year. The audit noted a number of local procurement issues relating to lack of proper planning. Examples include: (a) the late initiation of a procurement process to select a United Nations Department of Safety and Security (UNDSS)-approved security services company; and (b) in at least two instances, due to time constraints, the Office did not use competitive selection processes to procure services approximating USD 4,000.

106. Further, specifications for goods and services to be procured were not always clear and flexible (e.g. generic), and sometimes lacked sufficient detail. In one example, a solicitation document specified brand names of the goods to be procured instead of the required technical and performance specifications. In another instance, a supplier offering a product with higher performance specifications than those defined in the solicitation document was awarded the contract, while lower-priced technically compliant offers were submitted by other bidders. It is the audit's view that better market research could have resulted in better defined specifications.

ROOT CAUSE	*Guidelines: inadequate planning.* *Guidance: Inadequate supervision at the Office level.*
IMPACT	*The ability to achieve best value for money and exposure to reputational risk may be limited.*
CATEGORY	*Operational*

RECOMMENDATION 22 ***PRIORITY: HIGH***

Raise the awareness of relevant staff on the need to: (a) better plan local procurement activities for timely procurement; (b) follow competitive processes in making local procurements; and (c) undertake market research to better define goods and services specifications. Closely monitor compliance thereof.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2018*

The implementation of the recommendation has been initiated with (a) bi-monthly review of procurement plans, and; (b) approval of distribution list before initiating procurements. Procurement standard operating procedures, authorization process and forms will be reviewed and updated by the Office Management by the end of the first quarter 2018 – in order to ensure competitive, fair and transparent procurement.

C.3 – FINANCIAL MANAGEMENT — MAJOR IMPROVEMENT NEEDED

107. 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.

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

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

Strengthen supervision to ensure that financial transactions are properly recorded

109. Based on the review of a sample of transactions, the audit identified a large number of account coding errors, mainly impacting NEX expenses and locally procured inventory. Approximately USD 0.6 million of NEX expenses (over 75 per cent of total NEX expenses) were not recorded under specific account categories and were, instead, booked under a 'Sundry' general ledger account. Similarly, locally procured inventory amounting to USD 0.2 million, corresponding primarily to dignity kits were booked under the same general ledger account.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*Inability to perform effective financial monitoring of programme implementation.* *Increased risk of inaccurate financial reporting by the Office.*
CATEGORY	*Reporting*

RECOMMENDATION 23 ***PRIORITY: HIGH***

Raise the awareness of relevant staff on the need to correctly record financial transactions, and implement review and supervisory procedures to prevent the charging of expenses to erroneous account codes.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2018*

The new International Operations Manager will implement controls over the correct use of account codes at the verification stage for all transactions, regardless of value and voucher modality.

Strengthen monitoring of cash advances made through third-party money transfer service providers

110. During the period under review, the Office engaged a third-party money transfer service provider to disburse cash for travel allowances to beneficiaries at UNFPA events and activities held in remote locations where traditional banking services do not exist.

111. A review of cash advance reconciliations prepared by the Office revealed that: (a) the Office did not adhere to a contractual requirement to only transfer funds to the service provider two days before the start of any event or activity. In one case, for example, funds were transferred in December 2015 for an activity implemented in February 2016 effectively creating idle cash balances in the intervening period that could represent an opportunity cost in terms of efficient use of resources; (b) financial reports were not always submitted by the service provider within three days of concluding events and activities, as stipulated in the contract. At the time of the audit field mission, reports for cash advances made by the service provider between May and September 2016 aggregating USD 3,500 had been pending between 8 and 12 months; (c) new cash advances were issued before financial clearance of previous advances. At the time of the audit field mission, outstanding funds yet to be accounted for relating to 2015 and 2016 amounted to USD 3,500 and USD 3,800, respectively.

112. It should be noted that a new corporate policy on project cash advances was issued in September 2016. The policy, however, includes limited guidelines to help field offices better manage contractual relationships with money transfer service providers.

ROOT CAUSE	*Guidelines: Lack of corporate policies or procedure.* *Guidance: Inadequate supervision at the Office level.*
IMPACT	*The use of financial resources may be inefficient and the risk of financial loss to UNFPA increased.*
CATEGORY	*Compliance*

RECOMMENDATION 24	***PRIORITY: MEDIUM***

Transfer funds to third-party money transfer service providers within the specified contractual timelines and strengthen the monitoring of cash advances made through such providers by requiring timely preparation and submission of financial reports and refraining from further fund transfers before previous ones are fully accounted for.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *July 2018*

The Office did not renew the contract with the third-party money transfer service provider. A new contracting process will start only upon establishment of (i) clear guidelines outlining conditions under which third-party money transfer service providers can be used, with clear roles and responsibilities for engaging and managing such service providers, and (ii) implementable control mechanism to mitigate potential risks.

RECOMMENDATION 25	***PRIORITY: HIGH***

Develop guidelines outlining: (a) the conditions under which third-party money transfer service providers are to be engaged; (b) the different roles and responsibilities for engaging and managing such service providers; and (c) the controls to be implemented to mitigate potential contractual risks such as non-performance by the service providers.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Director, Division for Management Services* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *June 2018*

The Division for Management Services has been revising the current policy to incorporate the above aspects. Completion is scheduled for the second quarter of 2018.

C.4 – GENERAL ADMINISTRATION	**SOME IMPROVEMENT NEEDED**

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

114. Travel expenses incurred by the Office during the period under review amounted to USD 0.4 million. Audit work performed in the area of travel included a walk-through of the travel process and testing of a sample of 54 travel-related transactions amounting to approximately USD 0.1 million (28 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.

115. Procurement of assets in the period under review amounted to USD 0.1 million. As at 31 March 2017, the Office held 99 in-service fixed asset items with a net book value of USD 0.2 million. The largest fixed asset categories included vehicles and information technology equipment. Audit work in this area included the review of a sample of 10 assets procured at a cost of USD 0.02 million (25 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures.

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

Submit travel requests in advance of travel within policy timelines

117. The audit noted that the existing travel policy requirement to confirm travel itineraries as early as possible and purchase airline tickets at least 21 days in advance of travel was not consistently adhered to. The review of 54 travel requests identified 5 instances (9 per cent of transactions tested) where requests were submitted outside of the policy period, within 3 to 14 days from the travel dates. None of the five instances qualified as emergency needs for travel.

ROOT CAUSE	*Guidelines: Inadequate planning.*
IMPACT	*Late procurement of tickets may prevent the Office from obtaining the lowest fares available.*
CATEGORY	*Compliance*

RECOMMENDATION 26 | **PRIORITY: MEDIUM**

Raise staff awareness to better plan non-emergency travel and submit travel requests in advance of travel dates, within applicable policy requirements.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *January 2018*

The implementation of the recommendations has already started. Management stopped approving non-essential travel requests raised within less than three weeks of advance notice. In order to systemize the control, the Office will introduce a control/check point in the travel authorization template in use in the Office.

C.5 – SECURITY — SOME IMPROVEMENT NEEDED

118. Work performed in this area included: (a) a review of the most recent United Nations Minimum Operating Security Standards (MOSS) assessment; (b) an assessment of compliance with mandatory security training requirements; and (c) inquiries about the active engagement of UNFPA Office Management including its participation in the Security Management Team.

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

Expedite the implementation of UNDSS recommendations

120. The Office went through a voluntary MOSS self-assessment in 2014 which concluded that the Office had a 90 per cent compliance level, corresponding to a '*compliance with limitation'* rating. The assessment report included a number of recommendations designed to reduce security risk to Office personnel, property and assets. In May 2017, following a request by the Office, facility UNDSS undertook safety and security surveys of the office in Bangui. The security survey identified 25 recommendations to further improve existing safety and security measures. At the time of the audit field mission, most of the recommendations were pending implementation as, according to Office Management, there was not enough time and financial resources to implement them.

121. Further, based on inquiries, the audit noted that, while Minimum Operating Residential Security Standards (MORSS) are applicable in the Central African Republic, the requisite residential security measures were not fully implemented for one of the Office's three internationally recruited staff members.

ROOT CAUSE	*Resources: Lack of financial resources.*
IMPACT	*Increased exposure of Office personnel, property and assets to security risks.*
CATEGORY	*Compliance*

RECOMMENDATION 27 | **PRIORITY: HIGH**

Expedite implementation of the United Nations Department of Safety and Security recommendations, including the requisite Minimum Operating Residential Security Standards measures.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, in consultation with the Office of Security Coordinator* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *March 2018*

The recommendation is nearly completed.

Action was taken on all 2015 MOSS recommendations and endorsed during the newest security assessment of the Office and of residences. New recommendations to improve security of the Office and residences were suggested, and implemented.

A support mission was undertaken by the Regional Security Adviser to review and endorse the security compliance status as well as make further recommendations. The Office is awaiting the mission report and UNDSS clearance, as appropriate.

Further, the previous Local Security Advisor's contract was not extended and a new Security Advisor is under recruitment with, in the interim, an international Security Associate filling in.

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,[16] are explained below:

- **Effective**

  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.

  The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.

- **Some improvement needed**

  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.

  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.

- **Major improvement needed**

  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.

  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.

- **Not effective**

  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.

  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.

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.

[16] 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 ERP (Enterprise Resource Planning) system
CERF	Central Emergency Response Fund
CMT	Consultant Monitoring Tool
CPD	Country Programme Document
CSI	Interim Strategic Framework
DSA	Daily Subsistence Allowance
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
IPAS	Implementing Partner Assurance System
IPCAT	Implementing Partner Capacity Assessment Tool
MOSS	Minimum Operating Security Standards
MORSS	Minimum Operating Residential Security Standards
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
RHCS	Reproductive Health Commodity Security
SBPP	Standby Partnership Programme
SIS	Strategic Information System
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollars
WCARO	West and Central Africa Regional Office