



United Nations Population Fund

Ensuring Reproductive Rights for All.

OFFICE OF AUDIT AND INVESTIGATION SERVICES

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

FINAL REPORT

N° IA/2018-02

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EXECUTIVE SUMMARY

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

Background

2. Activities covered by the audit correspond primarily to the second and third years of the eighth Country Programme 2014 – 2018, approved by the Executive Board in its 2013 annual session, with indicative resources of USD 34.9 million.

3. Expenses covered by the audit amounted to USD 17.0 million, executed by 30 Implementing Partners (USD 8.4 million) and by UNFPA (USD 8.6 million), funded from core resources of USD 10.3 million and non-core resources of USD 6.7 million. In addition, the audit covered the supply of reproductive health commodities during the period under review, procured with funding provided by the UNFPA Supplies programme, amounting to USD 6.7 million.

4. Approximately 77 per cent of the expenses incurred in the period under review corresponded to the Reproductive Health component. The Adolescents and Youth component accounted for 5 per cent of the expenses incurred and the Gender and Population and Development components for another 7 and 5 per cent, 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 6 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 governance, risk management and control processes in place over the in-scope areas and activities. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

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 rating²

7. The overall audit rating is **“Some Improvement Needed”** – which means that 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 Office will be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

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

¹ Source: Cognos budgets and expenditures by programme cycle output reports

² See complete set of definitions in Annex 1

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

Key findings and recommendations

9. The audit identified some good practices, as well as areas that require Management attention, one of a strategic nature, and others related to operational and compliance matters. Overall, the audit report includes eight high priority and eight medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 16 recommendations, one is of a strategic nature, 11 are operational, 3 refer to compliance matters, and one to a reporting matter.

Good practices

10. The audit identified a number of good practices implemented by the Office, some of which could be considered for replication by other offices. From a governance perspective, the Office held weekly joint programme and operations management meetings to disseminate information, review programme implementation progress, and deliberate on challenges faced. The Office also organized learning afternoons and orientation sessions for new personnel to enhance their knowledge of UNFPA policies and procedures and other Office-related matters.

11. From a programme management perspective, an in-house inventory management tracking tool was developed to track inventory items from requisitioning to handover to Implementing Partners, including monitoring their distribution by the Implementing Partners. The Office periodically conducted joint field monitoring visits with senior Government officials, which helped ensure that recommendations arising therefrom were addressed expeditiously. Finally, in the area of operations management, the Office kept comprehensive and well-documented human resource files.

Strategic level

12. Support to the Government to address issues impacting commodity availability and stock-outs, should be scaled up.

Operational level

13. From a programme management perspective, the Office needs to enhance the workplan management process by more effectively leveraging on the Global Programming System. To strengthen implementing partner management and monitoring, the timeliness of Funding Authorization and Certificate of Expenditure submissions by Implementing Partners and the quality of their review by the Office should be improved. Requisitioning and ordering of inventory commodities should be timely planned and executed and the procured items should be promptly handed over to Implementing Partners in accordance with a predetermined distribution plan. The Office should monitor reproductive health commodities' inventory levels and availability.

14. Financial commitments should be timely reflected in Atlas, through the issuance of requisitions and purchase orders.

Compliance level

15. All personnel should also complete the UNFPA mandatory trainings.

16. There is a need to raise or refresh the awareness of Office personnel on bid solicitation procedures to improve the transparency and fairness of the procurement process. Further, prior to their use, the Office should obtain the necessary permissions and agreements for use of procurement long-term agreements entered into by other United Nations organizations. Further, the Office should improve its travel management practices with regard to timely submission of travel requests, obtaining security clearances before official travel, and submission of travel accountabilities upon completion of travel.

Reporting level

17. The Office needs to strengthen supervisory controls to prevent the recording of accounting data to erroneous account codes.

Management response

18. The Office acknowledges the intensive work undertaken by OAS, including the recommendations aimed at improving management and operations. The Office is committed to improving effectiveness and efficiency of programme delivery and is already taking action to address the recommendations.

19. The OAS team would like to thank the Management and personnel of the Office, the East and Southern Africa Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered 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 Kenya.
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 OAI audit specialist supported by individual consultants. The audit started on 01 May 2017. A field mission took place from 05 to 30 June 2017. Preliminary findings and recommendations resulting from the audit were discussed with Office Management at an exit meeting held on 30 June 2017. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 30 November 2017, and a final Management response received on 11 January 2018.

II. BACKGROUND

6. According to a census conducted in 2013, Kenya has a total population of 43.2 million. Sixty-one per cent of the population is under 25 years of age, with 42 per cent aged between 0 - 15 years and 19 per cent between 15 and 24 years. At the current annual growth rate of 2.9 per cent, the population is projected to reach 70 million by 2030.³

7. The maternal mortality ratio decreased from 717 per 100,000 live births in 1996 to 362 per 100,000 live births in 2015.⁴ The total fertility rate declined from 4.9 to 3.9 children per woman between 2003 and 2009, with the median age for first marriages at 20 years. The contraceptive prevalence rate for all methods rose from 39 per cent to 58 per cent during the same period, with wide regional variations ranging from 4 per cent in the North East of the country to 63.5 per cent in the central regions. HIV prevalence dropped from 7.1 per cent in 2007 to 5.6 per cent in 2012, although new infections remained high, at nearly 100,000 per year. The HIV prevalence among the 15 to 24 age cohort was 2.1 per cent in 2012, a decrease from 3.8 per cent in 2007.⁵

8. Kenya is a United Nations Delivering-as-One (DaO) country. As part of DaO, the Government requested that United Nations (UN) support to Kenya be more strategic, long-term, and fully aligned to the country's Medium-Term Development Plan and Vision 2030.⁶ UNFPA programme activities are guided by the Kenya United Nations Development Assistance Framework (UNDAF) 2014 – 2018, with indicative total resources of USD 1.2 billion for the period. Under the UNDAF, each participating agency is responsible for delivering on a set of actions that jointly contribute to shared results. In 2010, Kenya adopted a new constitutional framework that established a devolved system of governance in all its 47 counties, introducing new political and development dimensions to be taken into account in programming.

9. Activities covered by the audit correspond primarily to the second and third years of the eighth Country Programme 2014 – 2018, approved by the Executive Board in its 2013 annual session, with indicative resources of USD 34.9 million.

10. Expenses covered by the audit amounted to USD 17.0 million, executed by 30 Implementing Partners (IP, USD 8.4 million) and by UNFPA (USD 8.6 million), funded from core resources of USD 10.3 million and non-core resources of USD 6.7 million. In addition, the audit covered the supply of reproductive health commodities during the period under review, procured with funding provided by the UNFPA Supplies programme, amounting to USD 6.7 million.

11. Approximately 77 per cent of the expenses incurred in the period under review corresponded to the Reproductive Health component. The Adolescents and Youth component accounted for 5 per cent of the expenses incurred and the Gender and Population and Development components for another 7 and 5 per cent, 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 6 per cent of expenses.⁷

12. The UNFPA Office in Kenya is located in the capital city of Nairobi. The Representative position became vacant in August 2016 following the departure of the incumbent to a different position in the UN system. Following the departure, the Office was managed by the Deputy Representative acting as Officer-in-Charge (OIC), assisted by an Assistant Representative and an International Operations Manager.

³ UNDAF (2014-2018)

⁴ Trends in Maternal Mortality: 1990 to 2015 – Estimates by WHO, UNICEF, UNFPA, World Bank Group and the United Nations Department of Economic and Social Affairs - Population Division

⁵ UNFPA Country Programme Document for Kenya (2014 – 2018)

⁶ Kenya Vision 2030 – This is the national development blueprint, which aims to transform Kenya into a newly industrializing middle-income country providing a high quality of life to all its citizens by the year 2030.

⁷ Source: Cognos budgets and expenditures by programme cycle output reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SOME IMPROVEMENT NEEDED

Good practices identified

13. The audit identified the following good practices in the area of governance, in line with established policies and procedures:
- a) The Office organized learning afternoons and “on-boarding” orientation sessions for new personnel to enhance their knowledge of UNFPA policies and procedures and other Office-related matters;
 - b) The Office held weekly joint programme and operations management meetings, which were well-documented in minutes that captured the key action points for follow-up. The meetings were used for information sharing, reporting on the status of programme implementation activities, and discussing the programmatic and operational challenges faced by the Office; and
 - c) Performance appraisal and development activities reflected high completion rates within the established timelines.

A.1 – OFFICE MANAGEMENT

EFFECTIVE

14. Audit procedures performed in this area included the review of: (a) the Office planning process in 2017; (b) the relevance of the 2016 and 2017 annual management plans, and the level of implementation of activities in 2016; (c) the alignment of the 2017 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.
15. No reportable matters were identified based on the audit work performed in this area.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

SOME IMPROVEMENT NEEDED

16. At the time of the audit field mission, the Office had 47 approved posts, including 7 international and 13 national posts, 12 general service posts, and an additional 15 posts covered under the Service Contract modality. In addition, the Office engaged 42 individual consultants during the period under review.
17. Audit work performed in this area included the review of: (a) the alignment of the organizational structure and staffing arrangements with the 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.
18. Based on the work performed, the audit noted the following matter that needs Management attention.

Promptly complete any outstanding mandatory trainings

19. The audit noted that, at the time of the field audit mission, most but not all staff members and contract personnel had completed the mandatory security training courses. Some had expired security training certificates, while the Junior Professional Officers had not completed the advance security training course. Completion of other mandatory and recommended courses – such as those related to Ethics, Integrity and Anti-fraud, Harassment, One Voice, HIV/AIDS, Procurement, and the Internal Control Framework – ranged between 66 and 75 per cent. In addition, none of the programme personnel had completed the recommended results-based management basics training.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Internal capability may not be sufficiently developed, affecting the quality and results of programme delivery and operations.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 1

PRIORITY: MEDIUM

Complete any outstanding mandatory courses by all personnel concerned and promote completion, by programme staff, of the recommended results-based-management training.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2018

Office Management will enforce completion of all mandatory courses by the end of the first quarter of 2018.

A.3 – RISK MANAGEMENT

EFFECTIVE

20. Audit work performed in this area consisted of the review of the latest Office strategic and fraud risk assessments and of the control self-assessment survey completed by the Office at the time of the field audit mission, the process followed in identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risk.

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

22. The process followed could be replicated in other offices. All staff within the CO were actively involved in developing the annual risk assessments. In particular, the CO designated a day when all staff worked together to assess both the strategic and fraud risks at the CO. The team jointly allocated scores for fraud risks, as well as assigned focal points to manage strategic risks. Even where the CO felt that the residual risks were low, it devised documented strategies to manage these.

B. PROGRAMME MANAGEMENT

SOME IMPROVEMENT NEEDED

Good practices identified

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

- d) The Office developed a programme monitoring and evaluation plan that comprises programme planning matrices and tools for coordination, monitoring, reporting, and evaluation, incorporating all relevant annexures drawn from the corporate policies and procedures manual;
- e) The Office periodically conducted joint field monitoring visits with senior Government officials holding decision-making positions. This helped ensure that recommendations arising from the monitoring trips were expeditiously addressed by IPs; and
- f) The Office developed an in-house inventory management tracking tool that includes information on types of inventory, requisitions and purchase orders, vendor names, methods of transportation, dates of arrival in-country, dates of physical receipt and handover to IPs, and quantities distributed by the IPs. The specifications thereof should be reviewed and incorporated, as necessary, as part of the UNFPA-wide “ICT Transformation” exercise.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION

SOME IMPROVEMENT NEEDED

24. During the period under review, the Office implemented activities related to 15 outputs of the eighth Country Programme 2014 – 2018 at a cost of USD 16.0 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 91 per cent in 2016 and 41 per cent as at 31 March 2017, measured based on annual budgets allocated in Atlas.

25. Activities were implemented directly by UNFPA, with actual expenses of USD 7.6 million (48 per cent of programme implementation expenses in the period under review) and financial implementation rates of 87 per cent in 2016 and 32 per cent as at 31 March 2017. A large part of the expenses related to UNFPA’s implemented activities corresponded to the procurement of reproductive health commodities, and personnel and facilities costs.

26. Activities were also implemented by 30 IPs engaged by the Office, with related expenses of USD 8.4 million (53 per cent of programme implementation expenses), and financial implementation rates of 97 per cent in 2016 and 54 per cent as at 31 March 2017. Section B.2 of the report provides further details on IP-implemented activities.

27. Audit work performed in this area focused on two outputs with aggregate expenses of USD 13.9 million during the period under review (87 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, as well as to monitor their implementation by the Office and with various partners; and (c) a review of workplan progress reports, standard progress reports, monitoring reports and other evidence of programme implementation, along with site visits to four locations in Nairobi, where programme activities were implemented. In addition, the audit reviewed: (a) the alignment of the activities implemented to the Country Programme documents; and (b) the level of achievement of the eighth programme cycle outputs for selected programme components.

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

Timely finalize workplans

29. The audit reviewed 10 workplans prepared by the Office in 2016 and 2017 and noted that they were signed at various points in time between March and April of the respective years. The late signing of workplans in both years was attributable to a combination of factors, the majority of which were beyond the Office’s control, including: (a) a significant reduction (approximately 50 per cent) in core resources allocated to the Office in both years – which necessitated the prioritization of activities to be implemented, an exercise that consumed additional time; (b) the need to extensively engage and communicate with IPs on the implications of budgetary cuts, at times requiring one-on-one meetings with individual IPs; (c) late staffing changes at the main IPs which meant that the annual review meeting, initially held on time in November 2016, had to be repeated in early 2017, further delaying signature; (d) unavailability of some designated IP signatories to sign workplans; and (e) delays in the release of funds, especially from the UNFPA Headquarters-managed trust funds.

30. The audit notes that the Office timely engaged with IPs for the 2017 annual planning cycle by holding the annual review meeting in November 2016. The meeting resulted in clearly defined milestones and deadlines for the finalization and signing of workplans, with target completion dates aimed at no later than 28 February 2017. Further, in 2016, for instance, the Office made considerable effort to ensure that, even with the unintended late signing of workplans, activities were implemented within the remaining quarters of the year, achieving a high overall financial implementation rate of 91 per cent. Therefore, no recommendation is provided as regards this matter.

ROOT CAUSE	<i>Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>Implementation of programme activities may be delayed due to late workplan signing.</i>
CATEGORY	<i>Operational</i>

Strengthen the efficiency and effectiveness of the workplan management process in the Global Programming System

31. The workplan management process was assessed by the audit as generally effective as the Office had addressed a number of findings from the 2016 review of the Office’s workplans by the UNFPA Programme Division.⁸ The process’ effectiveness could be further strengthened by enhancing the Office’s use of the Global Programming System (GPS) and addressing the following matters found during the audit: (a) four activities, with costs amounting to USD 1.8 million, were directly executed by the Office, yet without preparing workplans in GPS; (b) programme activities amounting to USD 1.5 million were incorporated in GPS at the aggregate account level of “General Operation Expenses” instead of the corresponding sub-account levels by expense type (i.e. the “monitoring” account level) – which would improve monitoring by providing greater details on the nature of inputs budgeted; (c) differences between workplan budgets and Atlas ‘Commitment Control Budgets’,⁹ where workplan budget amounts were not adjusted to match Atlas ‘Commitment Control Budget revisions’; and (d) percentages of support

⁸ 2016 GPS and Workplan Policy Compliance Review

⁹ Atlas module where all financial transactions are subjected to budgetary controls

costs budgeted under seven workplans were distorted (indicating higher percentages) in GPS due to an accumulation of unpaid support costs amounting to USD 60,000. The issue is further discussed in paragraph 72.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Employing budgetary controls for effective financial monitoring and the achievement of planned results is diminished. Excess support costs may be reimbursed to IPs.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 2 **PRIORITY: HIGH**

Leveraging on the Global Programming System, further enhance the effectiveness and efficiency of the workplan management process by: (a) creating workplans for all programme activities to be implemented; (b) setting up budgets in the Global Programming System at monitoring account level; (c) timely reflecting budgetary revisions in the Global Programming System; and (d) further developing the Office personnel capacity to use the Global Programming System for workplan management.

<u>RESPONSIBLE MANAGER:</u> Representative	<u>STATUS:</u> Agree
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> December 2018

The Office is currently leveraging on the Global Programme System Phase II to implement this recommendation. All implementation activities are now included in workplans and budget revisions appropriately documented and approved. More training and mentorship sessions on the Global Programme System and workplan management are planned for 2018 to coincide with the transition period from the eighth to the ninth Country Programme.

Detail better workplan budgeting information

32. Workplan budgets selected for testing by the audit were generally well justified and supported. The workplan budgeting process could be strengthened by: (a) using better structured budgeting templates to facilitate budget calculation and subsequent updates, with tables automating the computation of budgeted amounts for key expense categories based on defined inputs, units, rates and assumptions; and (b) indicating, in the budgeting templates, a sufficient level of details on the assumptions used to develop budget estimates.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Development and maintenance of workplan budgets may be cumbersome and prone to computation mistakes.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 3 **PRIORITY: MEDIUM**

Use better structured costing templates that automate budget calculation and maintenance, based on clearly documented inputs, units, rates and assumptions and provide a sufficient level of detail on the budgeting assumptions used.

<u>RESPONSIBLE MANAGER:</u> Representative	<u>STATUS:</u> Agree
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> June 2018

The Office is now using a spreadsheet-based application to tabulate and calculate budgets, though not across the Office. The application will be rolled out to all programme managers when creating workplan budgets for 2018.

B.2 – NATIONAL EXECUTION

SOME IMPROVEMENT NEEDED

33. National Execution (NEX) expenses amounted to USD 8.4 million (53 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 15 Government IPs, 12 non-governmental organizations and 3 UN organizations, with financial implementation rates of 97 per cent in 2016 and 54 per cent as at 31 March 2017. Per the available general ledger information, NEX expenses corresponded primarily to training and learning (USD 6.3 million – 94 per cent of NEX expenses).

34. NEX audits performed in 2017 (2016 audit cycle) covered 11 of the 30 IPs, with aggregated expenses of USD 4.5 million (54 per cent of total NEX expenses in 2016). All NEX audits conducted received unqualified audit opinions. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 1.2 million quarterly in 2016 and amounted to USD 0.07 million and USD 0.2 million as at 31 December 2016 and 31 March 2017, respectively.

35. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization, and processing of fund advance requests and expense reports submitted by IPs through Funding Authorization and Certificate of Expenditure (FACE) forms; (d) the controls implemented over OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities, for four IPs engaged by the Office with aggregate programme implementation expenses of USD 2.6 million (31 per cent of NEX expenses) in the period under review.

36. The audit also visited and held meetings with all four IPs, with the objective of developing an appropriate understanding of: (a) their overall control environment as pertains UNFPA-funded programme activities; (b) the controls over financial transactions for significant expense categories; and (c) the process followed for the preparation and authorization of FACE forms and workplan progress reports submitted to UNFPA; and (d) safeguarding and use, for intended purposes, of assets provided by the Office. The visits also included inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication and the barriers and other factors potentially impacting the effectiveness of programme implementation.

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

Improve the timeliness of FACE form submission and quality of their review

38. Six out of 20 FACE forms tested (30 per cent) were submitted by the IPs after the required deadlines. The observed delays ranged between 5 and 90 days.

39. Further, out of the 20 FACE forms tested, the audit noted one isolated instance when an IP overstated expenses reported in a FACE form by USD 1,042, compared to the actual amount paid to the IP supplier of USD 2,808. The corresponding FACE form was reviewed by both programme and operations personnel at the Office, yet none identified the issue.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Delays in the submission of FACE forms may affect the timeliness of fund disbursements, implementation of activities and the Office’s monitoring activities.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 4

PRIORITY: HIGH

Improve monitoring of implementing partner activities through: (a) closer monitoring of IPs’ compliance with reporting requirements, including the timely submission of Fund Authorization and Certificate of Expenditure forms and; (b) more thoroughly reviewing submitted Fund Authorization and Certificate of Expenditure forms.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2018*

The recommendation is under implementation with the roll-out of the Global Programming System Phase II. Management has already oriented Office staff and Implementing Partners on the system. The Office is currently using FACE form checklists for compliance review. The Office has set an internal deadline of the 10th of the month following the end of the quarter for submission of reports by Implementing Partners to facilitate meeting the corporate deadline of 15th.

Use the FACE form review checklist to strengthen FACE form review

40. The Office did not complete FACE form checklists which evidence the review of FACE forms by Programme and Operations Management personnel, as required by applicable policy. The purpose of the checklist is to help personnel practice due diligence and comply with required procedures.

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

IMPACT *UNFPA may accept excessive unauthorized or ineligible expenses.*

CATEGORY *Operational*

RECOMMENDATION 5

PRIORITY: MEDIUM

Use the FACE form checklists to guide and strengthen the review and approval of FACE forms, ensuring that the checklists are kept/filed for audit trail purposes.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2018*

Since the roll-out of the Global Programming System Phase II, the Office has been using the required checklists, which are now reviewed and approved appropriately.

Strengthen implementing partner management activities

41. While IP agreements were generally maintained on file for all the IPs selected for testing, there were no comprehensive and up-to-date files containing documentation on the IP registration, legal status, by-laws, latest annual reports, board of directors memberships, banking relationships and accounts, latest annual audit reports, information on programme activities, etc., to confirm the IP legal status and continued eligibility, as required by applicable policy.

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

IMPACT *IPs engaged may not meet policy requirements. Information on IPs may be outdated or non-existent.*

CATEGORY *Operational*

RECOMMENDATION 6

PRIORITY: MEDIUM

Maintain permanent files with the documentation required by the policy and procedures for the registration of Implementing Partners.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2018*

The Office is updating files for each Implementing Partner with documentation for IP registration, legal status, by-laws, and programme and operations reports.

B.3 – INVENTORY MANAGEMENT

MAJOR IMPROVEMENT NEEDED

42. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of approximately USD 6.7 million (inclusive of transportation costs of USD 0.4 million), with funding provided mainly by the UNFPA Supplies programme, for which Kenya is one of the 46 priority countries. The inventory supplied consisted mainly of contraceptives (USD 3.5 million) and medical equipment (USD 2.5 million), procured by Procurement Services Branch (PSB), based in Copenhagen, Denmark, on behalf of the Office. Reproductive health commodities were mainly stored at and distributed from a warehouse managed by the Ministry of Health and the medical equipment stored and distributed from a warehouse managed by a customs clearing agent in Nairobi, Kenya.

43. Audit work performed included a review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory items supplied during the period under review at a cost of USD 4.7 million (70 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) requisitioning; (b) customs clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA’s possession); (d) handover of inventory to IPs; (f) distribution to intended beneficiaries, and (g) monitoring. Audit work further included a review of the related procurement processes for local warehousing and distribution of commodities (refer to section C.2 of the report).

44. Audit work performed also included site visits to: (a) two warehouses located in Nairobi, one managed by the Ministry of Health and the other by a private enterprise; (b) two sub-county depots in Nairobi County; and (c) five health facilities located in Nairobi County. The audit tests conducted were to: (a) verify the receipt of commodities procured by UNFPA; (b) assess the warehouse controls in place and reliability of the inventory records maintained; (c) test the distribution of commodities by tracing a sample of deliveries across the supply-chain; and (d) verify commodity availability and stock-out levels at the warehouses, depots and health facilities visited. The audit also included a review of a facilities assessment survey¹⁰ and a supply chain assessment report,¹¹ both of which related to contraceptives availability and stock-outs.

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

Timely commence the requisitioning process for commodities

46. The audit noted that requisitioning and ordering activities were generally not timely executed during the period under review. All 12 inventory procurement transactions tested by the audit were requisitioned late. For example, in 2016, the Office locally initiated six inventory requisitions midway through the year. Another six requisitions were raised by the Commodity Security Branch at UNFPA Headquarters in April 2016. This resulted in the late receipt of commodities earmarked for 2016 programme implementation activities in the last quarter of year and their subsequent hand-over to IPs in the first quarter of 2017. Office Management explained that the delay in requisitioning was attributable to a slow and cumbersome process undertaken late, between April and May 2016, in collating information on commodity and medical equipment needs from the various counties in Kenya.

ROOT CAUSE	<i>Guidelines: inadequate planning.</i>
IMPACT	<i>Delays in the implementation of planned activities may adversely impact the objectives of the programme.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 7

PRIORITY: HIGH

In collaboration with the Commodity Security Branch at UNFPA Headquarters, timely collate the requisite information on inventory needs and raise requisitions, as necessary, to ensure that inventory items are procured, delivered and distributed within the planned periods of programme implementation.

¹⁰ Kenya Facility Assessment Survey, 2015

¹¹ UNFPA Kenya Supply Chain Assessment Report, February 2017

RESPONSIBLE MANAGER: *Representative, with support from the Commodity Security Branch* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2018*

The Office will submit procurement plans by the fourth quarter and raise requisitions as per the requirements.

Timely hand over procured inventory items to Implementing Partners

47. Significant delays of up to 134 days in handing over medical equipment to IPs were noted during the period under review. Office Management attributed these delays to the receipt, by the Office, in a piecemeal manner, of medical equipment component parts that required local assembly before delivery to IPs. During its visit to one of the warehouses at the time of the field audit mission (June 2017), the audit identified 32 pieces of already assembled medical equipment received in January 2017 that were yet to be handed over to IPs. Management explained that the need to have the equipment picked had been communicated to the beneficiary counties in a timely manner but the counties were yet to make the necessary logistical arrangements.

48. In addition, inventory receipt forms, which serve to acknowledge receipt of commodities by IPs, were generally signed retrospectively, between 7 and 60 days after actual handover. Office Management explained that this was caused by the unavailability of designated IP signatories at the time that the inventory items were physically handed over.

ROOT CAUSE	<i>Guidelines: inadequate planning at Office level. Distribution delays may impact the effectiveness of the programme.</i>
IMPACT	<i>UNFPA may retain risks related to inventory until the latter formally transferred to IPs through signing the receipt forms.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 8

PRIORITY: HIGH

In collaboration with the Implementing Partners, develop and implement a robust equipment distribution plan that takes into consideration lead times for receipt and assembly of medical equipment component parts, and the necessary county-level logistical arrangements for delivery to beneficiary facilities, including timely signing of inventory receipt forms.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *January 2018*

The distribution plan, in consultation with Implementing Partners, will be developed at the time requisitions are raised. The Office will timely enforce signing of inventory receipt forms.

Support the Government to address stock-out challenges

49. An independent reproductive health commodities and services facility assessment survey¹² conducted in 2015 and a subsequent supply chain assessment¹³ conducted by the Office in 2016 both identified commodity stock-out issues. The 2015 survey revealed that 86 per cent of the service delivery points surveyed had experienced a stock-out of at least one modern contraceptive method. On the day that the survey was conducted, 81 per cent had a stock-out of at least one modern contraceptive method. The supply chain assessment report also noted instances of overstocked facilities at the sub-county level - mainly attributed to weak reporting processes that resulted in deliveries to the facilities even when not requested.

50. Further, the audit visited two sub-county depots located in Nairobi County. In the first depot, which served 45 service delivery points, the audit noted a stock-out of Intra-uterine devices (IUD) that had existed since April 2017 and of male and female condoms that had existed since June 2016. The second depot had been experiencing stock-

¹² Kenya Facility Assessment Survey, 2015

¹³ UNFPA Kenya Supply Chain Assessment Report, February 2017

outs of oral contraceptives since September 2016. Personnel at the two depots explained that although they completed replenishment requests through the ordering system on a monthly basis, no commodities were received. The audit’s visit to the main warehouse revealed e.g. a significant inventory level of male and female condoms. There was, however, no formal schedule for delivery of inventory items to health facilities and depots – a contributing factor to the stock-outs noted at the depots. Further, the audit noted that although health facilities completed service delivery point contraceptive consumption data reports and request forms and uploaded them into a logistics system¹⁴ – allowing the main warehouse to monitor commodity requirements, the information was not used effectively for timely delivery of commodities, causing delivery delays ranging between 2 and 12 months.

51. Both the survey and supply chain assessment reports identified the main factors contributing to stock-outs, as follows: (a) poor quantification by county health facilities; (b) a weak “pull system” caused by ad-hoc requests for commodities from the main warehouse by the counties and health facilities; (c) simultaneous ordering by the counties of family planning commodities alongside other essential drugs – which meant that challenges affecting the drugs supply chain also affected family planning commodities; and (d) poor in-county distribution of commodities amongst facilities.

52. The Office did not provide evidence of discussion – e.g. at the Office or Commodity Security Technical Working Group level – or activities undertaken aimed at improving commodity security and addressing the issues impacting commodity availability and originating stock-outs.

ROOT CAUSE	<i>Guidelines: inadequate planning at Office level.</i>
IMPACT	<i>Stock-outs of commodities at sub-county and service delivery point levels could prevent the achievement of programme objectives.</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 9

PRIORITY: HIGH

In collaboration with appropriate programme stakeholders, support the Government in developing and implementing a strategy to address the challenges that impact commodity availability levels and originate stock-outs at sub-county depots and service delivery points.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

The Office is eager to have commodities reach the last mile and shall continue to work with other development partners to provide technical support to national and county Governments in forecasting and quantification. In 2018, support will be provided to improve supply chain management. While the resources made available to the Office are inadequate to address all the needs in their entirety, the Office will leverage on partnerships to address the issue of stock-outs.

Proactively monitor reproductive health commodities’ inventory level and availability

53. During the period under review, the Office did not undertake regular and systematic monitoring of reproductive health commodities’ availability and stock levels. The audit noted that the Office did proactively seek to access information held by the Ministry of Health on reproductive health commodities inventory levels, pending orders, and delivery plans, further limiting its ability to monitor whether health facilities were timely supplied and support timely decision-making to prevent stock-outs. Further, the Office did not put in place a mechanism through which distributed commodities could be tracked through to the intended individual beneficiaries.

ROOT CAUSE	<i>Guidance: lack of supervision at Office level.</i>
IMPACT	<i>Commodity distribution, delivery and availability issues might not be timely identified and addressed.</i>
CATEGORY	<i>Operational</i>

¹⁴ District Health System-2

RECOMMENDATION 10

PRIORITY: HIGH

Monitor reproductive health commodities' inventory levels and availability, through the review of inventory reports, the level of implementation of distribution plans, the order pipeline, and conducting of periodic visits to warehouses and health facilities. Also, put in place a mechanism to track inventory through to the intended final beneficiaries.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

The Office will use the Ministry of Health Information System to track commodity status. The Office will include stock status as an item in the programme monitoring visits – to facilitate checking warehouses/stores at the county or sub-county visited.

B.4 – MANAGEMENT OF NON-CORE FUNDING

EFFECTIVE

54. Programme implementation expenses funded from non-core resources amounted to approximately USD 10.3 million (64 per cent of total programme expenses) during the period under review. Of this amount, USD 7.1 million was provided by UNFPA Supplies and the UNFPA thematic trust funds, and USD 1.2 million corresponded to funding provided by four donors in support of: (a) reproductive maternal newborn child and adolescent health and the transformation of adolescents' access to contraception through comprehensive choices; (b) the prevention maternal deaths in East and Southern Africa, and (c) a UN joint programme for reducing preventable maternal, newborn and child deaths in 10 high burden counties in Kenya.

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

Follow up on the resource mobilization pipeline

56. The Office developed a robust resource mobilization strategy during the period under review, based on market analyses that took into consideration the donor funding environment in the country and areas of specific interest to donors. The Office sought to engage donors through discussion with development partners, private sector partners, donor foundations, and other UN organizations. The efforts made by the Office were proactive, consistent and persistent, supported through desk reviews conducted by the East and Southern Africa Regional Office in liaison with the Resource Mobilization Branch at UNFPA Headquarters.

57. The Office set a resource mobilization target of USD 10.5 million for the eighth Country Programme 2014 - 2018. At the time of the audit field mission, the Office had mobilized USD 8.7 million (83 per cent of the target amount). In particular, the audit noted commendable performance in 2016, when the Office mobilized USD 6.3 million (72 per cent of the total resources mobilized). At the time of the audit field mission, five additional proposals amounting to USD 12.8 million had been submitted to various prospective donors, further illustrating the Office's resource mobilization efforts. Based on discussion and review of documents, the audit noted that one of the proposals (USD 0.1 million) was likely to be funded in due course. The other four were still under consideration.

58. At a time of decreasing core and thematic trust fund resources, there is need to proactively follow up on the proposals that were still under consideration by the prospective donors. No recommendation is provided as regards the matter due to the effort already demonstrated by the Office.

C. OPERATIONS MANAGEMENT**SOME IMPROVEMENT NEEDED**Good practices identified

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

- a) The Office kept comprehensive and well-documented human resource records. The records included detailed information templates used when hiring personnel, including salary and other benefits and entitlements calculation worksheets, as well as worksheets analyzing personnel experience.

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

60. The Office incurred staff payroll costs amounting to USD 3.2 million during the period under review. In addition, the Office made use of contract personnel and engaged 42 individuals under individual consultancy contracts and another 10 under service contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 1.0 million. At the time of the audit field mission, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

61. Work performed in this area included the analytical review of payroll and contract personnel costs, a walk-through of the payroll reconciliation controls with UNDP, and the testing of a sample of 18 individual consultancies awarded by the Office at a cost of USD 0.3 million (30 per cent of total contract costs incurred in the period) for linkage to the corresponding workplans, compliance with 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 three staff members hired during the audit period and testing of locally paid staff benefits and entitlements amounting to USD 11,081.

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

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

63. During the period under review, the Office locally procured goods and services at a cost of USD 2.7 million. The most significant categories of goods and services procured corresponded to printing services and publications (USD 0.8 million), hotel services for workshops and trainings (USD 0.7 million), and warehouse and commodities distribution costs (USD 0.2 million).

64. Audit work performed in this area included the review of a sample of 27 local purchases made at a cost of USD 0.5 million (19 per cent of total local procurement) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles,¹⁵ policies and procedures, as well as operating effectiveness of controls in the areas of: (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving.

65. Audit work also included the review of: (a) the procurement planning process; and (b) the management of charges related to services shared with and charged by other United Nations organizations.

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

Raise and/or refresh awareness on solicitation procedures

67. The audit noted two instances where lead times for bid submission were shorter than the minimum two-week period required by applicable policy. In one instance related to the procurement of mother and child health booklets for USD 34,482, a period of only one day was allowed for the bidders to respond to a request for quotations. In the other instance corresponding to the procurement of office furniture at a cost of USD 21,325, 10 days were allowed for the bidders to respond.

¹⁵ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of UNFPA interests

68. Management explained that these two instances were inadvertent as the concerned staff erroneously assumed that a two-week waiting period would be too long for the nature of items purchased, especially given that they are (generally) readily available in Kenya. The audit considers that too short a solicitation time may affect transparency and fairness of the procurement process.

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

IMPACT *The transparency and fairness of the procurement process may be impaired.*

CATEGORY *Operational*

RECOMMENDATION 11

PRIORITY: HIGH

Raise and/or refresh staff awareness on the need to comply with the procurement procedures requirements, including those related to the duration of solicitation periods, and implement supervisory controls to monitor compliance thereof.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of
September 2017*

The Office is currently implementing the requisite 14 days request for quotation period. Procurement compliance is discussed at programme management and staff meetings and on a one-on-one basis when the need arises.

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

Obtain the necessary permissions for use of Long Term Agreements entered into by other UN organizations

69. During the period under review, the Office used a Long Term Agreement (LTA) between other UN organizations and a travel agent to procure travel services. There was no evidence, however, that the Office had obtained the permission of the other UN organizations to place orders against that LTA, as required by the procurement policy. Further, there was no evidence that the Office secured a formal agreement of the travel agent, including signing a memorandum of understanding, to use the LTA.

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

IMPACT *There is an increased exposure to legal risks in case of a dispute.*

CATEGORY *Compliance*

RECOMMENDATION 12

PRIORITY: MEDIUM

Secure the necessary permissions and agreements when placing reliance on Long Term Agreements entered into by other UN organizations for procuring goods and services.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

The Office is currently implementing this requirement through the development of memorandums of understanding for existing Long Term Agreements.

C.3 – FINANCIAL MANAGEMENT

SOME IMPROVEMENT NEEDED

70. Work performed in this area included a 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.

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

Commit funds in Atlas prior to entering into agreements with suppliers

72. At the time of the audit field mission, the Office had an accumulated financial deficit of USD 185,183 relating primarily to 2016, comprising USD 60,000 in outstanding support costs owed to IPs and USD 125,183 relating to an unpaid invoice. The outstanding deficit, which was covered using funds allocated for the following year, arose because the Office continued to assume financial commitments without due consideration of resource availability and did not timely commit the required financial resources, through requisitions, purchase orders or other appropriate Atlas transactions. Office Management attributed the pending payments to inadequate budgeting for support costs and a reduction of core resources funding.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Available financial resources may not allow the Office to settle obligations resulting from procurement of goods and services or the need to reimburse programme implementation expenses incurred by IPs. Increased exposure to reputational risk.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 13

PRIORITY: HIGH

Implement review and supervisory procedures to ensure that funds are timely committed in Atlas before services or goods are awarded or IP expense reimbursements agreed.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of September 2017*

The Office is already ensuring that all financial obligations are adequately captured and committed with funding available.

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

Improve accounting data recording through capacity building of staff and enhanced supervision

73. The audit noted that in 18 out of 26 financial transactions tested (69 per cent), errors were made in their initial posting into Atlas. The primary attributing factor for these errors was the use of wrong account codes by new Office personnel who initiated the transactions. For example, travel expenses relating to 16 transactions and amounting to USD 43,253, corresponding primarily to the purchase of fuel and oil for Office vehicles, payments for leased vehicles and travel terminal costs, were recorded primarily as daily subsistence allowances (DSA) and travel.

ROOT CAUSE	<i>Human error: unintentional mistakes. Resources: inadequate training.</i>
IMPACT	<i>Inaccurate financial reporting may affect decision-making and diminish the effectiveness of planning, budgeting, and other monitoring control activities.</i>
CATEGORY	<i>Reporting.</i>

RECOMMENDATION 14

PRIORITY: MEDIUM

Strengthen supervisory controls and provide training to all relevant personnel to ensure that financial transactions are recorded in the appropriate accounts.

RESPONSIBLE MANAGER: *Representative, with support from the Director, Division for Management Services* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2018*

The Office has planned an orientation session to familiarize concerned staff on the usage of correct account codes for both budgeting and recording of expenditure.

Improve management of allowance payments through the use of mobile money transfer platform

74. During the period under review, the Office engaged third-party service providers to make payments with regard to: (a) DSA to training participants; (b) training venue costs; and (c) other costs related to counterpart training and conference events. Two main methods were used by the service providers to make the payments: (a) direct cash delivery to event venues using a global integrated security company; and (b) the use of a mobile money transfer platform. Both service providers were contracted and managed through UNDP. The payment method to be used was determined on a case-by-case basis based on the recipient’s location, ease of access and prevailing security conditions.

75. The audit noted that USD 240,096 (60 per cent of total allowances paid in the period under review) was disbursed through the direct cash delivery payment method. While acknowledging that both methods of payment used were both practical depending on the specific prevailing circumstances of individual events, based on six payments reviewed by the audit, it was unclear why the direct cash delivery method was preferred over the mobile money transfer platform, which would have cost less and been easier and faster to arrange, especially as most of the events were undertaken in major cities in Kenya where mobile money transfer services are readily available. The direct cash delivery payment method, which typically involved the transfer of cash by means of a security van, attracted charges based on distances to be covered and security conditions. In addition, the method invariably required the physical presence of Office personnel at activities and events to distribute and document payments, further increasing the costs incurred. The audit notes, however, that Office personnel assigned to make the payments were well versed with the activities and events and played a monitoring role as well. In one instance where Office personnel were not present during the payment of USD 15,145 to meeting participants, the related supporting documents were not made available to the audit and there was no evidence of allowance recipients having been validated before making payments. On the other hand, at the time of the audit field mission, no charges were levied on the Office by the mobile transfer company for use of the mobile money transfer platform.

76. Further, the audit noted that cash advances were provided to staff members for project implementation activities. For example, during the period under review, a staff member was advanced USD 8,422 in order to make payments at a programme implementation site more than 600 Kilometres outside Nairobi. The audit is of the view that payments to suppliers at programme implementation sites could be made in a faster, cheaper, and more secure manner using the mobile money transfer platform, which leaves sufficient audit trail.

ROOT CAUSE *Guidance: Lack of supervision at Office level.*

IMPACT *Missed opportunities for cost savings.
Increased security risk to Office personnel.*

CATEGORY *Operational*

RECOMMENDATION 15

PRIORITY: MEDIUM

In collaboration with the UNDP finance team, explore options to better save costs, achieve value-for-money, and ensure staff security through increased use of the mobile money transfer mechanisms available in the country, as appropriate.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2018*

The Office will use mobile money services as the preferred form of disbursement and use third party disbursement as the exception, on a case-by-case basis.

C.4 – GENERAL ADMINISTRATION

SOME IMPROVEMENT NEEDED

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

78. Travel expenses incurred by the Office during the period under review amounted to USD 0.6 million. Audit work performed in the area of travel included a walk-through of the travel process and testing of a sample of 24 travel-related transactions amounting to USD 114,256 (19 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of DSA.

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

Improve travel management practices

80. The audit identified the following matters that are indicative of deviations from travel policy.

Submission of travel requests within policy timelines

81. The travel policy requirement to purchase airline tickets at least 21 days in advance of travel was not consistently followed. The review of a sample of travel requests identified 10 out of 24 cases where travel authorizations were submitted within one to six days of travel dates; and 9 of the 10 cases noted did not qualify for emergency needs. While the testing did not reveal any significant price differentials when comparing prices paid to current prices (absent contemporaneous quotes), there is a potential that the Office may not be able to obtain the lowest fares available. The audit notes that the 10 transactions reviewed were originated outside the Office, by the East and Southern Africa Regional Office and UNFPA Headquarters for the travel of Office staff to attend meetings and conferences there.

Security clearance

82. The audit identified three instances where security clearance was not obtained by Office personnel prior to official travel, as required by applicable policy.

Submission of travel accountabilities

83. The audit noted two instances where Vouchers for Reimbursement of Expenses (i.e. F10 forms) were submitted by travellers between 48 and 73 days after travel, contrary to applicable policy requirements, which allow a maximum period of two weeks following travel.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
	<i>Late procurement of tickets may prevent the Office from obtaining the lowest fares available.</i>
IMPACT	<i>Lack of security clearance increases risks to staff and legal risk for UNFPA.</i>
	<i>Delayed accountabilities may decrease the ability to track travel advances and may lead to inaccurate financial reporting.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 16

PRIORITY: MEDIUM

Raise Office personnel awareness on the need to: (a) better plan non-emergency travel and submit travel requests in advance of travel dates, within applicable policy requirements; (b) obtain security clearance before official travel; and (c) submit travel accountabilities within policy timelines. Control implementation thereof.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

The Office will create and enforce a system that ensures travel is planned and processed 21 days before the date of travel. The Office, however, has minimum control of travel notifications originating from out of the country.

Asset Management

84. In the period under review, the Office procured fixed assets for its own use and for use by IPs at a cost of USD 0.3 million. The most significant categories of fixed assets procured were office and information technology equipment. Audit work performed in this area included the review of a sample of fixed assets adjustment transactions, as well as of assets procured for use by the Office in 2016 and 2017, at a cost of USD 179,469 (65 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures.

85. No reportable matters were noted based on the work performed in this area.

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY

EFFECTIVE

86. This area was assessed as presenting a low audit risk. Related audit work was therefore limited to the review of the existence and effectiveness of the Office’s business continuity plan and preparedness in the event of a business disruption.

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

C.6 – SECURITY MANAGEMENT

EFFECTIVE

88. Work performed in this area included (a) a review of the most recent MOSS (United Nations Minimum Operating Security Standards) and MORSS (United Nations Minimum Operating Residential Security Standards) assessments; (b) an assessment of compliance with mandatory security training requirements; (c) inquiries of the local United Nations Department of Safety and Security (UNDSS) about its relations with UNFPA, including the active engagement of Office Management in the Security Management Team; (d) testing of management and staff familiarity with their security management responsibilities and applicable security management guidelines; (e) a review of the timeliness of security advisories to all staff and contract personnel; (f) a review of the Office security, contingency, and building and medical evacuation plans; (g) a review of the timeliness of security incident reporting to UNDSS; and (h) the existence of a dedicated security desk and hotlines.

89. No reportable matters were identified based on the work performed.

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:

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

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

Guidelines: absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

Guidance: inadequate or lack of supervision by supervisors

- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by Headquarters

Resources: insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

Human error : un-intentional mistakes committed by staff entrusted to perform assigned functions

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

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
DaO	Delivering-as-One
DSA	Daily Subsistence Allowance
ERM	Enterprise Risk Management
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
HIV	Human Immunodeficiency Virus
IP	Implementing Partner
IUD	intra-uterine devices
LTA	Long Term Agreement
MORSS	United Nations Minimum Operating Residential Security Standards
MOSS	United Nations Minimum Operating Security Standards
NEX	National Execution
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
Oic	Officer-in-Charge
PSB	Procurement Services Branch
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNICEF	United Nations International Children's Emergency Fund
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNFPA	United Nations Population Fund
USD	United States Dollars
WHO	World Health Organization