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OFFICE OF AUDIT AND INVESTIGATION SERVICES

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

FINAL REPORT

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Sudan (the Office). The audit covered the period from 01 January 2017 to 30 June 2018. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. The activities covered by the audit correspond to: (a) the fifth year of the sixth Country Programme 2013 – 2016, approved by the Executive Board in its first regular session of 2013, with indicative resources of USD 91.0 million; (b) the sixth Country Programme one-year extension, through 2017, approved by the Executive Director and notified to the Executive Board in its second regular session of 2016, with additional estimated resources of USD 16.7 million. The extension was to align the new seventh Country Programme with the United Nations Development Assistance Framework 2018 – 2021; and (c) the first and second quarters of the first year of the seventh Country Programme 2018 – 2021, approved by the Executive Board in its second regular session 2017, with indicative resources of USD 40.0 million.

3. Expenses covered by the audit amounted to USD 19.8 million, executed by 52 Implementing Partners (USD 9.3 million) and by UNFPA (USD 10.5 million), funded from core resources of USD 6.1 million and non-core resources of USD 13.7 million. In addition, the audit covered the supply of reproductive health commodities, procured primarily with funding provided mainly by the UNFPA Supplies programme, amounting to USD 3.9 million.

4. Approximately 68 per cent of the expenses incurred in the period under review corresponded to the Reproductive Health component. The Gender component accounted for 19 per cent of the expenses incurred and the Population and Development, and Adolescents and Youth components for another 4 and 2 per cent, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 7 per cent of expenses.¹

Methodology and scope

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

6. The scope of the audit included the review of 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

7. The overall audit rating² is “**Major Improvement Needed**” – which means that 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 Office should be achieved. The issues identified could significantly affect the achievement of the Office’s objectives. Prompt management action is required to ensure that the identified risks are adequately mitigated.

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

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

² See complete set of definitions in Annex 1.

Audit ratings by key audit area	
Office Governance	Some improvement needed
<i>Office management</i>	<i>Effective</i>
<i>Organizational structure and staffing</i>	<i>Effective</i>
<i>Risk management</i>	<i>Major improvement needed</i>
Programme Management	Major improvement needed
<i>Programme planning and implementation</i>	<i>Major improvement needed</i>
<i>National execution</i>	<i>Major improvement needed</i>
<i>Inventory management</i>	<i>Not effective</i>
<i>Management of non-core funding</i>	<i>Effective</i>
Operations Management	Some improvement needed
<i>Human resources management</i>	<i>Effective</i>
<i>Procurement</i>	<i>Some improvement needed</i>
<i>Financial management</i>	<i>Major improvement needed</i>
<i>General administration</i>	<i>Effective</i>
<i>Information and communication technology</i>	<i>Effective</i>
<i>Security</i>	<i>Effective</i>

Key findings and recommendations

9. The audit identified some good practices, as well as areas that require Management attention. Overall, the audit report includes 13 high priority and 2 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 15 recommendations, one is of a strategic nature; 12 are operational; and 2 refer to compliance matters.

Good practices

10. Several good practices adopted by the Office were identified, some of which could be considered for replication by other offices.

11. From a governance perspective, the Office deployed staff to priority programmatic locations in various states, resulting in regular and direct consultation with Implementing Partners and the provision of timely technical support to them. The Office developed several initiatives to improve performance and control, including the introduction of weekly 'Country Office Management Team' meetings comprising both programme and operations management teams to share information and discuss programmatic and operational challenges faced. The Office demonstrated a strong annual planning process where each planned programme output was clearly linked to the UNFPA Strategic Plan, with clearly defined baselines, targets and milestones to be achieved. The Office established a clear division of roles and responsibilities amongst its personnel, aimed at enhancing efficiency and accountability. The Office continued to put into effective use a monitoring tool developed in 2015 to track mandatory training and learning activities for its personnel – resulting in 100 per cent completion rates.

12. From a programme management perspective, the Office established a dedicated team of financial monitoring officers to provide day-to-day support to Implementing Partners, conduct daily monitoring, and quality-assure implemented activities; some officers were embedded at the field offices of a key Government Implementing Partner while others were based at its sub-offices. Programme and operations management staff held monthly review meetings to discuss the status of Operating Fund Account balances and any bottlenecks encountered in their liquidation, resulting in nil balances at the end of 2016 and 2017. The Office had a dedicated team of finance associates, based at its main office in Khartoum, to undertake the quality assurance of Funding Authorization and Certificate of Expenditure forms, resulting in timely advances to and liquidation of funds by Implementing Partners. The Office implemented an effective inventory management process through timely submission of purchase requisitions, well-managed customs clearance procedures, sufficiently documented receiving and inspection procedures. The Office also expedited hand-over of inventory commodities to Implementing Partners.

13. Finally, in the area of operations management, the Office maintained comprehensive and well-documented procurement and human resource files – making the retrieval of information and documents efficient. The Office also actively participated in a United Nations Country Team Procurement Working Group, in the process facilitating the sharing of data and information on suppliers and cross-reliance on other United Nations System Organizations' Long Term Agreements for the procurement of goods and services.

Strategic level

14. The Office should perform more rigorous strategic and fraud risk assessments, assigning appropriate risk ratings in accordance with the materiality and complexity of the assessed areas. The Office should better monitor the accountability for managing the risks identified, through individual performance plans of relevant staff.

Operational level

15. From a programme management perspective, the Office should update the output indicators, baselines and targets included in workplans for better consistency and linkage to the Country Programme outputs; it should also document the baselines and targets used. Further, there is a need to establish a more effective workplan preparation process, with clearly defined responsibilities, milestones, and deadlines for finalizing workplans, and to put in place a supervisory review process to guide the development of quality workplans.

16. The Office should promptly finalize micro-assessments for all Implementing Partners yet to be assessed. The Implementing Partner monitoring and assurance process could be enhanced by commencing spot-checks earlier in the calendar year and ensuring that individual spot-checks cover the 12-month review period recommended by the applicable guidance.

17. Further, there is a need to reassess the Office reproductive health commodity strategy, taking into consideration the results of a 2017 reproductive health commodities and services availability survey, and to revise accordingly the related Country Programme output indicator baselines and targets. The Office should assist the Ministry of Health to conduct more rigorous commodity needs assessment and forecasting processes and to develop robust distribution plans, taking into consideration relevant factors such as expiry dates, existing stock levels, demand, and the periodicity and ease of distribution. In addition, the Office should support the Ministry of Health in promptly distributing commodities held at the central and state warehouses, with due priority to impending expiry dates. The Office should regularly monitor inventory levels, availability and stock-outs and, in collaboration with the relevant stakeholders, support the Government in the development and implementation of strategies that, inter alia, address the reporting challenges faced by Service Delivery Points that could adversely impact commodity availability and originate stock-outs. The physical security, controls, recordkeeping, and storage conditions at warehouses and Service Delivery Points should also be improved.

18. In the area of operations management, the Office should raise the awareness of relevant staff on the need to better plan local procurement activities, to timely prepare annual procurement plans and to conduct appropriate market research to include price information in the procurement plans. The Office should implement supervisory controls to monitor the timely preparation and submission of compliant Value-Added Tax refund claims and, in collaboration with the United Nations Country Team, continue to dialogue with local tax authorities on the recovery of long outstanding refund claims that have significant marked-to-market foreign exchange rate losses dating back from 2016.

Compliance level

19. Office Management should strengthen its oversight over procurement activities to enhance competitiveness and closely monitor compliance with procurement policies and procedures, including those related to the use of Long Term Agreements and verification of goods and services upon receipt and before payment. Finally, the Office should raise the awareness of relevant staff on the importance of better planning and committing funds in Atlas before contracting with suppliers.

Management response

20. The Office agrees with the findings and recommendations included in this report and will make adequate plans and put in effort to ensure timely implementation and establish mechanisms to prevent re-occurrences.

21. The OAIS team would like to thank the Management and personnel of the Office, of 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 activities implemented by the Office in the period from 01 January 2017 to 30 June 2018. Programme delivery and operational activities pertaining to other periods were covered, 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 the UNFPA operations in Sudan.
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 a team of OAIS audit specialists, supported by individual consultants. The audit started on 13 August 2018. A field mission took place from 16 September to 04 October 2018. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 04 October 2018. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to Office Management on 31 January 2019, and a final Management response received on 26 February 2019.

II. BACKGROUND

6. Sudan had an estimated total population of 41 million as of 2017, with an average annual population growth rate of 2.5 per cent and two-thirds of the population living in the rural areas. The country suffers the burden of protracted national and regional conflicts, cross-border population movements, and economic sanctions. The current context drains the country's resources, affects investment in all social sectors, and contributes to inequalities between and within states.³

7. The official maternal mortality in Sudan was reported as 216 per 100,000 live births in 2015. The contraceptive prevalence rate was 12 per cent and the unmet need for family planning was at 27 per cent in the same year. The country has maintained a low HIV prevalence, in the general population, of 0.24 per cent.⁴

8. The sixth Country Programme (2013 – 2016) was guided by the United Nations Development Assistance Framework (UNDAF) II (2013 – 2016), with indicative resources of USD 928.9 million for the period. The seven Country Programme (2018 – 2021) is guided by UNDAF III (2018 – 2021), which has indicative resources of USD 1.4 billion for the period. UNDAF III is, in turn, guided by the goals and targets of the five-year National Development Plan and incorporates the vision of the 2030 Agenda for Sustainable Development. Under UNDAF III, each participating agency is responsible for delivery on a set of actions that jointly contribute to shared results.

9. The activities covered by the audit correspond to: (a) the fifth year of the sixth Country Programme 2013 – 2016, approved by the Executive Board in its first regular session of 2013, with indicative resources of USD 91.0 million; (b) the sixth Country Programme one-year extension through 2017 approved by the Executive Director and notified to the Executive Board in its second regular session of 2016, with additional estimated resources of USD 16.7 million. The extension was to align the new seventh Country Programme with the UNDAF 2018 – 2021; and (c) the first and second quarters of the first year of the seventh Country Programme 2018 – 2021, approved by the Executive Board in its second regular session 2017, with indicative resources of USD 40.0 million.

10. Expenses covered by the audit amounted to USD 19.8 million, executed by 52 Implementing Partners (IP) (USD 9.3 million) and by UNFPA (USD 10.5 million), funded from core resources of USD 6.1 million and non-core resources of USD 13.7 million. In addition, the audit covered the supply of reproductive health commodities, procured primarily with funding provided by the UNFPA Supplies programme, amounting to USD 2.8 million.

11. Approximately 68 per cent of the expenses incurred in the period under review corresponded to the Reproductive Health component. The Gender component accounted for 19 per cent of the expenses incurred and the Population and Development, and Adolescents and Youth components for another 4 and 2 per cent, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 7 per cent of expenses.⁵

12. The main UNFPA Office in Sudan is located in the capital city of Khartoum, with three sub-offices in the cities of Al Fasher, El Geneina and Nyala. The Office also deployed staff to eight locations of programmatic priority. The staff were embedded within the local offices of a key Government IP at the locations. During the period under review and at the time of the audit field mission, the Office was managed by a Representative, assisted by a Deputy Representative, two Assistant Representatives, and an International Operations Manager.

³ UNFPA Sudan Country Programme Document 2018 – 2021.

⁴ UNFPA Sudan Country Programme Document 2018 – 2021.

⁵ Source: Cognos budgets and expenditures by programme cycle output reports.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SOME IMPROVEMENT NEEDED

Good practices identified

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

- a) The Office deployed staff at eight priority locations, in various states, where significant programme activities were implemented, in order to engage in regular and direct consultation with IPs and provide technical support to them. The staff were embedded within the offices of a key Government IP at all the locations;
- b) Weekly ‘Country Office Management Team’ meetings, comprising both programme and operations management teams, were held to share information, report on the status of programme implementation activities, and discuss programmatic and operational challenges faced. The meetings were well documented in detailed minutes that included clear action points for subsequent follow-up;
- c) The Office demonstrated a strong annual planning process where: (i) each workplan output was linked to at least one UNFPA Strategic Plan outcome and output; (ii) each output had a defined indicator linked to quarterly milestones; and (iii) each output indicator was assigned a baseline and target, with the basis clearly defined;
- d) The Office established a clear division of roles and responsibilities in all aspects of programme delivery and operations, aimed at enhancing efficiency and accountability; and
- e) The Office continued to put into effective use a monitoring tool developed in 2015 to track mandatory training and learning activities for its personnel, resulting in 100 per cent completion rates.

A.1 – OFFICE MANAGEMENT

EFFECTIVE

14. Audit procedures performed in this area included the review of: (a) the Office planning process in 2018; (b) the relevance of the 2017 and 2018 annual management plans, and the implementation level of activities in 2017; (c) the alignment of the 2018 performance plans of key personnel to Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2017 annual report data; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.

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

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

EFFECTIVE

16. At the time of the audit field mission, the Office had 94 approved posts, including 5 international posts, 17 national posts, 14 general service posts, further to 58 posts covered under the Service Contract modality. In addition, the Office engaged 26 individual consultants during the period under review.

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

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

A.3 – RISK MANAGEMENT

MAJOR IMPROVEMENT NEEDED

19. Audit work performed in this area consisted of the review of the latest strategic and fraud risk assessments completed by the Office, the process followed in identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risk.

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

Enhance the fraud and operational risk assessment process

21. The Office completed a fraud risk assessment, as well as a strategic risk assessment, for the year 2018 as part of the corporate Enterprise Risk Management (ERM), using the 'myRisks' functionality in the Strategic Information System.

22. The assessments, however, did not include all key risks faced by the Office. Further, some materialized during the year and could have been foreseen given the information already available to the Office like: (a) the incurrence of significant losses on recoverable Value-Added Tax (VAT) balances as a result of foreign currency exchange rate fluctuations, as noted in paragraph 76; and (b) the expiry of pharmaceutical commodities stored by the Office (see paragraph 53).

23. In addition, the fraud risk levels assessed 'low' in 2018 did not appear realistic on account of certain control gaps identified by the audit – the most significant ones being: (a) the inherent risk of loss, fraudulent sale or unauthorized diversion of inventory of commodities and/or pharmaceutical products, given the lack of visibility on the movement of inventory of commodities and/or pharmaceutical products from the state warehouses to the Service Delivery Points (SDP) – a risk that was assessed as having both low inherent and residual risks; and (b) the risk of fraudulent or unauthorized financial transactions involving suppliers and/or staff on account of weaknesses in compliance with procurement policies and procedures, resulting in the post-facto generation of purchase orders and non-verification of goods and services before payment – which was also marked as having both low inherent and residual risk.

24. Further, the accountability for the management of identified risks was not consistently monitored. For instance, only two out of seven programme managers that were assigned focal point roles for managing risks had the responsibility documented in their 2018 individual performance and development plans.

ROOT CAUSE *Guidelines: inadequate supervision at the Office level.*

IMPACT *Limited ability to timely and properly identify and address risks.*

CATEGORY *Strategic*

RECOMMENDATION 1**PRIORITY: HIGH**

Leveraging on the 2019 ERM process, perform more rigorous strategic and fraud risk assessments, assigning, inter alia, risk ratings commensurate with the materiality and complexity of the assessed areas, and document and monitor the accountability for managing these risks through individual performance and development plans of the focal point persons.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: January 2020

The Office will issue a memo to form a committee for the completion of risk assessments and clearly assign roles and responsibilities for risk assessment and monitoring, linking them to individual performance and development plans. The Office will also establish a mechanism during the mid-year and end-year reviews of performance and development plans will include comments on the results achieved.

B. PROGRAMME MANAGEMENT**MAJOR IMPROVEMENT NEEDED****Good practices identified**

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

- a) The Office established a dedicated team of financial monitoring officers, with some embedded at the field offices of a key Government IP, and others based at its sub-offices, to provide day-to-day support to IPs in: (i) the development of detailed programme implementation plans; (ii) implementation of UNFPA-funded activities; (iii) preparation of quarterly Funding Authorization and Certificate of

- Expense (FACE); and (iv) financial reporting. In addition, the officers conducted daily monitoring and quality assured implemented activities;
- b) Programme and operations management staff held monthly review meetings to discuss the status of Operating Fund Account (OFA) balances and any bottlenecks or challenges encountered in their liquidation by IPs. The meetings resulted in nil OFA balances at the end of 2016 and 2017, and USD 0.1 million as at 31 December 2018;
 - c) The Office had a dedicated team of finance associates, based at the main office in Khartoum, to quality-assure the FACE forms submitted by IPs, to match reported activities to those indicated in the approved workplans and supporting progress reports, amongst other activities – resulting in timely advances to and liquidations of funds by the IPs; and
 - d) The Office implemented an effective inventory management process through timely submission of purchase requisitions, well-managed customs clearance procedures, sufficiently documented receiving and inspection procedures; the Office also expedited the hand-over of inventory commodities to IPs.

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

26. During the period under review, the Office implemented activities related to 13 outputs of the sixth Country Programme 2013 – 2017 and of the seventh Country Programme 2018-2021 at a total cost of USD 18.5 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 95 per cent in 2017 and 51 per cent as at 30 June 2018, measured based on annual budgets allocated in Atlas. Programme implementation activities were funded from core resources of USD 4.8 million and non-core resources of USD 13.7 million, and related mainly to the provision of reproductive health services.

27. Activities were implemented directly by UNFPA, with actual expenses of USD 9.2 million (50 per cent of programme implementation expenses in the period under review) and financial implementation rates of 94 per cent in 2017 and 48 per cent as at 30 June 2018. A large proportion of the expenses related to UNFPA-implemented activities corresponded to the procurement of commodity supplies and personnel costs.

28. Activities were also implemented by 52 IPs engaged by the Office, with related expenses of USD 9.3 million (50 per cent of programme implementation expenses in the period under review) and financial implementation rates of 96 per cent in 2017 and 56 per cent as at 30 June 2018. Section B.2 of the report provides further details on IP-implemented activities.

29. Audit work performed in this area focused on five outputs with aggregate expenses of USD 13.5 million during the period under review (73 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for both 2017 and 2018; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as monitor their implementation by the Office with various partners; (c) the review of workplan progress reports, monitoring reports and other evidence of programme implementation along with site visits to: (i) four locations in two states, where programme activities were implemented; and (ii) five IP offices located in the capital city. In addition, the audit reviewed: (a) the alignment of activities implemented to the Country Programme documents; and (b) the level of achievement of the sixth programme cycle outputs for selected programme components.

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

Streamline output indicators, targets and baselines for consistency with Country Programme Action Plan outputs

31. The output indicators included in individual IPs' workplans did not consistently reflect those in the Country Programme Action Plan (CPAP) (2018 – 2021). According to Management, the Office developed process-level indicators for use in workplans to help guide programme implementation as it considered the CPAP output indicators to be insufficiently detailed to facilitate effective monitoring and reporting, especially in relation to IPs with relatively smaller workplans to implement.

32. However, in two out of four instances reviewed, it was difficult to establish linkages between the process-level output indicators, together with their baselines and targets, to those in the CPAP. For example, one process-level output indicator "*Number of health care managers and providers trained on ERHK supply chain management*" was explained by Office Management as relating to three separate CPAP output indicators: (a) 'Number of current users of modern family planning methods in UNFPA-supported states'; (b) 'Percentage of facilities that experienced no stock-outs of contraceptives in UNFPA priority states'; and (c) and 'Percentage of health facilities providing at least 3 modern contraceptive methods including long-acting method in the priority states'. This made it not only difficult to relate the two sets of output indicators (i.e. process-level versus CPAP), but also to track progress made against the CPAP output indicators because the process-level output indicators were highly summarized.

33. Further, for 23 out of 54 process-level output indicators reviewed (43 per cent of the indicators reviewed), Office Management was unable to explain the sources used for the baselines and targets formulated.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>The process-level output indicators, baselines and targets in use to track implementation progress may not be fully aligned to Country Programme priorities limiting Office Management's ability to make informed decisions.</i>
CATEGORY	<i>Operational</i>
RECOMMENDATION 2	PRIORITY: HIGH

Leveraging on the 2019 annual planning cycle, update the workplan output indicators, baselines and targets for clear consistency and linkage to Country Programme Action Plan outputs, and document the sources for the baselines and targets used.

<u>RESPONSIBLE MANAGER:</u> Representative	<u>STATUS:</u> Agree
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> January 2020
<i>The Office will issue a memo to programme managers to align all indicators with Country Programme Action Plan. The Office will also establish a peer review committee to review all workplans and monitor compliance with the Country Programme Action Plan. Workplans will be reviewed by the Monitoring and Evaluation Specialist and Assistant Representative before approval by the Representative or Deputy Representative.</i>	

Strengthen the use of the Global Programming System for programme planning

Late finalization of workplans in the Global Programming System

34. There were significant delays in finalizing the 2017 and 2018 IP workplans in the Global Programming System (GPS). Specifically, in 2017, 12 out of 54 workplans reviewed (22 per cent) were finalized between April and October, with the majority (seven) completed and signed in August. Similarly, in 2018, 22 workplans out of 48 reviewed (46 per cent) were finalized between April and June. Office Management explained that the late finalization of workplans was primarily as a result of: (a) delays in signing the CPAPs for the 2017 Country Programme extension and the new seventh Country Programme 2018 – 2021; and (b) new fund allocations, mainly in relation to urgent humanitarian interventions that necessitated workplan revisions.

Workplan budgeting

35. Twenty-one workplans reviewed revealed differences between the budget amounts in the workplans signed with IPs and the commitment control⁶ budgeted amounts in Atlas, for an absolute total value of USD 4.5 million – leading to potential overspending. The differences were mainly caused by workplan budget revisions that were not accurately and timely processed by the relevant programme managers in GPS.

⁶ Atlas module where all financial transactions are subjected to budgetary controls

36. Further, programme activities amounting to USD 22.3 million relating to 63 workplans were budgeted in GPS at the aggregate account level of 'General Operation Expenses' – instead of the corresponding sub-account levels by expense type (i.e. the "monitoring" account level) which would significantly improve monitoring by providing greater details on the nature of inputs budgeted.

Quality assurance of the planning process

37. Three out of ten workplans reviewed had errors in the baselines and targets specified therein – indicative of a need to improve the rigour of the quality assurance process during the annual planning cycles. For example, the output indicator "*Coordination mechanism for FP and RH commodities in place*", had its baseline indicated simply as "Yes" and the target as "No". Similarly, another output indicator "*Number of MSMs that received STIs services*" had the target indicated as 1,037,331 instead of 10,373.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>Implementation of programme activities may be delayed due to late finalization of work plans. The effectiveness of budgetary controls may be diminished.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 3

PRIORITY: HIGH

In collaboration with Implementing Partners, establish a more effective workplan preparation and management process in the Global Programming System by: (a) clearly defining responsibilities and milestones for the timely finalization of workplans; (b) setting up budgets at the monitoring account level; and (c) implementing a supervisory review process to monitor the development of quality workplans that include accurate baselines and realistic targets.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: January 2020

The Office will issue a memo to all Implementing Partners requesting them to identify GPS focal persons. The Office will then clearly define roles and responsibilities for the focal persons and conduct on-the-job training on GPS. The Office will also implement a review system for its own GPS focal persons and of the other Office units on a monthly basis.

B.2 – NATIONAL EXECUTION

MAJOR IMPROVEMENT NEEDED

38. National Execution (NEX) expenses amounted to USD 9.3 million (50 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 26 Government IPs and 26 non-governmental organizations (NGO), with financial implementation rates of 96 per cent in 2017 and 56 per cent as at 30 June 2018.

39. Per the available general ledger information for the period under review, NEX expenses corresponded primarily to training and learning (USD 4.5 million – 49 per cent of NEX expenses); foreign exchange losses (USD 1.2 million – 13 per cent of NEX expenses); and facilities management (USD 0.8 million – 9 per cent of NEX expenses).

40. IP audits performed in 2018 (2017 audit cycle) covered 10 of the 52 IPs, with aggregate expenses of USD 3.1 million (41 per cent of total NEX expenses in 2017). All 10 IP audits received unqualified audit opinions.

41. OFA balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 1.3 million quarterly in 2017, and amounted to a nil balance as at 31 December 2017 and USD 1.6 million as at 30 June 2018 (USD 0.1 million as at 31 December 2018).

42. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by IPs through FACE forms; (d) the controls implemented over OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor

activities for five IPs engaged by the Office with aggregate programme implementation expenses of USD 3.3 million (36 per cent of NEX expenses) in the period under review.

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

Promptly finalize pending Implementing Partner assessments

44. At the time of the audit field mission, 34 out of 52 IPs engaged in the period under review (61 per cent) under the new Country Programme 2018 – 2021 were yet to undergo HACT⁷ micro-assessments. Twenty-nine of the 34 were Government IPs and the remaining 5 were NGOs. All 34 IPs had previously not been micro-assessed and, at the time of the audit field mission, were already in receipt of amounts in excess of the applicable guidance threshold of USD 100,000 that necessitated micro-assessments. Office Management explained that, in the past, the Government was reluctant to have its Ministries assessed by external parties – contributing to delays in performing the micro-assessments. However, as a result of advocacy by the HACT Working Group in the country, the Government now welcomes such assessments. Following the Government decision, the Office put in place a plan to have all qualifying IPs assessed in early 2019.

ROOT CAUSE	<i>Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>The effectiveness and efficiency of programme implementation may be adversely impacted by unidentified IP capacity gaps.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 4

PRIORITY: HIGH

Promptly finalize the HACT micro-assessments for those Implementing Partners yet to be assessed.

<u>RESPONSIBLE MANAGER:</u> Representative	<u>STATUS:</u> Agree
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> March 2020

The Office will prepare and implement a HACT micro-assessments plan with timelines and implementation deadlines.

Improve the timeliness and scope of spot-checks

45. The Office prepared its 2018 HACT assurance plan to include 49 spot-checks covering 50 IPs. At the time of the audit field mission, only seven of the planned spot-checks had been undertaken (14 per cent). The remaining 42 spot-checks were planned for the fourth quarter of the year – potentially presenting an unrealistic number of spot-checks to be completed in the last quarter of the year and also missing out on opportunities to detect and to take timely corrective actions where instances of poor financial management and reporting practices exist. At the time of drafting this report, an additional 25 of the planned 49 spot-checks had been completed, for a total of 32 spot-checks (65 per cent of planned spot-checks).

46. Further, 10 out of 12 spot-checks undertaken by the Office in 2017 did not cover the 12-month retrospective review period recommended in the applicable spot-check guidance⁸ – limiting the scope of assurance provided by the spot-checks. Five spot-checks reviewed were, however, of the required depth and quality.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>Financial management and reporting gaps may not be timely detected and corrected.</i>
CATEGORY	<i>Operational.</i>

⁷ Harmonized Approach to Cash Transfers

⁸ Spot Check Guidance, Revision 2, September 2017.

RECOMMENDATION 5**PRIORITY: HIGH**

Enhance the Implementing Partner monitoring and assurance process by: (a) timely commencing spot-checks earlier in the year; and (b) extending the periods covered by individual spot-checks, as recommended by the applicable spot-check guidance.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: March 2020

The Office will prepare yearly assurance plans and complete all spot-checks during the second and third quarters of the year. Timely completion of the assurance plan will be closely monitored and spot-checks linked to the individual performance and development plans of staff.

B.3 – INVENTORY MANAGEMENT**NOT EFFECTIVE**

47. During the period under review, the Office supplied reproductive health commodities and other inventory items at an approximate total cost of USD 3.9 million (inclusive of transportation costs of USD 0.6 million), with funding provided mainly by the UNFPA Supplies programme, for which Sudan is one of the 46 priority countries. The inventory supplied consisted mainly of medical and pharmaceutical products (USD 2.8 million), procured by the Procurement Services Branch, located in Copenhagen, Denmark, on behalf of the Office. Dignity kits (USD 0.5 million) and medical kits (USD 0.1 million) were procured locally by the Office. Reproductive health commodities were mainly stored at and distributed from a central warehouse managed by a Government IP.

48. Audit work performed included a review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied at a cost of USD 1.1 million (28 per cent of the value of supplies provided), of the processes and controls in place in the areas of: (a) procurement planning, requisitioning and ordering; (b) customs clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA's possession); (d) hand-over of the inventory to IPs; (e) distribution to intended beneficiaries; and (f) monitoring. Audit work further included a review of the related procurement processes for locally-procured dignity and medical kits (refer to section C.2 of the report).

49. Audit work performed also included site visits to: (a) the central warehouse managed by a Government IP; (b) two state warehouses; and (c) four SDPs. The audit tests conducted were to: (a) verify the receipt of commodities procured by UNFPA; (b) assess the warehouse controls in place and reliability of the inventory records maintained; (c) test the distribution of commodities by tracing a sample of deliveries through the supply-chain; and (d) verify commodity availability and stock-out levels at the warehouses, and SDPs visited. The audit also included a review of the results of a 2017 reproductive health commodities and services availability survey⁹ (the Survey) in Sudan.

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

Improve the accuracy of baselines and targets for commodity-related output indicators

51. The Country Programme Document 2018 – 2021 includes four output indicators related to family planning. One of the four "Percentage of facilities that experienced no stock-out of contraceptives in UNFPA priority states" had an incorrect baseline of 65 per cent, which was based on a target set for the year 2017 under the previous Country Programme, instead of the actual cumulative result of 48 per cent previously achieved. This resulted in setting a potentially unrealistic target of 85 per cent to be achieved by 2021, for which the Office was unable to provide support such as a list of the target facilities. Office Management attributed the discrepancy to a lack of up-to-date information on stock-outs at the time of developing the Country Programme Document 2018 – 2021, which necessitated the use of estimates.

52. In addition, the Survey, which reported the actual result of 48 per cent achieved as noted in paragraph 49 above, also indicated that only 37 per cent of facilities in 10 priority states incurred no stock-outs of contraceptives in 2017 and that all facilities in 3 of the 10 priority states had 100 per cent stock-outs of contraceptives in the three

⁹ Survey of Availability of Modern Contraceptives and Essential Lifesaving Maternal and Reproductive Health Medicines in Service Delivery Points in Sudan, December 2017.

months preceding the Survey. This further indicated a significant variance between the baselines and targets reflected in the Country Programme Document 2018 – 2021 and actual results achieved, revealing an urgent need for the Office to re-assess its reproductive health commodity security strategy. The Survey, however, neither provided the root causes for the stock-outs nor recommendations to help improve the results – reflecting a need to improve the quality of the commodity availability and stock-out surveys undertaken by the Office.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The Office's ability to effectively track and report on progress made against this significant output indicator may be diminished, and hence the possibly to advise and/or put in place effective remedial actions.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 6	PRIORITY: HIGH
<i>Re-assess the reproductive health commodity security strategy, taking into consideration the results of the 2017 reproductive health commodities and services availability survey, revising accordingly the related Country Programme Action Plan baselines and indicators; and improve the quality of commodity surveys undertaken by the Office to include the identification of root causes and recommendations for improvement.</i>	

<u>RESPONSIBLE MANAGER:</u> Representative	<u>STATUS:</u> Agree
<u>MANAGEMENT ACTION PLAN:</u>	<u>DUE DATE:</u> August 2020
<i>The Office will update its strategy for reproductive health commodity security based on the most recent surveys results and align the Country Programme Action Plan baselines and indicators on the basis of the 2017 Reproductive Health Commodity Security Health Facilities (RHCs HF) survey. The Office will also revisit the survey questionnaire to include identification of root causes and prepare implementation plans in line with the recommendations and conduct a RHCs HF-based survey in the third and fourth quarters of 2019.</i>	

Expedite the distribution of family planning commodities

53. An analysis of expiry times, as detailed in Table 1 below, indicated that around USD 1.1 million worth of commodities is due to expire by November 2019. Further, Office Management estimated that commodities procured at a cost of USD 0.7 million, stored at the central warehouse in Khartoum, is at risk to expire before its distribution.

Table 1 – Commodities set to expire in 2019 at the central warehouse in Khartoum

Product	Price per unit (USD)	Total expiring by November 2019		Of which at risk to expire before distribution (*)	
		Packs (000)	Value (USD '000)	Packs (000)	Value (USD '000)
Commodity 1 ¹⁰	8	27.0	216.0	23.0	184.0
Commodity 2 ¹¹	12.3	70.6	868.7	44.0	541.0
TOTAL			1,084.7		725.0

Note (*): As estimated by Office Management.

54. The commodities, procured in 2016, represented an approximate four years of supply which, according to Office Management, was procured in large quantities based on a special Government request made at the time. Use of the commodities by beneficiaries has, however, been below the initial forecast levels due to changing reproductive health method preferences in the face of an evolving humanitarian context in some parts of the country – resulting in the significant on-hand stock. This, coupled with other factors such as a weak supply chain, lack of human resource capacity (skills) to monitor usage, and the absence of automated information systems at SDPs, contributed to the build-up in stock levels, and hence the risk of expiration before distribution.

¹⁰ Magnesium Sulphate 50% 2 ml

¹¹ Magnesium Sulphate 50%, 10 ml

55. The Office was proactive in ensuring that the two commodities were not procured in 2017. However, in 2018, the Commodity Security Branch approved a procurement plan for an additional 9,000 packs of Commodity 2 at a total cost of USD 0.1 million. Office Management explained that the additional packs were meant to replace those expiring in January 2019. However, the Office did not assist the Ministry of Health in preparing a detailed plan to guide an effective and timely distribution of the newly procured commodities and those set to expire shortly.

	<i>Guidance: inadequate supervision at the Office level.</i>
ROOT CAUSE	<i>Resources: insufficient human resources (skills).</i>
	<i>Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>The expiry of commodities negatively impacts programme implementation, results in financial loss, and increases reputational risk.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 7 **PRIORITY: HIGH**

Assist the Ministry of Health to conduct rigorous needs assessment and forecasting processes and develop robust commodity distribution plans, taking into consideration relevant factors such as expiry dates, existing stock levels, demand and the periodicity and ease of distribution.

RESPONSIBLE MANAGER: Representative STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: August 2020

The Office will support capacity building of national staff at federal and state levels on needs assessment and develop and implement a monitoring plan for expiry dates, existing stocks levels, and demand. The Office will also support the National Medical Supplies Fund to develop annual distribution plans, consistent with states' need assessment reports. Further, the Office will conduct quantification exercises at local as well as federal levels on a quarterly basis, follow up on action points arising from quantification meetings, and develop re-distribution plans according to the expiry dates of available items.

RECOMMENDATION 8 **PRIORITY: HIGH**

Support the Ministry of Health in promptly distributing the commodities that were held at the central and state warehouses, with due priority to the impending expiry dates.

RESPONSIBLE MANAGER: Representative STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: June 2020

The Office will conduct periodic joint monitoring and hold quarterly meetings with the National Medical Supplies Fund to discuss inventory status and develop redistribution plans to correct any stock imbalances and avoid expiration of supplies. In addition, the Office will develop a standard list of commodities for each category of health facilities.

Proactively monitor reproductive health commodities inventory levels and availability

56. The Office did not undertake, during the period under review, regular and systematic monitoring of reproductive health commodities availability and stock levels. For instance, monitoring visits were undertaken to only three of over 4,000 SDPs in 2017, with no visit to any SDP in 2018. In addition, there was no documented plan or schedule to support monitoring of the commodities. Management explained that a lack of sufficiently-skilled human resources at the Office to monitor the supply chain through to SDPs, most of which are located in remote areas with no access to automated information systems, presented a significant challenge to monitoring.

57. Further, while the Office had access to reports generated by the logistics management information system (LMIS) that typically cover national medical supplies at the central and state warehouses, the reports were not utilized effectively to monitor stock levels, commodity availability, and stock-outs. In addition, there was no established system or process for the 4,000 SDPs to report availability and stock-out data to the central and state warehouses, as they did not have access to the LMIS, whose usage was limited to the warehouses. As a result, the warehouses used a "push-down" strategy to supply commodities to the SDPs – largely based on historical distribution

patterns – contributing to the non-achievement of targets, as discussed in paragraph 52 above. It is noted that a new policy introduced in July 2018¹² includes stringent requirements on monitoring of programme supplies that the Office is mandated to comply with.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level. Resources: insufficient human resources (skills).</i>
IMPACT	<i>Commodity availability, stock-out, and distribution issues may not be timely identified and addressed.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 9**PRIORITY: HIGH**

Leveraging on the monitoring requirements in the new Policies and Procedures on Management of Programme Supplies, regularly monitor reproductive health commodities inventory levels, availability, stock-outs, and distribution and, in collaboration with relevant stakeholders, support the Government in the development and implementation of a strategy that addresses, inter alia, the reporting challenges faced by Service Delivery Points that adversely impact commodity availability levels and originate stock-outs.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: March 2020

The Office will conduct monthly stock expiry analyses to follow up on the implementation and advise the National Medical Supplies Fund on needed actions. The Office will also support the development and implementation of strategic interventions to address the reporting challenges for supplies and identified supply-chain bottlenecks.

Enhance programme supplies storage conditions and controls

58. Visits to the central and state warehouses and SDPs revealed that storage conditions and controls at the facilities could be enhanced. In particular:

- a) At the state warehouses visited, restricting access to unauthorized personnel and installation of cameras could improve physical security and the risk of theft; and
- b) At the SDP level, the facilities visited did not maintain stock movement records, which made it impossible to: (i) reconcile receipts to and issues from the facilities; as well as (ii) track the commodities issued from the state warehouses through the supply-chain to the SDPs and beneficiaries.

59. Office Management explained that the control gaps noted at the SDPs were mainly as a result of a lack of Government guidelines, as well as the absence of a robust monitoring process as noted in paragraph 56.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level. Resources: insufficient resources (skills).</i>
IMPACT	<i>Increased exposure to inventory loss and/or damage.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 10**PRIORITY: MEDIUM**

In collaboration with the Government, improve the physical security conditions at the warehouses and support interventions to address the shortcomings related to commodities control and record-keeping at the SDPs.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: June 2020

The Office will conduct assessments of warehouses at state level to identify gaps and prepare an action plan to address them. Further, the Office will conduct on-the-job training for staff at SDPs on supply-chain management and recordkeeping.

¹² Policies and Procedures on Management of Programme Supplies, July 2018.

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

60. Programme implementation expenses funded from non-core resources amounted to approximately USD 13.7 million (74 per cent of total programme expenses) in the period under review. Of this amount, USD 4.9 million related to a grant provided by an international financing organization to the Government to support HIV prevention, treatment and care in Sudan; USD 0.9 million related to multi-donor funding to enhance reproductive health commodity security; USD 0.9 million was provided by a donor in support of freeing Sudan of female genital mutilation; and USD 0.7 million related to multi-donor funding for recovery, reconstruction and development in Darfur. The remaining balance comprised smaller contributions made by 20 other donors and trust funds.

61. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for two major co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the cost recovery policy. Inquiries of representatives of 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**SOME IMPROVEMENT NEEDED****Good practices identified**

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

- a) The Office maintained comprehensive and well-documented procurement and human resource files – making the retrieval of information and documents efficient; and
- b) The Office actively participated in a United Nations Country Team (UNCT) Procurement Working Group established to facilitate the sharing of data and information on suppliers and cross-reliance on UN System Organizations' Long Term Agreements (LTA).

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

64. The Office incurred staff payroll costs amounting to USD 3.4 million during the period under review. In addition, the Office made use of contract personnel and engaged 58 individuals under service contracts and another 26 under individual consultancy contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 2.6 million. At the time of the audit field mission, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

65. Work performed in this area included an analytical review of payroll and contract personnel costs, a walk-through of the payroll reconciliation controls with UNDP, and the testing of a sample of five individual consultancies and three service contracts awarded by the Office at a cost of 0.3 million (12 per cent of total contract costs incurred in the period) for linkage to the corresponding workplans, compliance with applicable policies and procedures, and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for seven staff members hired during the audit period and testing of locally-paid staff benefits and entitlements amounting to USD 30,000.

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

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

67. During the period under review, the Office locally procured goods and services at a cost of USD 2.1 million. The most significant categories of goods and services procured corresponded to inventory commodities (USD 0.6 million; office rentals and other related services (USD 0.5 million); transportation (USD 0.5 million); and office communication (USD 0.4 million).

68. Audit work performed in this area included the review of a sample of 50 local purchases (9 per cent of the total number of local procurement transactions) made at a cost of USD 0.6 million (29 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,¹³ policies and procedures, as well as the operating effectiveness of controls in the areas of: (a) the procurement planning process; (b) requisitioning; (c) solicitation and bidding; (d) bid assessment; (e) vendor selection; (f) contract award; (g) purchase order issuance; and (h) receiving.

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

Strengthen the local procurement planning process

70. The annual local procurement plans for 2017 and 2018 were finalized after the 31 March policy deadline, potentially diminishing their usefulness as planning and managerial oversight tools. Further, the Office did not have processes for procurement needs identification, cost estimation and requirements definitions in preparing the procurement plans. For instance, the plans prepared were not sufficiently detailed as they did not include cost estimates for the planned purchases. In addition, the plans did not capture several procurement actions as several locally-procured goods and services during the period under review were omitted.

ROOT CAUSE	<i>Guidelines: inadequate planning.</i>
IMPACT	<i>Procurement activities may not be appropriately and timely conducted – negatively impacting programme implementation.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 11

PRIORITY: MEDIUM

Raise the awareness of relevant staff on the need to better plan local procurement activities, timely preparing procurement plans and undertaking appropriate market research to identify price information for inclusion in the annual procurement plans.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2020

Office Management will organize regular awareness and sensitization training for relevant staff to ensure better planning, establish processes for needs identification and assessment, facilitate the approval of procurement plans by 31 March on yearly basis, and ensure appropriate conduct of procurement activities, including market research, to facilitate the alignment of resources and achievement of programme implementation.

Improve compliance with procurement policies and procedures

71. Due to the low individual transaction amounts involved in local procurement of vehicle rentals and repair services, furniture and fixtures, and communication and information technology equipment, the Office generally used informal methods of solicitation – in particular, requests for quotations – to procure goods and services during the period under review. While the Office typically maintained a clear trail of solicitations made by email, there were no records for hand-delivered solicitations, making it impossible to determine if all suppliers received the same information at the same time, to ensure transparency and fairness of the process.

72. Further, the Office made solicitations against existing UN System Long-Term Agreements (LTAs) to procure goods and services. The Office, however, did not secure, through signed memorandums of understanding, the agreement of the suppliers holding the LTAs to use them. Further, there was no evidence that the Office sought the permission of the UN System organizations in question to place orders against the LTAs, as required by applicable policy.

¹³ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

73. Finally, the Office did not have a process for verifying that procured goods and services were received in good order before payment. For example, the Office procured land transportation services in the amount of USD 0.4 million during the period under review. The services were offered and billed on the basis of the weight of transported goods. There was no evidence that the Office independently verified the invoiced weights.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The effectiveness and efficiency of the procurement process, its transparency and fairness, as well as the ability to obtain value-for-money, may be impaired.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 12**PRIORITY: HIGH**

Use everywhere possible, obtaining the necessary permissions and agreements, the Long-Term Agreements of other UN organizations in country, and strengthen management oversight over procurement activities to enhance competitiveness of the process and closely monitor compliance with procurement policies and procedures, including those related to the use of Long-Term Agreements and verification of goods and services before payment.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2020

Office Management will increase its oversight to ensure that the Office continues to seek formal authorization from other UN organizations for use of their Long-Term Agreements. Further, in compliance with the applicable procurement policies and procedures, Management will ensure that Memorandums of Agreement are signed with suppliers prior to use of the Long-Term Agreements, and establish a mechanism for the verification of goods and services before payment.

C.3 – FINANCIAL MANAGEMENT**MAJOR IMPROVEMENT NEEDED**

74. 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 VAT tax control arrangements in place; (f) the budget management process; and (g) the effectiveness of the financial management accountability process.

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

Strengthen the value-added tax management process

76. Goods and services procured directly by UNFPA for the implementation of its programme are exempt from the 17 per cent VAT rate applicable in the country. The tax is claimed, on a reimbursement basis, from the Government through periodic submissions of applications for refund. As at 30 June 2018, the Office had an outstanding reimbursable VAT balance of USD 0.2 million, and had incurred cumulative foreign currency exchange losses amounting to USD 0.5 million on VAT balances dating back from 2016. Office Management attributed the build-up in VAT balances to refund delays occasioned by the Office not submitting reimbursement claims to the tax authorities in a timely manner, as well as to the submission of non-compliant invoices that lacked critical information such as serial numbers, currency type, duty stamps, amongst others.

77. At the time of the audit field mission, the Office had prepared and submitted all VAT quarterly reconciliation statements to the Government and, due to the lack of requisite skills at the Office, recruited a local consultant to train Office personnel and review previous claims submitted to the Government for the correction of errors and resubmission. The issue of pending refunds had also been escalated, for discussion, to the Operations Management Team of the UNCT, as the UN system organizations in the country faced similar challenges in the recovery of VAT.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i> <i>Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>Diminished availability of resources for programme implementation purposes.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 13**PRIORITY: HIGH**

Implement supervisory controls to monitor the timely preparation and submission of compliant Value-Added Tax refund claims.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: March 2020

The Office will implement the necessary supervisory controls under the supervision of the International Operations Manager and assign responsibility for monitoring the timely preparation and submission of compliant VAT refund claims to the Finance Associate (i.e. Head of Finance Unit). The Office will also continue to expedite bi-monthly submissions of VAT refund claims to the Taxation Chamber for refund. Recognizing this as a matter affecting all UN organizations in Sudan, alignment with the Operations Management Team of the UNCT will ensure consistency across the system with support from the Resident Coordinator in leading negotiations with the Government.

RECOMMENDATION 14**PRIORITY: HIGH**

In collaboration with the United Nations Country Team, continue the dialogue with local authorities on the reimbursement of outstanding VAT claims and the possibility of granting VAT exemption at source.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: March 2020

The issue of VAT claims and reimbursement is an interagency challenge in Sudan. The Operations Management Team of the UNCT has prepared a letter, requesting VAT exemption, for the approval of the Resident Coordinator to be sent to the Government on behalf of all the UN organizations. The Office, in collaboration with the United Nations Country Team, will continue to dialogue with the local authorities on the reimbursement of outstanding VAT claims and negotiate for the possibility of granting VAT exemption at source.

Commit funds in Atlas before completing transactions

78. In three transactions involving the purchase of services in the amount of USD 45,454, requisitions and purchase orders were issued and approved in Atlas on an "ex post-facto" basis, after delivery of the services procured. Processing of requisitions and purchase orders on an "ex post-facto" basis could significantly diminish the effectiveness of UNFPA's commitment controls, creating the risk that resources may be committed for other purposes before settling the obligations related to the goods and services procured. Office Management explained that these were the result of human error.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i> <i>Human error: unintentional mistakes committed by staff entrusted to perform assigned functions.</i>
IMPACT	<i>Buying goods and services without committing the necessary funds in Atlas reduces the effectiveness of budgetary management controls, exposing the Office to the risk of not having sufficient resources to settle obligations.</i>
CATEGORY	<i>Compliance</i>

RECOMMENDATION 15**PRIORITY: HIGH**

Raise the awareness of relevant staff on the importance of better planning and committing funds in Atlas, through requisitions, before contracting with suppliers. Closely monitor compliance thereof.

RESPONSIBLE MANAGER: RepresentativeSTATUS: AgreeMANAGEMENT ACTION PLAN:DUE DATE: March 2020

Given the high volume of the Office budget transactions involving the procurement of goods and services, appropriate awareness and sensitization training will be conducted for all staff, especially for those having “requester profiles” in Atlas, to ensure that the Office uses Atlas-generated requisitions for processing purchase orders when ordering goods and services and for pre-encumbering funds prior to contracting suppliers. This is in compliance with the implementation of the procurement plan as well as the Internal Control Framework.

C.4 – GENERAL ADMINISTRATION**EFFECTIVE**

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

Travel

80. Travel expenses incurred by the Office during the period under review amounted to USD 0.4 million. Audit work performed in this area included a walk-through of the travel process and testing of a sample of 20 travel-related transactions amounting to USD 0.2 million (50 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of daily subsistence allowance.

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

Assets Management

82. At year-end 2017, the Office held 442 in-service fixed asset items with a net book value of USD 0.7 million, the largest fixed assets categories being vehicles (USD 0.3 million) and information technology equipment (USD 0.1 million). Procurement of assets in the period under review amounted to USD 0.2 million. Audit work performed in this area was limited to a walk-through of the asset management process, in view of the lower audit risk level of the area.

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

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

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

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

C.6 – SECURITY MANAGEMENT**EFFECTIVE**

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

87. 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 2016,¹⁴ 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.

¹⁴ Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

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

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

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

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

GLOSSARY

Acronym	Description
Atlas	UNFPA's Enterprise Resource Planning System
CPAP	Country Programme Action Plan
ERM	Enterprise Risk Management
FACE	Funding Authorization and Certificate of Expense
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfers
HIV	Human Immunodeficiency Virus
IP	Implementing Partner
LMIS	Logistics Management Information System
LTA	Long Term Agreement
NEX	National Execution
NGO	Non-governmental Organization
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
RHCs HF	Reproductive Health Commodity Security - Health Facility
SDP	Service Delivery Point
UN	United Nations
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars
VAT	Value-Added Tax