



United Nations Population Fund

**Delivering a world where every pregnancy is wanted,
every childbirth is safe and
every young person's potential is fulfilled**

OFFICE OF AUDIT AND INVESTIGATION SERVICES

**DESK AUDIT
OF THE UNFPA COUNTRY OFFICE
IN YEMEN**

**FINAL REPORT
N° IA/2018-13**

13 December 2018

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

I. OBJECTIVES, SCOPE AND METHODOLOGY 3

II. BACKGROUND..... 4

III. DETAILED FINDINGS 6

B. PROGRAMME MANAGEMENT..... 6

B.3 – INVENTORY MANAGEMENT 6

Expedite the transportation and customs clearance of maternal lifesaving commodities between Djibouti and Hodeidah6

Enhance inventory distribution monitoring9

C. OPERATIONS MANAGEMENT..... 10

C.2 – PROCUREMENT 10

Enhance procurement planning.....10

Use only valid and active procurement long-term agreements.....11

Adhere to procurement principles11

ANNEX 1 - DEFINITION OF AUDIT TERMS..... 13

GLOSSARY 15

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Yemen (the Office). The audit covered the period from 01 January 2016 to 30 June 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 extensions of the fifth Country Programme 2012 – 2015, approved by the Executive Board in its first regular session 2012 with indicative resources of USD 25.0 million. The first 12-month programme extension was approved by the Executive Board in its 2015 annual session and the second 12-month programme extension was approved by the Executive Board in its 2016 first regular session. The extensions allowed UNFPA to align the programme with the United Nations Development Assistance Framework, which was itself extended to align with the Government of Yemen’s transitional plan for Stabilization and Development.

3. Expenses covered by the audit amounted to USD 15.7 million executed by UNFPA (USD 12.1 million) and by 16 Implementing Partners (USD 3.6 million), funded from core resources of USD 5.1 million and non-core resources of USD 10.6 million.

4. Approximately 47 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Gender and Population and Development components accounted for 35 per cent and 6 per cent, 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 12 per cent of expenses.¹

Methodology and scope

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

6. Due to the deteriorating security situation while the team was on its way to Yemen, the field mission was aborted and the audit team recalled to Headquarters. Consequently, the audit modality was changed to a desk audit conducted from Headquarters and the audit scope focussing on the review of procurement and inventory management.

Audit rating²

7. The overall audit rating is **“Not Effective”** – which means that the assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could seriously compromise the achievement of the audited entity or area’s objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.

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

Audit ratings by key audit area	
Programme Management	Not rated
<i>Inventory management</i>	 <i>Not effective</i>
Operations Management	Not rated
<i>Procurement</i>	 <i>Not effective</i>

¹ Source: Cognos reports

² See complete set of definitions in Annex 1

Key findings and recommendations

9. The audit identified areas that require urgent Management attention. Overall, the audit report includes six high-priority and one medium priority recommendations designed to help the Office improve its programme delivery and operations. All seven recommendations relate to operational matters.

Operational level

10. Transportation and customs clearance of maternal lifesaving commodities needs to be expedited. Inventory distribution monitoring needs enhancements.

11. Further, the planning of procurement activities should be improved and these activities should adhere to the Organization's procurement guidelines.

Management response

12. The Office agrees with the recommendations of this audit and confirms that it has already taken steps to address the findings. The Office has increased its human resource capacity both in the main office and in decentralised offices to follow up on shipment logistics, work closely with different arms of the Government(s) and monitor distribution and utilisation of UNFPA supplies. In addition, a shipment tracking process has been developed to enhance the office monitoring of procured commodities through the procurement process as well as the supply chain processes.

13. The Office has also addressed delays through establishment of a closer partnership with the Logistics Cluster which is currently airlifting humanitarian cargo into the country, and through use of alternative ports of entry. To enhance adherence to procurement principles, the Office has among other measures established Long Term Agreements (LTA) piggybacking on other Agency LTAs.

14. Meanwhile, it is important to highlight the difficult operating environment the Office was operating under at the time of the audit period. The capacity of the Office was highly depleted when international staff had to be evacuated from the country and national staff had to find alternative working modalities.

15. The OAI 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 30 June 2017. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate. Due to security circumstances (see para. 5 below), the audit modality was changed to a desk audit of specific processes.

2. The objective of the desk audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to assess whether governance arrangements, risk management practices and internal control processes over UNFPA's activities in Yemen were adequately established and operating effectively to provide reasonable assurance on the achievement of the Office objectives of the following two processes:

- a) Programme management – Inventory management; and
- b) Operations management – Procurement.

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

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

4. The scope of the audit included the review of the procurement and inventory management. The audit procedures applied included the analytical review of Atlas financial information; the review of supporting documents, records and other documentary evidence related to the activities and transactions reviewed; and inquiries from Management on matters arising from the procedures applied.

5. The engagement was conducted by an OAI team. The audit started on 01 October 2017. A field mission was scheduled for 05 to 30 November 2017. However, given the deteriorating security situation, the field mission was aborted while the team was on its way to Yemen. The audit modality was consequently changed to a remote audit with limited scope, focusing on the procurement and inventory processes. The security situation on the ground hindered access to supporting documentation, which was further compounded by the departure of the International Operations Manager in December 2017 (see para. 16 below).

6. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management during an exit conference call held on 26 April 2018. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 23 October 2018, and a final Management response received on 13 December 2018. The format and numbering of sections in this report correspond to the standard numbering used in country office audit reports.

II. BACKGROUND

7. The population of Yemen was estimated at 23 million in 2012. The population growth rate was 3 per cent per annum. The rapid growth was fueled mainly by early marriage, high total fertility rate of 6.2 and low contraceptive prevalence rate of 19 per cent.³

8. The maternal mortality ratio declined from 547 deaths per 100,000 live births in 1990 to 385 per 100,000 live births in 2015.⁴ In 2012, only 27 per cent of deliveries were assisted by a skilled birth attendant and 16 per cent were made in a health facility.³ In addition, recent conflict-related access issues are expected to further reverse or stall progress made in recent years.

9. The humanitarian crisis in Yemen remains one of the largest and most volatile in the world. Even before March 2015, when the conflict in Yemen escalated, the country faced high levels of humanitarian need, with 15.9 million people requiring some kind of humanitarian assistance in late 2014. These needs stemmed from years of poverty, under-development, environmental decline, and intermittent conflict. The conflict left an estimated 18.8 million people in need of humanitarian or protection assistance in 2017, including 10.3 million people in acute need who urgently require immediate, life-saving assistance. Health partners assisting in Yemen have identified 14.8 million people living in areas without adequate health services or affected by high disease incidence; of these, 8.8 million are living in severely affected areas and urgently require aid to ensure basic healthcare.⁵

10. The UNFPA response to the needs of the Yemen humanitarian crisis followed the strategy and approach outlined in the *'Humanitarian Response Plan: Yemen'* (HRP). The HRP sets out the strategy for responding to humanitarian needs in Yemen across 12 different sectors, based on the *"Humanitarian Needs Overview"*⁶ 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, and dignity kits.

11. 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.

12. The activities covered by the audit correspond to the extensions of the fifth Country Programme 2012 – 2015, approved by the Executive Board in its first regular session 2012 with indicative resources of USD 25.0 million. The first 12-month programme extension was approved by the Executive Board in its annual session 2015 and the second 12-month programme extension was approved by the Executive Board in its first regular session 2016. The extensions allowed UNFPA to align the programme with the United Nations Development Assistance Framework, which was extended to align with the Government of Yemen transitional plan for Stabilization and Development.

13. Expenses of the period in scope amounted to USD 15.7 million, executed by UNFPA (USD 12.1 million) and by 16 Implementing Partners (IP; USD 3.6 million), funded from core resources of USD 5.1 million and non-core resources of USD 10.6 million.

14. Approximately 47 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Gender and Population and Development components accounted for 35 per cent and 6 per cent, 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 12 per cent of expenses.⁷

³ UNFPA Yemen Country Programme Document 2012-2015

⁴ http://www.who.int/gho/maternal_health/countries/yem.pdf

⁵ The Humanitarian Needs Overview: Yemen – January-December 2017, issued in November 2016

⁶ 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

⁷ Source: Cognos reports

15. The desk audit focussed on the two processes (marked in grey below) which represented roughly USD 7.0 million (45 per cent) of the expenses of the period in scope.

Table 1 - Key expense categories (amounts in millions of US dollars) over the period in scope

Activities implemented by	Total	Percentage of total
UNFPA	12,507,135	80
Staff payroll	4,061,090	30
Contract personnel costs	454,631	3
Procurement of inventory items	4,533,261	29
Procurement of other goods and services	2,461,186	16
All other (aggregated)	456,967	3
Implementing partners (NEX expenses)	3,062,888	20
Training	31,684	.1
Consultancies and salaries	97,247	1
Procurement	2,846,209	18
All other costs (aggregated)	87,748	1
TOTAL	15,570,023	100%

16. The UNFPA Office in Yemen is located in the capital city of Sana'a. During the period under review, the Office was managed by a Representative until her departure in December 2016; the Deputy Representative acted as Officer-in-Charge from January 2017 until the arrival of the new Representative in May 2017. The team was complemented by an International Operations Manager who departed in December 2017.

III. DETAILED FINDINGS

B. PROGRAMME MANAGEMENT

NOT RATED

B.3 – INVENTORY MANAGEMENT

NOT EFFECTIVE

15. During the period under review, the Office supplied inventory items for humanitarian response activities at a total cost of approximately USD 4.5 million. The inventory supplied consisted primarily of medical kits (USD 2.0 million), pharmaceuticals (USD 1.3 million) and freight and storage (USD 0.8 million). The commodities were procured, on behalf of the Office, by the UNFPA Procurement Services Branch, located in Copenhagen, Denmark (USD 2.8 million), and by the Office itself (USD 1.7 million). Inventory under the control of the Office, including goods-in-transit, amounted to USD 0.8 million as at 31 December 2016 and USD 0.5 million as at 31 March 2017. The inventory was stored at and distributed from a warehouse managed by an international logistics company.

16. 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 the period under review, at a cost of approximately USD 1.7 million (38 per cent of the value of inventory supplied), as well as a sample of inventory supplied in the fourth quarter of 2015, at a cost of approximately USD 2.2 million, 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.

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

Expedite the transportation and customs clearance of maternal lifesaving commodities between Djibouti and Hodeidah

18. The audit noted that maternal lifesaving commodities procured internationally were delivered with long delays. Shipments of commodities destined to Yemen were normally shipped through the port of Djibouti before they are transferred to Yemen, mainly to the port of Hodeidah.

Transportation and customs clearance

19. Of the 24 inventory procurement transactions tested (totaling USD 3.9 million, as described in paragraph 16 above), 20 transactions (USD 2.6 million or 66 per cent of total sample value and 83 per cent in number of transactions) experienced delays in transferring commodities between the port of Djibouti and to that of Hodeidah. For 15 of these 20 transactions, the delay ranged between 3 and 11 months (USD 2.3 million or 58 per cent of total sample value), which was compounded by customs clearance at the Hodeida port taking between one and seven months following the goods' arrival. Overall, the total in-transit time ranged between 4 and 17 months.

20. For the other five transactions (USD 0.3 million or 9 per cent of total sample value), the commodities did not leave Djibouti since their arrival in April 2017 (to the date of drafting this report – September 2018, i.e. 17 months later).

21. Based on discussions with both the Yemen and Djibouti Offices as well as PSB, the delays in commodities delivery between Djibouti and Hodeidah were mainly attributed to the absence of coordination between the parties involved in the process, the security situation in Yemen, and the heavy workload of the inventory focal point at the Office.

Storage conditions

22. At the ports in Djibouti and in Yemen, commodities were stored in containers, and hence may have been exposed to temperatures exceeding 25°C – which is not in line with recommended temperatures by the manufacturers. Based on discussions with PSB, the effect of high temperatures over a prolonged period differs by product; it may be limited for some, while being high for others.

23. For one purchase order amounting to USD 0.8 million, products were received in Djibouti in October 2015 and cleared in Hodeidah in March 2017, with an in-transit delay of 17 months. While in-transit, the products were not stored in accordance with the manufacturer's storage requirements. A random sample was sent to the manufacturer for quality testing, however, the manufacturer objected to the test because it was not transported under temperature controlled conditions which could potentially affect the test results. .

24. In addition, according to PSB, they were informed on that the products were handed over to an IP in March 2017 and were not stored in the required temperature controlled conditions as specified in the product labels. PSB concluded in June 2018, approximately 15 months following the clearance of the products from Hodeidah port, that the safety and efficacy of the product cannot be guaranteed; and that the products that have not been distributed should be quarantined and destroyed and women who have received these products should be supported to prevent unintended pregnancies. The Office Management advised the audit that the products were quality tested by the IP and were found effective; however, evidence of such test could not be provided to the audit.

25. For another purchase order, in the amount of USD 0.3 million, the PSB Quality Assurance team instructed to destroy the commodities, as the latter were stored at temperatures that may have negatively impacted the shipment condition. A provision was booked to that effect in the 2017 UNFPA Financial Statements.

26. Improving on the transportation speed between Djibouti and Hodeidah would reduce the risk of commodities being affected by inadequate storage facility.

ROOT CAUSE	<i>Guidance: Lack of supervision at the Country Office level. Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>The effectiveness and efficiency of programme delivery, including its intended benefit of increasing access to available health services in underserved areas and humanitarian emergencies, may be affected.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 1**PRIORITY: HIGH**

Disaggregate the shipping process, highlighting control points and assigning responsibilities to the parties involved, including the focal points at the Procurement Services Branch, the Djibouti and Yemen Country Offices.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2019*

Supplies for UNFPA operations in Yemen are currently being shipped through three major entry points i.e. Aden port, Hodeida port through Djibouti and Sana'a airport through Djibouti.

The Office has developed a process and Standard Operating Procedures that highlight the specific risks the office faces once shipments are made directly to the country or through Djibouti, the controls in place to mitigate these risks and the people responsible for each of the controls. These Standard Operating Procedures are a living document that will be regularly reviewed and tightened to reflect the emerging changes.

RECOMMENDATION 2**PRIORITY: HIGH**

Assess the inventory Focal Point workload and revisit the distribution of tasks between the Focal Point and the Programme Managers.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2019*

To ease pressure on the Programme Managers, the Office has already hired two Programme/Logistics Associates, one based in Sana'a and another in Aden. The Associate based in Sana'a is serving as the Shipment Tracker focal point. The Programme/Logistics Associate based in Aden mainly handles the clearance, storage and transportation

of the supplies within the country. All these functions are performed under close supervision of the responsible Programme Managers/Officers and in close consultation and support from the Operations Unit.

The Office is also finalizing hiring of a National Operations Analyst that will, in collaboration with relevant program managers, provide close oversight to procurement, logistics and inventory management, ensuring more cohesion throughout the procurement and delivery of commodities. This will also greatly help in following up instances of delays and in addressing any unforeseen situations that the Office may encounter due to the volatile and unstable operating environment in the country.

RECOMMENDATION 3**PRIORITY: HIGH**

Reach an agreement, in collaboration with PSB, on next steps with regards to the products that were exposed to unfavorable temperatures for longer than 100 days; and implement it swiftly.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Representative, and Chief, Procurement Services Branch

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2019

Regarding the purchase order amounting to USD 0.8 million, the consignment indeed arrived in Djibouti in October 2015, then reached Hodeida seaport in August 2016 where it was held by National Security until it was eventually cleared by Customs in March 2017 and later transferred to the Ministry of Health warehouse in April 2017. The Ministry of Health assigned a committee to inspect and receive the consignment and went ahead and distributed all the commodities to health facilities in December 2017 and June 2018 and a distribution report was received by the Office in July 2018.

The delay in receiving the consignment was mainly attributed to the ban imposed by Yemen Internationally Recognized Government in April 2015 whereby, ships were not allowed into Yemen unless inspected and approved by the Coalition forces, a process that was very slow. The security escalations in early 2016 around Hodeida seaport together with the recurrent airstrikes resulted in closing the seaport. Meanwhile, the de-facto authorities in Sana'a had imposed a ban on importation of family planning commodities and it took a long time for the Office and the Ministry of Health to negotiate with National Security authorities for release of the consignment that had already arrived in Hodeida.

Regarding the purchase order amounting USD 0.3 million, an agreement has already been reached with the Division for Management Services to destroy the commodities. The commodities were destroyed in Djibouti at the end of September 2018 and the Division for Management Services has already been informed and the case closed.

Regarding the timely escalation of unfavorable situations, a local tracking sheet has been designed to track and detect major delays in shipments.

RECOMMENDATION 4**PRIORITY: HIGH**

Develop a quality assurance mechanism to ensure that quality control measures are in place and adequate to ensure that products that reach implementing partners are safe and effective. Assurance mechanism should allow PSB to identify delayed shipment deliveries and timely test the quality of the products before distribution to implementation partners.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Chief, Procurement Services Branch (PSB)

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2019

PSB agrees with the recommendation. PSB, in consultation and collaboration with the Finance Branch (the owner of the policy on management of programme supplies), will take action to institutionalize the guidance provided in the policy on management of programme supplies, regarding customs clearance and receiving and inspection of shipments (timely submission of Receiving and Inspection Reports and updating the 'Shipment tracker' records). These actions will help PSB identify those delayed shipments that could affect adversely the quality of the commodities.

Further, PSB is working on a pilot project aimed at making systematic use of the UN Freight Forwarders to provide better control and visibility of all UNFPA shipments (currently, PSB uses both the commodity suppliers and the UN

Freight forwarders for freight services). PSB strongly believes that this move will increase data visibility and allow UNFPA to better track shipments.

Additionally, PSB will perform temperature monitoring of shipments for all UNFPA-procured temperature-sensitive commodities, including the Emergency reproductive health (ERH) Kits.

The above measures will help UNFPA identify the shipments that have been abnormally delayed as well as the shipments that have been exposed to an unacceptable range of temperatures. PSB will develop guidance that field offices can use to take appropriate action when shipments have been seriously delayed and or exposed to high temperatures. Such guidance will include instructions on:

- 1) How to handle and use the temperature monitoring devices;
- 2) How to report and manage temperature deviations; and
- 3) How to distribute and store RH commodities.

Enhance inventory distribution monitoring

27. While acknowledging that the Office uses the UNFPA corporate shipment tracking tool to identify the receipt and distribution of goods under UNFPA's control, the Office does not have a robust process in place to properly track maternal lifesaving commodities inventory to beneficiaries.

28. The main IP on which UNFPA relies to distribute maternal lifesaving commodities submitted an annual activity report on the Reproductive Health Commodity Security, which provides the level of maternal lifesaving and contraceptives received by the IP and distributed to the governorates and Service Delivery Points (SDP), as well as the challenges faced by the IP during the implementation process. The report, however, does not provide any evidence of the receipt of goods by the governorate and district warehouses, SDPs and by beneficiaries.

29. The inability to obtain evidence of goods receipt has been attributed to the collapse of the country's Logistics Management Information System during the humanitarian crisis. Capacity at all levels has been drastically affected with IP staff attrition due to the war and/or lack of payment of their salaries for extended periods. In addition, communication and travel restriction made it impossible to ensure the completeness, regularity and timeliness of reporting.

30. The Office attempted to fill the weak reporting gap by conducting field visits to the SDPs although this has also been affected by restrictions of movements due to the conflict and due to restrictions imposed by the local authorities.

ROOT CAUSE *Guidance: Inadequate supervision at Country Office level.*

IMPACT *Inability to track inventory and ensure its distribution to intended beneficiaries.*

CATEGORY *Operational.*

RECOMMENDATION 5

PRIORITY: MEDIUM

Enhance the inventory monitoring process to ensure proper monitoring of goods from the point of receipt to the point of distribution to beneficiaries in accordance with the new issue policy on Management of Programme Supplies (issued July 2018).

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2019*

Despite the on-going war in most parts of the country, the Office is currently working with Ministry of Health to install an electronic logistic Management and Information System to enhance the management and monitoring of maternal lifesaving medicines, including contraceptives. This system should be functional in the first half of 2019.

The Office has recently hired a dedicated inventory focal point who has already been trained by the Division for Management Services on Shipment Tracker. Following her training, the focal point has captured all inventory transactions in Shipment Tracker and recently generated an inventory report. The inventory focal point reports regularly to management on the status of inventory, timelines and potential delays as well as other challenges that

require management's immediate attention. Meanwhile, the Office has developed a tracking sheet which will help to track all consignments procured and address all issues in advance.

In addition, the Office has established its presence in the five humanitarian hubs where Reproductive Health and Gender-Based-Violence experts have been deployed. The Office has recruited eight Field Associates through a contractor to primarily monitor utilization of the Rapid Response Mechanism kits as well as other UNFPA supplies. Furthermore, a Third-Party Monitoring firm has been engaged to monitor UNFPA services and inputs. As external contractors, they will have more flexibility to conduct monitoring visits in hard-to-reach areas. These contractors submit monthly reports to Management, including on logistics management issues that arise during the course of the reporting month.

C. OPERATIONS MANAGEMENT

NOT RATED

C.2 – PROCUREMENT

NOT EFFECTIVE

31. During the period under review, the Office locally procured goods and services at a cost of USD 2.3 million. The most significant categories of locally procured goods and services corresponded to dignity and hygiene kits (USD 1.5 million).

32. Audit work performed in this area included the review of a sample of 25 local purchases made at a cost of USD 1.3 million (57 per cent of total local procurement) for (a) linkage to the corresponding workplans; (b) compliance with the UNFPA procurement principles,⁸ and policies and procedures; and (c) operating effectiveness of controls in the areas of: (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving, as well as the review of the procurement planning process.

Enhance procurement planning

33. The audit noted that the Office prepared an annual procurement plan. However, the plan was not comprehensive and did not include some significant items that the Office procured during the period under review, e.g. customs clearance and port management, local freight, and warehousing, which were not included (see also paragraph 36 below).

34. In the absence of a comprehensive procurement plan, there is a potential for the Office to understate its budgetary requirements, leading to financial challenges and potential untimely acquisition of goods/services at a premium.

ROOT CAUSE *Guidance: Inadequate supervision at Country Office level.*

IMPACT *Budget overruns may occur. Acquisition of goods and services may be untimely or undertaken at a higher cost.*

CATEGORY *Operational.*

RECOMMENDATION 6

PRIORITY: HIGH

Ensure that the procurement plan is comprehensive and includes all programme-related goods and services.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *September 2019*

The current L3 humanitarian emergency will always make it difficult to have an accurate procurement plan given the unpredictable funding and evolving needs. Nevertheless, the Country Office will implement two actions:

- *Estimate as much as possible the procurement needs and compile them in an elaborate procurement plan based on the projected funding under Regular and Other Resources; and*

⁸ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA

- *Make quarterly revisions of the procurement plan to incorporate emerging procurement needs and to factor all procurement foreseen in new funding. The 2018 Plan has for instance been revised in October 2018 to incorporate the new forecasts.*

Use only valid and active procurement long-term agreements

35. In September 2014, the Office established a long-term agreement (LTA) with a supplier for the provision of security services. The LTA expired in September 2016 and was not extended. Yet, the Office continued to use the services of the same supplier on the original LTA terms, without a contract (totalling roughly USD 83,000). In April 2017, another UN organization within the UNCT established an LTA with the same supplier, at higher rates than the original UNFPA contract. In September 2017, the Office signed a memorandum of agreement to use the new LTA.

36. In 2010, the Office established an LTA with a supplier for the provision of services including customs clearance, transportation, loading/offloading and terminal handling. The LTA was amended in 2013 (with an expiration date of 18 July 2014). It was further extended per notes to file on 05 April 2015 and 03 January 2016. The extensions altered the terms of payments and the expiration date of the contracts. The services were used in 2017, albeit without a contract as was subsequently discovered by PSB in its review of all contract awards. As a result, this LTA was submitted in October 2017 for post-facto approval to the Contracts Review Committee.

37. No recommendation is made as action was taken to establish appropriate contractual relationships. Management is however reminded to use only valid and active long-term agreements.

Adhere to procurement principles

38. Further, based on the review of sampled invoices, it was not possible to reconcile the rate applied by the supplier as per invoices to an agreed price list. The Office explained that during the periods related to a contract extension (expenses amounting approximately USD 782,000 – USD 296,141 in 2015 and USD 485,680 in 2016), the supplier sent a price list and the Office accepted it without negotiations. This deviates from the principles of competitive procurement, best value-for-money and transparency.

39. The testing revealed some discrepancies between price list and actual rate for one invoice, resulting in an overcharged amount of USD 1,040. No supporting information was provided to account for a payment of USD 2,255 in relation to another invoice. The Office explained that the amount was paid to “faciliate” the processing of transactions.

40. A price comparison with another United Nations organization’s LTA for the same services revealed a significant price variance between the supplier price list used by UNFPA and the other United Nations organization’s LTA, ranging between 100 per cent to 167 per cent more expensive for UNFPA.

41. In 2017, the Office launched a competitive process to establish a new LTA for the provision of some services. The expressions of interest garnered six responses; three of which were disqualified for not meeting the minimum requirements stated in the bid documents of the request for proposal. Out of the remaining three, two bidders withdrew their tenders after submission. Instead of re-tendering, the Office proceeded to award the LTA to the remaining respondent, i.e. the same supplier used by the Office since 2010.

42. These matters have been passed to the OAIS Investigations Branch for further review.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Country Office level.</i>
IMPACT	<i>Services procured may not be based on best value-for-money. The principles of fairness and transparency may not be respected.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 7

PRIORITY: HIGH

Use long-term agreements from other United Nations organizations when using the same services. For non-common services, establish long-term agreements through competitive processes only.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2019*

The Country Office has already addressed this recommendation. Currently, the Office is piggybacking on three LTAs of UNDP, WFP and UNOPS and is finalizing the process of piggybacking on UNDP's LTA for printing and stationary. The Office, in close consultation with the Procurement Services Branch has also recently concluded an LTA for supply of dignity kits following a competitive process. With the LTAs in place, the will conduct price comparisons to ensure best value for money and ensure that all procurement principles are strictly adhered to.

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

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 2016,⁹ 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.

⁹ 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
COSO	The Committee of Sponsoring Organizations
ERM	Enterprise Risk Management
ERH	Emergency reproductive health
HRP	Humanitarian Response Plan
INTOSAI	The International Organization of Supreme Audit Institutions
IP	Implementing Partner
LTA	Long term agreement
OAIS	Office of Audit and Investigation Services
OCHA	Office for the Coordination of Humanitarian Affairs
PSB	Procurement Services Branch
SDP	Service Delivery Points
UN	United Nations
UNCT	United Nations Country Team
UNFPA	United Nations Population Fund
USD	United States Dollars