



**United Nations Population Fund**

*Ensuring Reproductive Rights for All.*

**OFFICE OF AUDIT AND INVESTIGATION SERVICES**

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

**FINAL REPORT**  
N° IA/2018-04

**21 February 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 Iraq (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 the first and second years of the second Country Programme 2016 – 2019, approved by the Executive Board in its first regular session 2016, with indicative resources of USD 40.9 million.

3. Expenses covered by the audit amounted to USD 38.4 million executed by 16 Implementing Partners (USD 16.1 million) and by UNFPA (USD 22.3 million), funded from core resources of USD 2.3 million and non-core resources of USD 36.1 million.

4. Approximately 49 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Gender and Adolescent and Youth components accounted for 45 per cent and 2 per cent of the expenses incurred, respectively. Programme interventions focussed mainly on delivery of humanitarian assistance to address the needs of internally displaced persons and refugees throughout the country. 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 4 per cent of expenses.<sup>1</sup>

### 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<sup>2</sup>














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 should be achieved. Issues and improvement opportunities identified did not significantly affect the achievement of the Office objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

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<sup>1</sup> Source: Cognos reports

<sup>2</sup> See complete set of definitions in Annex 1

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

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

Key findings and recommendations

10. The audit identified some good practices implemented by the Office, as well as areas that require Management attention, some of a strategic nature and others related to operational matters. Overall, the audit report includes four high priority and two medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the six recommendations, two are of strategic nature, three refer to operational matters and one to reporting matters.

*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, project offices were created in programme focus areas, in closer proximity to Implementing Partners for better programmatic and financial monitoring. Annual activities were timely planned and reported using the Strategic Information System.

12. From a programme management perspective, the Office actively participated in a number of programmatic inter-agency coordination activities, including leading some of them. The Office, in coordination with other United Nations (UN) organizations in the country, engaged specialized third-party consultants, drawn from project implementation localities, to monitor and report on programme implementation activities in Central and Southern Iraq, where access by Office personnel was limited due to the security situation.

13. Finally, in the area of operations management, the Office, in collaboration with other UN organizations in country, established several long-term agreements covering recurrent and high-value local procurements.

*Strategic level*

14. There is need for prompt implementation of the new structure and staffing realignment, approved in September 2017 by the Acting Executive Director, to allow the Office to continue addressing effectively challenges associated with its humanitarian and development response activities, manage an increased level of financial resources and related programmatic and operational activities, maintain an adequate level of representation in the UN coordination structures and mechanisms established to manage the humanitarian response activities, and strengthen its programmatic and financial monitoring capacity. In addition, Office personnel and partners' awareness as regards to the prevention, detection and reporting of fraudulent and other proscribed practices should be enhanced.

*Operational level*

15. There is a need to develop and implement an Implementing Partner capacity development plan to address the recommendations provided in the Harmonized Approach to Cash Transfers micro-assessments. Finally, the Office should improve the timeliness of the Funding Authorization and Certificate of Expenditure form submission by Implementing Partners and recording of related expenses in Atlas by Office personnel.

*Reporting level*

16. The Office needs to strengthen its workplan management and the use of the Global Programming System so that budgets in the signed workplans and Global Programming System are aligned to each other and output indicator targets are updated to reflect changes in budgets.

Management response

17. The Office Management agrees with the audit observations and commits to implement the recommendations as per the individual deadlines established.

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

## I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the 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 Iraq.
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 team, supported by staff from an external audit firm. The audit started on 24 April 2017. A field mission took place from 21 May to 08 June 2017. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at exit meetings held on 08 June 2017. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 24 January 2018, and a final Management response received on 17 February 2018.

## II. BACKGROUND

6. The population of Iraq increased from 8 million in 1965 to an estimated 37 million in 2015. The rapid growth was fuelled by a high total fertility rate, which was estimated at 4.2 in 2015, with a low contraceptive prevalence rate of 33.6 per cent and a relatively high life expectancy at birth of 67.6 years for males and 70.9 for females.<sup>3</sup>

7. The maternal mortality ratio declined from 117 deaths per 100,000 live births in 1990 to 35.7 per 100,000 live births in 2013. In 2013, over 90 per cent of deliveries were assisted by a skilled birth attendant and over 75 per cent were made in a health facility. Despite these positive trends, the Millennium Development Goal target was not achieved; in fact, recent conflict-related access issues are expected to further reverse or stall this progress. An assessment carried out by the Ministry of Health in 2014, revealed that only 25 facilities countrywide have the capacity to deliver emergency obstetric and neonatal care.<sup>3</sup>

8. The humanitarian crisis in Iraq remains one of the largest and most volatile in the world. The pace of displacement of persons since 2014 is unprecedented. In 2014, over 2.5 million civilians were displaced in Iraq. An additional 1.0 million fled in 2015, and nearly 700,000 were displaced in 2016. By the end of 2016, over 3 million Iraqis remained displaced, living in 3,700 locations spread across the country, with more than one million in the Kurdistan Region. An additional 1.1 million civilians were expected to get displaced in 2017.<sup>4</sup> The population influx to safer communities and lack of adequate health professionals and structural damage to facilities have all contributed to a decreased capacity to deliver timely and high quality services, and put significant strain on existing social services, including reproductive health services.

9. The UNFPA response to the needs of the Iraqi displaced and refugees followed the strategy and approach outlined in the *'Humanitarian Response Plan: Iraq'* (HRP). The HRP sets out the strategy for responding to humanitarian needs in Iraq across 12 different sectors, based on the *"Humanitarian Needs Overview"*<sup>5</sup> developed by the Office for the Coordination of Humanitarian Affairs (OCHA), in collaboration with different partners, including UNFPA. Activities implemented by the Office under the HRP focused on the health and protection clusters and primarily involved the provision of reproductive health services and commodities, dignity kits, and gender-based violence response services.

10. Delivery of humanitarian response activities during the period under review was subject to a high inherent risk level, derived from the complex environment in which implementation took place, and rapid changes in events and circumstances affecting advance planning, availability of partners to undertake programme implementation; and further presenting challenges to monitoring activities in certain serviced areas of the country, due to heightened security requirements.

11. The activities covered by the audit correspond to the first and second years of the second Country Programme 2016 – 2019, approved by the Executive Board in its first regular session 2016, with indicative resources of USD 40.9 million.

12. Expenses covered by the audit amounted to USD 38.4 million executed by 16 Implementing Partners (IP; USD 16.1 million) and by UNFPA (USD 22.3 million), funded from core resources of USD 2.3 million and non-core resources of USD 36.1 million.

13. Approximately 49 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Gender and Adolescent and Youth components accounted for 45 per cent and 2 per cent of the expenses incurred, respectively. Programme interventions focused mainly on delivery of humanitarian assistance to address the needs of internally displaced persons and refugees throughout the country. 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 4 per cent of expenses.<sup>6</sup> Iraq adopted the Harmonized Approach to Cash Transfers (HACT) assurance framework in 2016.

<sup>3</sup> UNFPA Iraq Country Programme Document 2016-2019

<sup>4</sup> The Humanitarian Response Plan: Iraq – January-December 2017, issued in February 2017

<sup>5</sup> Document that outlines the Humanitarian Country Team's shared understanding of the crisis, including the most pressing humanitarian needs and the estimated number of people who need assistance

<sup>6</sup> Source: Cognos reports

14. The UNFPA Office in Iraq is located in the capital city of Baghdad, with a decentralized office located in the city of Erbil, where most of the programme and operations staff were based during the period under review, and two project offices in the cities of Dohuk and Sulaymaniyah to support and monitor activities conducted in camps for internally displaced persons within both cities. During the period under review, the Office was managed by a Representative based in Baghdad, assisted by a Deputy Representative and an International Operations Manager, both of whom were based in Erbil.



### III. DETAILED FINDINGS

#### A. OFFICE GOVERNANCE

SOME IMPROVEMENT NEEDED

##### Good practices identified

19. 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 established a decentralized office in the city of Erbil and two project offices in Dohuk and Sulaymaniyah, to enable closer proximity to IPs for better programmatic and financial monitoring;
- b) The Office timely completed annual planning and reporting using the 'myResults' module of the Strategic Information System (SIS). The annual plan was prepared in compliance with guideline requirements by linking each programme output to one UNFPA Strategic Plan outcome and output, defining each output indicator with at least one quarterly milestone, indicating a baseline, target and source for each output indicator, and assigning responsible teams for the achievement of the yearly output indicator targets and their quarterly milestones; and
- c) During the period under review, the Office was the lead agency on the Prevention of Sexual Exploitation and Abuse (PSEA) Network of the Humanitarian Country Team. The Office, through its leadership role, provided training to several IPs on sexual exploitation and abuse matters, supported by a call-center through which beneficiaries could directly lodge complaints.

#### A.1 – OFFICE MANAGEMENT

EFFECTIVE

20. 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 2017 performance plans of key personnel to the Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2016 annual report data; and (f) the level of familiarization of Office personnel with the UNFPA policies and procedures.

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

#### A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

SOME IMPROVEMENT NEEDED

22. At the time of the audit field mission, the Office had 34 approved staff posts (7 of which financed from the Institutional Budget), consisting of 15 international, 9 national posts, 10 general service posts, with an additional 46 positions filled by contract personnel. Of the total approved posts, 18 posts were based in Erbil, 14 in Baghdad, one in Dohuk and one in Sulaymaniyah.

23. Audit work performed in this area included the review of: (a) the alignment of the organizational structure and personnel arrangements with the requirements for the delivery of the Office programme 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.

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

##### Promptly implement the approved Office structure and staffing realignment

25. An assessment of the Office structure and personnel, undertaken in late 2016 by the Arab States Regional Office in the context of the new Country Programme and the Office's humanitarian response activities, resulted in the preparation and submission of a realignment proposal for Headquarters' approval in April 2017. The proposal provided recommendations including e.g. the upgrading of post levels, to allow the Office to continue responding effectively to challenges associated with its humanitarian and development response activities, manage an increased level of resources and related programmatic and operational workload, maintain an adequate level of representation in the coordination structures and mechanisms established to manage the humanitarian response activities, and strengthen its programmatic and financial monitoring capacity.

26. The proposed realignment actions were pending Headquarters' approval at the time of the audit field mission, creating risks such as the possible loss of Office staff to other organizations and the inability to properly plan and monitor implementation of activities. The audit notes that the delay in approval was occasioned by the demise of the former UNFPA Executive Director and that the proposal was subsequently approved by the Acting Executive Director in September 2017. At the time of finalizing the draft report, implementation of the proposals is necessary.

ROOT CAUSE	<i>Other (factors beyond the control of UNFPA).</i>
IMPACT	<i>Organizational structure and staffing may not be aligned with the new Country Programme and humanitarian response-related operational and programme delivery needs.</i>
CATEGORY	<i>Strategic</i>

**RECOMMENDATION 1**

**PRIORITY: HIGH**

*Promptly implement the approved structure and personnel alignment.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Directors, Arab States Regional Office and the Division for Human Resources*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

*Following approval of the proposed realignment, the Office swiftly filled most of the approved positions taking advantage of the Fast Track Procedures that were active at the time. By the end of 2017, over 80 per cent of the proposed realignment was already implemented. The approved Office structure will be complete by the end of December 2018.*

**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 at the time of drafting the report, the process followed for identifying and assessing risks, and the actions undertaken to mitigate them.

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

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

*Raise personnel and partners' awareness on the prevention, detection, and reporting of fraud and other proscribed practices*

30. The Office completed the 2016 strategic and fraud risk assessments, as part of the corporate Enterprise Risk Management (ERM) process, in October 2016, using the functionality provided by the 'myRisks' application.<sup>7</sup> The assessments were completed in a consultative manner and the risks identified were generally reflective of the financial materiality and complexity of the areas to which they related. The Office developed action points to address the identified risks and assigned responsibility for managing them to specific focal point persons.

31. Through inquiry of Office and IP personnel, the audit noted that the Office did not undertake activities to increase awareness on fraudulent and other proscribed practices<sup>8</sup> that could affect humanitarian response activities, the minimum controls required to prevent or detect them, and the tools and processes in place to report allegations. Similarly, the audit did not identify any activities undertaken to increase awareness amongst the programme's ultimate beneficiaries (i.e. the displaced persons) and suppliers, particularly as regards the tools and process to report allegations of wrongdoing.

<sup>7</sup> Part of UNFPA's SIS

<sup>8</sup> Corrupt, fraudulent, collusive, coercive, unethical and obstructive practices

32. Further, a review of the most recent micro-assessments of two IPs revealed that the IPs did not have any anti-fraud or corruption policies in place and did not inform their personnel and beneficiaries about means of reporting suspected fraud, waste or misuse of UNFPA resources or property. This exemplifies the urgent need for raising awareness.

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

ROOT CAUSE	<i>Guidelines (unclear Corporate risk management policies and procedures). Guidance (inadequate supervision at Office level).</i>
IMPACT	<i>Limited ability to prevent, detect and report fraud involving UNFPA personnel, IPs and/or other parties having business relationships with UNFPA.</i>
CATEGORY	<i>Strategic</i>

<b>RECOMMENDATION 2</b>	<b>PRIORITY: HIGH</b>
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*Raise the awareness of Office and Implementing Partners' personnel as regards the prevention, detection, and reporting of fraudulent and other proscribed practices.*

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>Representative, with support from the Director, Division for Management Services</i>	<u>STATUS:</u> <i>Agree</i>
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<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> <i>December 2018</i>
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*The Office will prepare training materials on fraud prevention, detection, and response targeting Office personnel, Implementing Partners and relevant third parties. While awaiting formal training on fraud to be arranged, the Office will take advantage of Implementing Partners' coordination meetings and general staff meetings to create awareness on fraud detection and reporting.*

*The Division for Management Services will support the Office in raising awareness on fraud issues amongst Office personnel and third parties, including Implementing Partners, and will follow up with the Office on activities undertaken in response to the issuance of the revised Fraud Policy. Further, the Division for Management Services has developed an inter-agency online course on fraud which will be launched in the first quarter of 2018. The Office will use the course to build the capacity of Office personnel and that of Implementing Partners.*

<b>B. PROGRAMME MANAGEMENT</b>	<b>SOME IMPROVEMENT NEEDED</b>
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Good practices identified

34. The audit identified the following good practices in the area of programme management, which could be considered for replication by other Country Offices:

- a) The Office, in coordination with other UN organizations in-country, engaged specialized third-party consultants drawn from project implementation localities, to monitor and report on the implementation of programme activities in Central and Southern Iraq, where the high security situation prevented effective monitoring of activities and movement by Office personnel;
- b) The Office engaged effectively with other UN organizations in-country 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; and
- c) Office Management proactively undertook intense resource mobilization efforts, seeking to engage with donors through regular visits and communication, as well as conducting joint monitoring visits with donor representatives.

**B.1 – PROGRAMME PLANNING AND IMPLEMENTATION****MAJOR IMPROVEMENT NEEDED**

35. Activities implemented by the Office during the period under review, with related expenses of USD 37.3 million covered by the audit, corresponded to 11 outputs of the first year of the second Country Programme 2016 – 2019.

36. Activities were implemented by UNFPA, with related expenses of USD 21.2 million (57 per cent of programme implementation expenses in the period under review) and financial implementation rates of 78 per cent in 2016, and 68 per cent as at 31 March 2017. A large portion of the expenses related to UNFPA-implemented activities corresponded to personnel, facilities costs and the procurement of inventory.

37. Activities were also implemented by 16 IPs engaged by the Office, with related expenses of USD 16.1 million (43 per cent of programme implementation expenses in the period under review) and financial implementation rates of 95 per cent in 2016 and 42 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 1.3 million and non-core of USD 36.0 million.

38. Audit work performed in this area focused on two outputs with aggregate expenses of USD 29.2 million during the period under review (78 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 five facilities delivering reproductive health services funded by the Office. In addition, the audit reviewed the alignment of the implementation activities to the HRP and the Country Programme Document.

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

*Strengthen workplan management and use of the Global Programming System*

40. Based on its review of the 2016 and 2017 workplans for three IPs and the Office-implemented workplan, the audit noted the following three areas to improve upon to make more effective use of the Global Programming System (GPS).

41. The audit noted that budget increments resulted in the creation of new activities which were, however, not updated in the related workplans in a timely manner. Examples include: (a) one IP budget increased from USD 0.9 million to USD 1.8 million (100 per cent increase). The budget increase was reflected in a new 2016 workplan which was retrospectively created, approved and uploaded into GPS in March 2017; (b) similarly, another IP budget increased from USD 1.1 million to USD 1.4 million (27 per cent increase) during the year 2016. The increase was only reflected in a new 2016 workplan created and approved in March 2017 which, however, was not uploaded into GPS; and (c) the UNFPA-implemented workplan for 2016 increased from USD 1.2 million to USD 11.5 million (over 850 per cent increase). The budget increase was reflected in a new 2016 workplan created and approved in GPS in February 2017.

42. Further, the audit noted the findings from the review of the Office's 2017 workplans by the UNFPA Programme Division. All workplans showed amounts higher or lower than in the related Atlas Commitment Control Budget<sup>9</sup> module and actual budgets utilized, hence impairing the ability to conduct analyses and support decision-making.

43. Similarly, output indicators and targets in the workplans were not adjusted to reflect the additional resources and activities. As a result, the original targets were significantly exceeded, impacting performance reporting and assessment, and effective monitoring. For example: (a) the output indicator 'Number of women receiving service at Women Community Centers', whose related budget increased from USD 1.3 million to USD 2.3 million in 2016, had an original target of 30,000 – while the actual number of women who received the services were 83,847; (b) the output indicator 'Number of health service providers, social workers, and law enforcement personnel

<sup>9</sup> Atlas module where all financial transactions are subjected to budgetary controls

trained to respond to gender-based violence in the five most affected governorates', whose related budget increased from USD 0.5 million to USD 1.2 million, had a target of 199 – while the actual number of providers trained was 234.

44. Office Management attributed the late updating of workplans mainly to a frequent and sometimes unpredictable flow of humanitarian response funding which necessitated numerous changes to workplans, putting a strain on the available staff capacity.

45. The inability to have a timely and reliable reporting – other than at year-end – impairs financial and programmatic monitoring, including fulfilling accountability obligations and decision-making at the country, regional and organizational level, e.g. regarding the portfolio review.

	<i>Resources (insufficient human resources).</i>
ROOT CAUSE	<i>Other (factors beyond the control of the Office – unpredictable nature of humanitarian response funding)</i>
IMPACT	<i>The inability to timely update workplans for accurate budget and activity information may adversely impact financial and programmatic monitoring and may lead to incorrect decision-making and fulfillment of accountability obligations - due to unreliable reporting.</i>
CATEGORY	<i>Reporting</i>

**RECOMMENDATION 3** **PRIORITY: HIGH**

*Timely reflect budgetary resource and activity changes in the Global Programming System and revise the related workplans, as necessary, in accordance with applicable policy and guidance, to enable a more effective financial and programmatic monitoring and decision-making at country, regional and organization-wide level.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with the support of the Director, Programme Division*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

*The Office has hired additional staff to monitor changes in budgets and ensure that emerging changes are reflected in workplans on a quarterly basis. Effective January 2018, the Country Office rolled out the second phase of the Global Programming System (GPS II), which will necessitate the revision of workplans, in the event of any changes, before Implementing Partners can process the related e-FACE forms.*

**B.2 – NATIONAL EXECUTION**

**SOME IMPROVEMENT NEEDED**

46. National Execution (NEX) expenses amounted to USD 16.1 million (43 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 13 non-governmental organizations (five of which were shared with other UN organizations) and 3 Government IPs, with financial implementation rates of 95 per cent in 2016 and 43 per cent as at 31 March 2017.

47. Per the available general ledger information, NEX expenses corresponded primarily to contract personnel salaries (USD 5.7 million – 35 per cent of NEX expenses); facilities management (USD 1.3 million – 8 per cent of NEX expenses), office and communication costs (USD 1.0 million – six per cent of NEX expenses), and training and learning costs (USD 0.8 million – 5 per cent of NEX expenses).

48. Audits of funds transferred to IPs performed in 2017 covered 11 of the 16 IPs engaged by the Office, with aggregated expenses of USD 10.0 million (62 per cent of total NEX expenses in 2016). Ten of the audits conducted resulted in unqualified audit opinions; one audit report was qualified on the basis of an unsupported expense amount of USD 7,000. Operating Fund Account (OFA) balances, representing the funds transferred to IPs for activities not yet implemented, averaged USD 1.5 million quarterly in 2016, and amounted to USD 0.2 million and USD 5.0 million as at 31 December 2016 and 31 March 2017, respectively.

49. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes, including the joint micro assessment processes undertaken for the IPs shared with other UN organizations; (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 Expenditures (FACE) forms; (d) the controls implemented over the OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities, for IPs engaged by the Office with aggregated programme implementation expenses of USD 8.1 million (approximately 50 per cent of NEX expenses) in the period under review.

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

Develop Implementing Partner capacity-building

51. At the time of the audit field mission, all the 16 IPs engaged by the Office had undergone HACT micro-assessments, which were conducted 2016. The micro-assessments identified several capacity gaps that needed urgent addressing. However, the Office did not develop capacity-building plans to address these gaps, nor did it include in the 2017 workplans capacity-building budgets and activities. Further, the rate of implementation of 2016 HACT audit recommendations was 49 per cent, with only 46 out of 93 recommendations implemented – further indicating an urgent need for IP capacity-building.

52. Office Management indicated that the Office was in the process of recruiting an external service provider to deliver the necessary training to IPs in light of the micro-assessment recommendations.

ROOT CAUSE	<i>Guidance (inadequate supervision at the Office level).</i>
IMPACT	<i>The effectiveness and efficiency of programme implementation may be adversely impacted by IP capacity gaps.</i>
CATEGORY	<i>Operational</i>

**RECOMMENDATION 4** **PRIORITY: HIGH**

*Develop and implement a capacity-building plan to address the gaps identified in the micro-assessments of implementing partners.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Regional Office* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *March 2019*

*The Office is in the process of developing a capacity development plan for all Implementing Partners in collaboration with one of the large audit firms. Once the plan is complete, the audit firm will be engaged to roll out the training to all relevant Implementing Partners.*

Improve the timeliness of FACE form submission to the Office and recording in Atlas

53. Seven out of 10 FACE forms tested were submitted by IPs after the required deadlines, with delays ranging between 18 and 29 days. In addition, expenses related to 4 of the 10 FACE forms tested were recorded in Atlas in average more than 15 calendar days after their review and approval, with delays ranging between 10 and 28 days.

54. The late submittal and recording adversely affect monitoring as well as disbursement of subsequent funding tranches and, hence, puts at risk the implementation of the corresponding workplans.

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

**RECOMMENDATION 5** **PRIORITY: MEDIUM**

*Strengthen the monitoring of Implementing Partner workplans through stricter compliance of Implementing Partners with reporting requirements and timely recording of expenses in Atlas by the Office.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

*The Office will work with Implementing Partners to initiate the process of preparing e-FACE forms earlier to ensure that the forms are completed by the requisite deadlines. The Office will also organize regular training activities for Implementing Partners to mitigate common errors. In addition, the Office has recently recruited additional staff to support the staff currently working on the e-FACE forms and other Implementing Partner reports.*

**B.3 – INVENTORY MANAGEMENT**

**EFFECTIVE**

55. During the period under review, the Office supplied inventory items for humanitarian response activities at a total cost of approximately USD 8.3 million. The inventory supplied consisted primarily of dignity and hygiene kits (USD 3.2 million) and medical equipment (USD 2.1 million). The commodities were procured, on behalf of the Office, by the UNFPA Procurement Services Branch, located in Copenhagen, Denmark (USD 3.2 million), and by the Office itself (USD 5.1 million). Inventory under the control of the Office, including goods-in-transit, amounted to USD 1.8 million as at 31 December 2016 and USD 2.1 million as at 31 March 2017. The inventory was stored at and distributed from a warehouse managed by an international logistics company.

56. 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 2.0 million (24 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.

57. Audit work performed also included site visits to: (a) one warehouse located in Erbil, managed by a private international company; and (b) three health facilities located in Dohuk and another three in Fallujah. 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; and (c) test the distribution of commodities by tracing a sample of deliveries throughout the supply-chain.

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

*Improve warehouse security condition*

59. The Office maintained an inventory of reproductive health kits, dignity kits and other humanitarian relief supplies at a warehouse managed by a private company. The physical security and safety arrangements at the warehouse, which included perimeter fencing, indoor surveillance systems, fire extinguishers, and assigned security guards, should be enhanced by installing night motion sensors, smoke detectors, and water sprinklers inside the warehouse, to reduce the risk of inventory loss.

ROOT CAUSE *Guidance (inadequate guidance at the Office level)*

IMPACT *Increased risk of inventory loss due to inadequate physical security and safety arrangements.*

CATEGORY *Operational*

**RECOMMENDATION 6**

**PRIORITY: MEDIUM**

*In collaboration with the private company, improve the security conditions in the warehouse by installing enhancements like night motion sensors, smoke detectors, and water sprinklers.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: April 2018

*The Office has already worked with the private company to ensure that all requisite security enhancements are established in the warehouse and around its compound except for the installation of water sprinklers that were found not to be feasible given that the warehouse has stocks of medical supplies, which could be damaged at the slightest detection of smoke. Instead, measures that have been put in place include the installation of smoke detectors, fire extinguishers, surveillance systems and indoor and outdoor cameras equipped with night motion sensors; compound perimeter fencing; and assignment of security guards at the entrance of the warehouse.*

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

**EFFECTIVE**

60. Programme implementation expenses funded from non-core resources amounted to approximately USD 36.0 million (97 per cent of total programme expenses) in the period under review. Of this amount, USD 21.9 million corresponded to funding provided by three donors in support of the provision of emergency life-saving GBV and reproductive health services to women in Iraq.

61. Audit work performed in this area included tests of three major co-financing agreements for compliance with agreement requirements, including expense eligibility and reporting. 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 two major donors were made to obtain an understanding of their working relationship with the Office and their assessment of UNFPA’s performance and achievements.

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

**C. OPERATIONS MANAGEMENT**

**EFFECTIVE**

Good practices identified

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

- a) The Office recruited an Operations Analyst to assist the International Operations Manager in the procurement and monitoring of inventory commodities;
- b) The Office, in coordination with other UN organizations in country, established several long-term agreements covering recurrent and high-value procurement to enhance reliability of supplies and cost efficiency; and
- c) The Office maintained a well-organized filing system for procurement and personnel documents, making the retrieval of documents easy.

**C.1 – HUMAN RESOURCES MANAGEMENT**

**EFFECTIVE**

64. The Office incurred payroll expenses amounting to USD 3.6 million during the period under review. In addition, the Office made use of contract personnel and engaged 21 individuals under service contracts and another 25 under individual consultant contracts for management activities and programme delivery and support, incurring related costs in the amount of USD 0.8 million. At the time of the field audit mission, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

65. Work performed in this area included (a) the analytical review of payroll and contract personnel costs; (b) a walk-through of the payroll reconciliation controls with UNDP; and (c) the testing of a sample of six individual consultancies awarded by the Office at a cost of USD 0.2 million (50 per cent of the costs incurred in the period), for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (i) recruitment; (ii) contract award; and (iii) contract management. Audit procedures applied also included testing of the recruitment process for four staff members hired during the period and test of 10 payments of staff benefits and entitlements amounting to approximately USD 0.2 million.

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



**C.2 – PROCUREMENT**

**EFFECTIVE**

67. During the period under review, the Office locally procured goods and services at a cost of USD 9.3 million. The most significant categories of goods and services procured corresponded to inventory (USD 5.1 million) and service companies (USD 1.0 million).

68. Audit work performed in this area included the review of a sample of 55 local purchases made at a cost of USD 3.0 million (32 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,<sup>10</sup> 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.

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

**C.3 – FINANCIAL MANAGEMENT**

**EFFECTIVE**

70. 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.

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

**C.4 – GENERAL ADMINISTRATION**

**EFFECTIVE**

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

73. Travel expenses incurred by the Office during the period under review amounted to USD 0.3 million. Audit work performed in the area of travel included a walk-through of the travel process and the testing of a sample of 12 travel-related transactions amounting to approximately USD 0.1 million (33 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 daily subsistence allowances.

74. Procurement of assets in the period under review amounted to USD 1.7 million. As at 31 March 2017, the Office had 81 in-service fixed asset items with a net book value of USD 2.1 million. The largest fixed asset categories were vehicles and mobile delivery units.<sup>11</sup> Audit work performed in this area was limited to a walk-through of the asset management process and testing of the handover procedures followed for two ambulances transferred by the Office to the Ministry of Health.

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

**C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY**

**EFFECTIVE**

76. Work performed in this area was limited to testing for compliance with Atlas access rights review and a walk-through of the Office backup policy and disaster recovery plan.

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

<sup>10</sup> Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

<sup>11</sup> Used to provide non-trauma primary healthcare service

**C.6 – SECURITY MANAGEMENT**

**EFFECTIVE**

78. Work performed in this area focused on discussions with Office Management and the review of documentation related to the security management process, Minimum Operating Security Standards self-assessments, coordination of the UNFPA security focal point with the United Nations Department of Safety and Security, compliance with mandatory security training, the active involvement of UNFPA Office Management including its participation in the country’s Security Management Team, and Management and staff familiarity with their security management responsibilities and applicable security management guidelines.

79. No reportable matters were identified based on the audit 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,<sup>12</sup> are explained below:

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

### B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

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

**Guidance:** inadequate or lack of supervision by supervisors

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

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

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

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

**Intentional:** intentional overriding of internal controls.

**Other:** factors beyond the control of UNFPA.

<sup>12</sup> Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

### C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories are used:

- **High** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
- **Medium** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

### D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic** High level goals, aligned with and supporting the entity's mission
- **Operational** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage
- **Reporting** Reliability of reporting, including fulfilling accountability obligations
- **Compliance** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

**GLOSSARY**

<b>Acronym</b>	<b>Description</b>
<b>ATLAS</b>	UNFPA’s ERP (Enterprise Resource Planning) system
<b>COSO</b>	The Committee of Sponsoring Organizations
<b>ERM</b>	Enterprise Risk Management
<b>FACE</b>	Funding Authorization and Certificate of Expenditure
<b>GBV</b>	Gender Based Violence
<b>GPS</b>	Global Programming System
<b>HACT</b>	Harmonized Approach to Cash Transfers
<b>HRP</b>	Humanitarian Response Plan
<b>INTOSAI</b>	The International Organization of Supreme Audit Institutions
<b>IP</b>	Implementing Partner
<b>NEX</b>	National Execution
<b>OAIS</b>	Office of Audit and Investigation Services
<b>OCHA</b>	Office for the Coordination of Humanitarian Affairs
<b>OFA</b>	Operating Fund Account
<b>PSEA</b>	Prevention of Sexual Exploitation and Abuse
<b>SIS</b>	Strategic Information System
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNFPA</b>	United Nations Population Fund
<b>UN-RIAS</b>	United Nations Representatives of Internal Audit Services
<b>USD</b>	United States Dollars