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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN MALAWI

FINAL REPORT
Nº IA/2019-06

28 March 2019

TABLE OF CONTENTS

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Malawi (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, as appropriate.

Background

2. Activities covered by the audit correspond primarily to a two-year (2017 - 2018) extension of the seventh Country Programme (2012 - 2016). The seventh Country Programme (2012 - 2016) was approved by the Executive Board in its second regular session of 2011, with indicative resources of USD 52.0 million. The extension period was approved by the Executive Director and notified to the Executive Board in its second regular session of 2016, with additional indicative resources of USD 41.8 million. The extension was to align the seventh Country Programme (2012 - 2016) to the United Nations Development Assistance Framework (2012 - 2016) which, in turn, was extended for a similar two-year period to match national efforts in implementing the Sustainable Development Goals.

3. Expenses covered by the audit amounted to USD 10.8 million, executed by 16 Implementing Partners and one United Nations organization (USD 2.9 million) and by UNFPA (USD 7.9 million), funded from core resources of USD 2.9 million and non-core resources of USD 7.9 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 12.7 million.

4. Approximately 50 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Youth component accounted for 18 per cent of the expenses incurred and the Gender and Population Dynamics components accounted for another 3 and 28 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 one 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 over the in-scope areas and activities. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

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

Audit rating[2]

7. The overall audit rating 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 reports
[2] See complete set of definitions in Annex 1

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

Key findings and recommendations

9. The audit identified some good practices, as well as areas that require Management attention, some of a strategic nature, and others related to operational, reporting and compliance matters. Overall, the audit report includes 10 high priority and 2 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 12 recommendations, two are of a strategic nature, three are operational, three refer to compliance matters, and four to reporting.

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, in order to improve performance and control, the Office conducted weekly joint programme and operations management review meetings as a means of sharing the status of implementation activities and discussing programmatic and operational challenges faced. The Office also fostered and sustained positive relationships with other United Nations organizations by actively participating in inter-agency coordination clusters and working groups – most significantly assuming a lead role in championing the establishment of a Gender, Children, Youth and Sports Sector Working Group in Malawi.

12. From a programme management perspective, the 2018 workplan preparation and planning process was initiated early in November 2017, allowing an early start to programme activities. The Office, in collaboration with other United Nations organizations in Malawi, established a Harmonized Approach to Cash Transfers (HACT) framework secretariat that helped coordinate and manage assurance planning, Implementing Partner micro-assessments and monitoring, and follow up on the implementation of spot-check and audit recommendations. Through a partnership with a national bank and a key Implementing Partner, the Office implemented procedures and controls to manage the payment of allowances and other remittances to training participants and enumerators during the 2018 Malawi Population and Housing Census (the 2018 Census), significantly reducing the risks associated with handling large cash payments.

13. Finally, in the area of operations management, the Office developed responsibility matrices and checklists to clarify roles, responsibilities and the distribution of duties in the planning, processing, and verification of training allowances for enumerators in the 2018 Census. In addition, the Office maintained comprehensive and well-documented human resource files for both staff and contract personnel, making the retrieval of information easy and efficient.

Strategic level

14. There is a need to urgently finalize the review of the Office organigram and staffing structure to better align it to programme delivery and operational requirements. 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 and the operational context and environment of the Office.

Operational level

15. From a programme management perspective, the Office should enhance the effectiveness of the workplan management process in the Global Programming System by more accurately and timely reflecting workplan budgets and changes thereto in the system, setting up budgets at the monitoring account level, and preparing detailed budget costing sheets.

16. There is a need to strengthen the financial monitoring processes of Implementing Partners by instituting more thorough review of financial reports and direct payment requests submitted and systematically undertaking all planned monitoring activities and logging the resultant recommendations for proper tracking and follow-up.

17. Further, the Office should significantly improve its inventory management process by raising staff awareness on the need to implement solutions that will enable a faster customs clearance process for reproductive health commodities and avoid onerous demurrage charges; closely monitor and notify all relevant parties of impending commodity expiry dates; and conduct comprehensive receiving and inspection procedures for all commodity shipments, including completing the requisite reports.

Compliance level

18. The Office should require completion of any outstanding mandatory courses by all personnel who have not completed them; promote completion, by relevant programme staff, of the recommended results-based management training; and design and implement a process for tracking and monitoring training. Further, the Office should strengthen management oversight over procurement activities to enhance the competitiveness of the process and closely monitor compliance with the applicable policies and procedures, including those related to requests for quotation. 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 in order to minimize the risk of not having sufficient resources to settle obligations.

Reporting level

19. The Office needs to strengthen supervisory controls to monitor the systematic and accurate documentation of output indicators, baselines, targets, and reported results in the Strategic Information System. Also, the Office should provide training and raise the awareness of relevant staff on the need to correctly record financial transactions in Atlas and implement review and supervisory procedures to prevent the charging of expenses to erroneous account codes. Finally, the Office should liaise with the UNFPA Finance Branch on the correct accounting for the purchase costs of 15,000 tablets purchased for the 2018 Census, expedite completion of their recording in the Asset Management Module, and employ supervisory review controls to identify and rectify any existing recording errors in the module.

Management response

20. Office Management is in agreement with the findings and recommendations of the report. The Office would like to thank the audit team for its professionalism throughout the process. Under the leadership of the Resident Representative, an overview plan will be developed for monitoring implementation of the action plans within the set deadlines.

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

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered activities implemented by the Office in the period from 01 January 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 UNFPA's operations in Malawi.

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 a 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 personnel from an external audit firm and an individual consultant. The audit started on 10 September 2018. A field mission took place from 08 to 26 October 2018. Preliminary findings and recommendations resulting from the audit were discussed with Office Management at an exit meeting held on 26 October 2018. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 28 February 2019, and a final Management response received on 21 March 2019.

II. BACKGROUND

6. The Southern African nation of Malawi is landlocked, sharing borders with Mozambique, Zambia and Tanzania. Malawi's population was estimated at 17.4 million in 2017, with an average annual growth rate of 2.8 per cent and projected to reach 41.2 million by 2050.[3] The population is relatively young with 47 per cent below the age of 15. The real gross domestic product grew from 2.5 per cent in 2016 to 4.0 per cent in 2017.[4] As of 2018, following two years of severe drought and lingering consequences of corruption scandals, Malawi's economy had made progress in achieving macroeconomic stabilization. However, higher, more inclusive, and resilient growth is needed to tackle pervasive poverty in the country.[5]

7. The maternal mortality ratio fell from 675 to 439 per 100,000 live births between 2010 and 2016 as a result of increased contraceptive use, improved access to emergency obstetric care services (from 2 to 40 per cent), and increased skilled birth attendance (from 71 to 90 per cent), over the same period. HIV prevalence amongst men and women aged between 15 and 49 years decreased from 10.6 per cent in 2010 to 8.8 per cent in 2016. Prevalence amongst sex workers and men who have sex with men was high at 62 and 21 per cent, respectively. New HIV infections steadily declined from 74,000 in 2012 to 34,000 in 2017. Over 50 per cent of the new infections occurred amongst adolescent girls and young women aged between 15 and 24.[6]

8. Malawi became a Delivering-as-One (DaO) self-starter country in 2007. Since 2006, the United Nations (UN) has worked to progressively implement elements of DaO in Malawi. At the time of the audit field mission, it was already implementing 13 of the 15 DaO standard operating procedures, with the remaining two to be included in the United Nations Development Assistance Framework (UNDAF) (2019 – 2023).[7] The seventh Country Programme (2012 – 2016) was guided by the UNDAF (2012 – 2016), which had indicative total resources of USD 602.4 million[8] for the period. The UNDAF was extended by two years (2017 and 2018) to facilitate its alignment with national development process, primarily with reference to the Sustainable Development Goals.

9. Activities covered by the audit correspond primarily to a two-year (2017 – 2018) extension of the seventh Country Programme (2012 – 2016). The seventh Country Programme (2012 – 2016) was approved by the Executive Board in its second regular session of 2011, with indicative resources of USD 52.0 million. The extension period was approved by the Executive Director and notified to the Executive Board in its second regular session of 2016, with additional indicative resources of USD 41.8 million. The extension was to align the seventh Country Programme (2012 – 2016) to the UNDAF (2012 – 2016) which, in turn, was extended for a similar two-year period to match national efforts in implementing the Sustainable Development Goals.

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12. The main UNFPA Office in Malawi is located in the capital city of Lilongwe. 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, an Assistant Representative, and an International Operations Manager.

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[3] UNFPA Country Programme Document for Malawi (2019-2023)

[4] https://www.worldbank.org/en/country/malawi/overview

[5] https://www.imf.org/en/Publications/CR/Issues/2018/05/09/Malawi-2018-Article-IV-Consultation-and-Request-for-a-Three-Year-Arrangement-Under-the-45863

[6] UNFPA Country Programme Document for Malawi (2019-2023)

[7] http://mptf.undp.org/factsheet/fund/MW100?fund_status_month_to=10&fund_status_year_to=2008&lo=1

[8] United Nations Development Assistance Framework in Malawi 2012 - 2016

[9] Source: Cognos reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE — MAJOR IMPROVEMENT NEEDED

Good practices identified

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

a) The Office conducted weekly joint programme and operations management review meetings. The meetings were used as a means for sharing information, reporting on the status of implementation activities and discussing programmatic and operational challenges faced by the Office. Discussions and action points arising from the meetings were well-documented for easy follow-up; and

b) The Office engaged effectively with other UN organizations by actively participating in inter-agency coordination clusters and sector working groups, including assuming a lead role in championing the establishment of a Gender, Children, Youth and Sports Sector Working Group. The aim of the working group is to provide a forum for negotiation, policy dialogue, and agreement of plans and undertakings amongst the Government, development partners, non-governmental organizations (NGO) and the private sector, at a sectoral level.

A.1 – OFFICE MANAGEMENT — SOME IMPROVEMENT NEEDED

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

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

Enhance data collection and improve documentation to support signature indicators

16. The review of the 2017 Office annual report, which was prepared on the basis of information obtained from the Strategic Information System (SIS), revealed that the baselines, targets and reported results for two signature indicators[10] "*Number of health workers trained to implement human rights protocol for RH [Reproductive Health] commodities*", and "*Number of young people accessing integrated SRH [Sexual and Reproductive Health] services in the target districts*", were unsupported.

17. Office Management explained that the collection of relevant data for the indicators presented a challenge due to a multiplicity of sources, including manual records at several facilities, all of which contributed to inconsistent data.

ROOT CAUSE	*Guidelines: inadequate supervision at the Office level.*
IMPACT	*The level of achievement of results may not be accurately determined and reported, limiting Management's ability to make informed decisions.*
CATEGORY	*Reporting*

RECOMMENDATION 1	***PRIORITY: MEDIUM***

Enhance supervisory controls to monitor the accuracy of baselines, targets, and reported results in the Strategic Information System.

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

[10] Indicators that measure the impact of key UNFPA work programme interventions

MANAGEMENT ACTION PLAN: DUE DATE: *March 2020*

Office Management will undertake to review the baselines, targets and reported results for all indicators and milestones reported by staff in SIS during annual and quarterly reporting, to ensure accuracy of values and that all supporting documents are available. The Monitoring and Evaluation Officer will develop a tool to systematically track the results for each indicator.

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

18. At the time of the audit field mission, the Office had 38 approved staff posts, including 3 international and 14 national posts, 12 general service posts, further to 7 posts covered under the Service Contract modality. In addition, the Office engaged 21 individual consultants during the period under review.

19. Audit work performed in this area included a 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.

20. Based on the work performed, the audit noted the following matters that need Management attention.

Finalize and implement the human resource reporting structure proposal

21. A comprehensive human resources capacity assessment of the Office was undertaken in 2017 in anticipation of the new eighth Country Programme (2019 – 2023). Recommendations from the assessment were fully implemented in the same year. However, following an unforeseen major public financial management scandal in Malawi known as 'Cashgate',[11] UN organizations in the country adopted a direct execution programme implementation strategy to mitigate risks arising from the scandal. As a result of the change in strategy, the Office, in turn, implemented a direct payments cash transfer modality[12] and, in many cases, undertook direct procurement of goods and services on behalf of its IPs – originating a large number of transactions to be processed by existing Office personnel, significantly increasing personnel workload.

22. In September 2018, the Office initiated an internal review of its organigram and staffing structure aimed at aligning reporting and communication lines and alleviating workload for an effective delivery of programmatic and operational activities. The exercise was, however, yet to be concluded at the time of the audit field mission. Office Management indicated that it was still in the process of building a consensus, amongst staff, over the new proposals.

ROOT CAUSE	*Other: factors beyond the control of UNFPA.*
IMPACT	*The Office programme delivery and operational activities may be negatively impacted by increased workloads.*
CATEGORY	*Strategic*

RECOMMENDATION 2 — ***PRIORITY: HIGH***

With the support of the East and Southern Africa Regional Office and the Division for Human Resources, review and finalize the proposed organigram and staffing structure for better alignment to programme delivery and operational requirements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:
Representative, with support from the Directors, ESARO and Division for Human Resources — STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2020*

Office Management will follow up with the East and Southern Africa Regional Office and the Division for Human Resources to get feedback on the proposed organogram and staffing structure and implement it for better alignment to programme delivery of results and operational requirements.

[11] The Malawi 'Cashgate' refers to a major public finance scandal where civil servants are alleged to have looted significant government funds.

[12] One of three cash transfer modalities available under the HACT framework where funds are paid directly to vendors and other third parties for obligations and expenditure incurred by IPs to support activities agreed in workplans.

Complete all mandatory training and the relevant recommended training

23. At the time of the audit field mission, all Office personnel had completed the mandatory security training courses and the Prevention of Sexual Exploitation and Abuse course. However, eight out of nine staff members selected for review did not complete other required mandatory courses – including those related to Ethics, Fraud and Corruption Awareness and Prevention, Harassment, Sexual Harassment and Abuse of Authority in the Workplace, One Voice, UN Cares, Greening the Blue, the Internal Control Framework, and Procurement Level I. Completion rates ranged between 22 and 67 per cent. In addition, none of the programme personnel reviewed indicated that they completed the recommended results-based management basics training in the period under review.

24. Further, the Office did not have a systematic process or records to monitor compliance with training requirements. Instead, the Office relied mainly on annual supervisory reviews of individual performance plans to track individual learning and development activities – making it difficult to assess overall Office completion rates and the extent to which development needs identified in the performance plans were fulfilled.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*Programme delivery and operational activities may be affected by personnel capacity (skills) gaps.*
CATEGORY	*Compliance*

RECOMMENDATION 3	***PRIORITY: HIGH***

Ensure the completion of any outstanding mandatory courses by all personnel concerned and promote the completion, by programme staff, of the recommended results-based management training; design and implement a process for tracking and monitoring training completion.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*December 2019*

Office Management has instituted a tracking tool for monitoring the completion of all mandatory courses, which will help enforce their completion by December 2019. Office Management will also enforce completion of the results-based management training by all programme staff and Implementing Partners.

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

25. 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 for identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risk.

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

Enhance the process for assessing and managing fraud risk

27. In October 2016, the Office completed its 2016 – 2017 cycle risk assessment, which included strategic and fraud risk assessments under the umbrella of the corporate Enterprise Risk Management (ERM) process, using the functionality provided by the '*myRisks*'[13] application, which is part of SIS.

28. A review of the strategic risk assessment indicated that the assessed risk levels were not always commensurate with the financial materiality and complexity of the areas to which they relate. Most of the strategic risk factors were assessed by the Office as 'low', including those in areas such as National Execution (NEX), where significant issues were identified (refer to Section B.2).

29. Further, all assessed fraud risk factors within the scope of the ERM process were rated as presenting both low inherent and residual risk levels, an assessment which appears not to be reflective of the risks related to the challenging context in which programme delivery and operational activities took place. In addition, the assessment did not take into account certain control gaps identified by the audit - the most significant one being the inherent

[13] Part of SIS

risk of fraudulent or unauthorized financial transactions involving suppliers and/or staff, given the issues discussed in Sections B.2 and C.3 of this report.

30. Further, the Office did not complete the 2017 control self-assessment. As a result, OAIS could undertake neither a review of the depth of risk monitoring nor the implementation of risk mitigation activities by the Office.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*Limited ability to properly identify and address risks.*
CATEGORY	*Strategic*

RECOMMENDATION 4 ***PRIORITY: HIGH***

Leveraging on the 2019 ERM process, perform a more rigorous strategic and fraud risk assessment, taking into consideration, inter alia, the assignment of appropriate risk ratings in accordance with the materiality and complexity of the assessed areas and of the operational context and environment of the Office.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2019*

Office Management will work to perform a more rigorous strategic and fraud risk assessment, taking into consideration the feedback and recommendations of this audit report. Further, Office Management will assign appropriate risk ratings in accordance with the materiality and complexity of the assessed areas, following an analysis of prevailing fraud risk perceptions.

B. PROGRAMME MANAGEMENT — MAJOR IMPROVEMENT NEEDED

Good practices identified

31. The following good practices in the area of programme management were in line with established policies and procedures:

a) The 2018 workplan preparation and planning process was initiated early in November 2017, resulting in the timely approval and signing of most workplans in January and February 2018 and facilitating an early start to programme activities;

b) The Office, in coordination with other UN System organizations in the country, created a HACT framework secretariat that coordinates and manages IP micro-assessments, HACT assurance planning (including spot-checks and HACT audits), IP monitoring, and follow-up on the implementation of spot-check and HACT audit recommendations; and

c) Through a partnership with a national bank and a key IP, the Office implemented procedures and controls to manage the payment of allowances and other related costs to training participants and enumerators during the 2018 Census – significantly reducing the risks associated with handling large cash payments.

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

32. During the period under review, the Office implemented activities related to 11 outputs of the seventh Country Programme (2012 – 2016) at a total cost of USD 9.6. million, inclusive of programme coordination and assistance costs, with financial implementation rates of 94 per cent in 2017 and 63 per cent as at 30 June 2018, measured based on annual budgets allocated in Atlas.

33. Activities were implemented by UNFPA, with related expenses of USD 6.7 million (70 per cent of programme implementation expenses in the period under review) and financial implementation rates of 98 per cent in 2017 and 77 per cent as at 30 June 2018. A large part of the expenses related to UNFPA-implemented activities corresponded to personnel and facilities costs, as well as the procurement of programme supplies.

34. Activities were also implemented by 16 IPs engaged by the Office and one UN organization, with related expenses of USD 2.9 million (30 per cent of programme implementation expenses in the period under review) and

financial implementation rates of 88 per cent in 2017 and 33 per cent as at 30 June 2018. Section B.2 of the report provides further details on IP-implemented activities. Programme implementation activities were funded from core resources of USD 1.7 million and non-core resources of USD 7.9 million.

35. Audit work performed in this area focused on three outputs with aggregate expenses of USD 6.5. million during the period under review (68 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 to monitor their implementation by the Office and with various partners; (c) the review of monitoring reports and other evidence of programme implementation, along with site visits to three facilities that deliver reproductive health services funded by the Office. In addition, the audit reviewed: (a) the process followed in the development of the new eighth Country Programme (2019 – 2023); (b) the alignment of the activities implemented to Country Programme documents; and (c) the level of achievement of the seventh programme cycle outputs for selected programmatic components.

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

Enhance the use of the Global Programming System and documentation of workplan budgeting documents

37. The following areas could be improved upon for more effective use of the Global Programming System (GPS):

- Five 2017 IP workplans in the total amount of USD 0.4 million were not uploaded into GPS;
- Differences between budget amounts in workplans and commitment control[14] budgeted amounts in Atlas, for an absolute total value of USD 2.9 million – leading to potential overspending. The differences were mainly caused by commitment control budget revisions that were not reflected in workplan budgets;
- Programme activities amounting to USD 1.4 million were incorporated in GPS at the aggregate account level of "General Operation Expenses" instead of the corresponding sub-account levels by expense type (i.e. the "monitoring" account level) – which would significantly improve monitoring by providing greater details on the nature of inputs budgeted.

38. Further, the underlying assumptions or rationale used to develop the 2017 workplan budget estimates were not documented. The workplan budgeting process could, therefore, be enhanced by: (a) using better structured budgeting templates to facilitate budget calculation and subsequent updates, with tables automating the computation of budgeted amounts for key expense categories based on defined inputs, units, rates and assumptions; and (b) indicating, in the budgeting templates, sufficient levels of detail on the assumptions used to develop budget estimates.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*The effectiveness of budgetary controls may be diminished.*
CATEGORY	*Operational*

RECOMMENDATION 5	***PRIORITY: HIGH***

Leveraging on the 2019 planning cycle, and in collaboration with Implementing Partners, establish a more effective workplan management process in the Global Programming System by: (a) more accurately and timely reflecting workplan budgets and changes thereto in the system; and (b) preparing detailed costing sheets and setting up budgets at the monitoring account level.

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

[14] Atlas module where all financial transactions are subject to budgetary controls

MANAGEMENT ACTION PLAN: DUE DATE: *December 2019*

Office Management will ensure programme and operational review, for accuracy and timeliness, of workplan budgets through the assignment of responsibilities to GPS focal points. Starting in 2019, Office Management will insist on the use of detailed budget templates for all workplans entered in GPS. Operational reviews will help monitor the preparation of detailed costing sheets and setting up of budgets at the monitoring account level.

B.2 – NATIONAL EXECUTION — INEFFECTIVE

39. NEX expenses amounted to USD 2.9 million (30 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 11 Government IPs (including six at the district level), five NGOs and one UN organization, with aggregate financial implementation rates of 88 per cent in 2017 and 33 per cent as at 30 June 2018. Per the available general ledger information, NEX expenses corresponded primarily to training and learning costs (USD 1.5 million – 52 per cent of NEX expenses).

40. IP audits (also referred to as HACT audits) performed in 2018 (2017 HACT audit cycle) covered 3 of the 16 IPs, with aggregate expenses of USD 0.6 million (33 per cent of total NEX expenses in 2017). All the IP audits conducted received unqualified audit opinions. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.02 million quarterly in 2017 and amounted to USD 0.1 million and USD 0.4 million as at 31 December 2017 and 30 June 2018 (USD 12,197 as at 31 December 2018), respectively.

41. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization, and processing of fund advance requests and expense reports submitted by IPs through Funding Authorization and Certificate of Expenditure (FACE) forms; (d) the controls implemented over OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities, for a sample of five IPs engaged by the Office, with aggregate programme implementation expenses of USD 1.7 million (59 per cent of NEX expenses) in the period under review.

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

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

Strengthen the financial monitoring of Implementing Partners

44. Twelve out of 62 direct payment transactions reviewed, amounting to USD 119,673, had the following exceptions:

- Six transactions, in the amount of USD 43,465, were unsupported, with no evidence of receipt of the goods or services paid for or, in some cases, supporting training attendance lists;
- Four transactions amounting to USD 40,621, where the accommodation rates paid to training participants were in excess of those agreed between the UN and the Government of Malawi[15] by USD 41 per night, without documented justification;
- Three instances where suppliers billed excessive amounts for training participants in relation to either excess numbers of participants or extra days – both of which did not match those indicated in the respective attendance lists. The overbilled amounts were mainly as a result of a few participants who did not turn up for booked events - yet the Office should have conducted a more rigorous review of

[15] 2018 Revision of Harmonized Daily Subsistence, Fuel and Transport Allowances (DSA) Applicable for Donor-Funded Events and Mission in Malawi, June 2018.

the related invoices to identify the billing errors before making payments. The excess amounts billed could, however, not be quantified due to insufficient details on the invoices; and

- One instance of a duplicate payment to an event venue for services provided during a training in the amount of USD 19,470. The Office had initiated recovery of the overpayment at the time of the audit field mission.

45. In addition, three direct payments of allowances made by the Office, on behalf of an IP, to training participants and two transactions for the procurement of medical equipment in the total amount of USD 44,516 were inadequately supported. In particular, while supporting documents for the payments were generally available for review, those related to the bidding and selection of the suppliers were missing.

46. Further, the Office did not complete the policy-recommended direct payment request checklists – which may have contributed to not detecting many of the issues noted above. The purpose of the checklists is to help personnel practice due diligence in reviewing transactions and comply with required procedures. Although the Office prepared robust field monitoring and technical support plans for 2017 and 2018, these were neither followed nor updated during the period under review – making it difficult to determine the extent of IP monitoring undertaken. A spreadsheet-based tool used for logging and tracking monitoring recommendations was not comprehensive as it excluded many recommendations noted in field monitoring reports.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*Funds provided to IPs may not be used for the intended purpose, adversely impacting the achievement of intended programme results.*
CATEGORY	*Operational*

RECOMMENDATION 6 — ***PRIORITY: HIGH***

Significantly strengthen the financial monitoring of Implementing Partners through: (a) more thoroughly reviewing submitted financial reports and direct payment requests and the related supporting documents, with the help of the relevant policy-recommended checklists; and (b) systematically undertaking all planned monitoring activities and logging all the resultant recommendations for proper tracking and follow-up.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *March 2020*

Office Management will develop a checklist for payment requests for each activity undertaken under the direct payment modality in order to strengthen financial monitoring by both Operations and Programme Management on a regular basis. Further, Office Management will reinforce controls over the payment process, at operational level, by including GPS transactions in an invoice management tracking tool.

Further, Office Management will send a letter to all Implementing Partners highlighting the management of "No Show," which should not exceed one day upon noticing that some participants are not in attendance at events. For accommodation payments that exceed the threshold, the Office will insist that relevant officers provide written justification for the same before approval.

B.3 – INVENTORY MANAGEMENT — MAJOR IMPROVEMENT NEEDED

47. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of approximately USD 12.7 million, with funding provided mainly by the UNFPA Supplies programme, for which Malawi is one of the 46 priority countries, and other donors. The inventory supplied consisted primarily of contraceptives (USD 11.7 million) and medical products (USD 0.7 million), procured mainly by the Procurement Services Branch (PSB), based in Copenhagen, Denmark, on behalf of the Office. Inventory transportation and handling services costs accounted for USD 0.3 million.

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 items supplied during the period under review at a cost of approximately USD 5.1 million (40 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) requisitioning; (b) customs clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA's possession); (d) handover of inventory to IPs; (f) distribution to intended

beneficiaries, and (g) monitoring. Audit work further included a review of the procurement processes for locally-procured inventory (refer to section C.2 of the report).

49. Audit work performed also included site visits to: (a) three warehouses managed by a Government IP; and (b) eight service delivery points (SDP). 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 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 2016 UNFPA Supplies survey report.[16]

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

<u>Improve inventory management</u>

Delays in customs clearance

51. The customs clearance process for contraceptive pills ordered by the Office in the amount of USD 0.1 million took 210 days to be completed at the port of entry. The commodities were held at the port of Dar-es-Salaam[17] in Tanzania due to an error in the corresponding bill of lading, which indicated that the goods were consigned to the UNFPA Country Office in Tanzania instead of the Office. The delay in customs clearance resulted in the incurrence of demurrage charges amounting to USD 141,000. A review of the correspondence between all relevant parties involved in rectifying the error revealed that the Office could have been more proactive in following up on the matter in order to avoid onerous charges.

Monitoring of inventory expiry dates

52. All eight SDPs and three warehouses visited held a product that was due to expire shortly in October 2018. At a total value of USD 9,012, the quantities on hand at the facilities visited were not material in terms of cost and/or quantities but represented a potential health risk if used by beneficiaries. While personnel at the warehouses were aware of the commodities' impending expiry, those at the SDPs were unaware. Personnel at both the warehouses and SDPs indicated that they had not received any notification from the Office or the concerned IP regarding the upcoming expiry of the product.

Receipt and inspection of programme supplies and other inventory items

53. For all 12 inventory procurement actions reviewed, the Office did not present evidence that it prepared 'Receipt and Inspection' reports upon the physical receipt of reproductive health and other commodities, as required by the previous inventory management policies and procedures that were in force during the period under review[18] – making it difficult to establish if the prescribed receipt and inspection procedures were undertaken. A new policy[19] that includes more stringent mandatory requirements on the receipt and inspection of shipments with which the Office is mandated to comply was issued in July 2018.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*Timely action may not be taken as regards the non-conformance of ordered goods, shortages, and damages and the receipt of commodities with reduced shelf-lives – increasing both reputational and financial loss risks for UNFPA.*
CATEGORY	*Operational*

[16] Report of National Survey on Availability and Accessibility of Modern Contraceptives and Essential Lifesaving Material and Reproductive Health Drugs in Service Delivery Points in Malawi, December 2016.

[17] Malawi is a landlocked country and thus uses the port at Dar-es-Salaam as the main point of entry for its shipped imports.

[18] The preparation of 'Receipt and Inspection' reports was required following the completion of customs clearance procedures, inspection, and verification of correspondence of physical quantities and integrity of goods to the order and the bill of lading/other available transportation documentation.

[19] Policies and Procedures on Management of Programme Supplies, July 2018.

RECOMMENDATION 7	***PRIORITY: HIGH***

Significantly improve the inventory management process by: (a) raising the awareness of staff, with appropriate supervisory controls, on the need to implement solutions that will enable a faster customs clearance process and avoid onerous demurrage changes; (b) closely monitoring commodity expiry dates and notifying them to all relevant parties in a timely manner; and (c) conducting comprehensive receiving and inspection procedures for all commodity shipments and completing the requisite reports, as required by the new Policy and Procedures on Management of Programme Supplies now in force.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *March 2020*

Office Management will proactively ensure that bills of lading and other relevant documentation arrive on time. Further, the Office will develop standard operating procedures, a checklist for inventory management, and a tracking tool for follow-up of commodities from suppliers until they are received in the country. Upon their arrival, Office Management will ensure a fast-tracked customs clearance of the commodities, timely updating of the shipment tracker, and preparation of receipt and inspection reports, as per policy.

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

54. Programme implementation expenses funded from non-core resources amounted to USD 7.9 million (82 per cent of total programme expenses) in the period under review. Of this amount, approximately USD 2.5 million corresponded to funding provided by three donors in support of the Malawi 2018 Population and Housing Census; USD 2.3 million provided by three donors to support poverty reduction through improved quality education and basic life skills for in and out of school adolescent girls in Malawi; and USD 0.9 million provided by UNFPA Supplies to finance activities related to the procurement of commodities.

55. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for four co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the new cost recovery policy. Inquiries of representatives of two donors were made to gain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements. The donors visited expressed satisfaction with the Office performance, quality of reports received, and communication and reiterated a need to put in place a robust monitoring system for all projects and warehouses, as well as a need to ensure that IPs had the necessary capacity to deliver programmes given the high staff turnover, especially at Government IPs following the 'Cashgate' scandal. These matters are discussed in Section B.2 above and hence no additional recommendations are raised here.

56. No additional reportable matters were identified based on the work performed.

C. OPERATIONS MANAGEMENT	**MAJOR IMPROVEMENT NEEDED**

Good practices identified

57. The following good practices in the area of operations management were in line with established policies and procedures:

a) The Office developed responsibility matrices and checklists clarifying roles, responsibilities, and the distribution of duties, for both programme and operations management staff, in the planning, processing, and verification of training allowances for enumerators in the 2018 Census; and

b) The Office retained comprehensive and well-documented human resource files, including those for contract personnel, performance assessments, leave management, and procurement of consultancy services.

C.1 – HUMAN RESOURCES MANAGEMENT	EFFECTIVE

58. The Office incurred staff payroll costs amounting to USD 2.1 million during the period under review. In addition, the Office made use of contract personnel and engaged seven individuals under service contracts and another 21 under individual consultancy contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 0.4 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).

59. 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 three service contracts and eight individual consultancies awarded by the Office at a cost of USD 0.1 million (25 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 0.1 million.

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

C.2 – PROCUREMENT	SOME IMPROVEMENT NEEDED

61. During the period under review, the Office locally procured goods and services at a cost of USD 2.6 million. The most significant categories of goods and services procured corresponded to reproductive health commodities (USD 0.8 million); facilities costs, including rent for Office premises and connectivity charges (USD 0.7 million); and office supplies, printing services and publications (USD 0.3 million).

62. Audit work performed in this area included the review of a sample of 138 local purchases made at a cost of USD 1.1 million (approximately 42 per cent of total local procurement) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles,[20] and policies and procedures, as well as the operating effectiveness of controls in the areas of: (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving.

63. Audit work also included a review of: (a) the procurement planning process; and (b) the management of charges related to common services (premises and connectivity) shared with other UN organizations.

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

Improve compliance with procurement policies and procedures

65. Four out of 138 procurement transactions reviewed, in the aggregate amount of USD 84,000, did not have sufficient evidence of competitive procedures having been followed in executing them. The transactions, which individually fell within the policy threshold requiring the solicitation of at least three quotations, were not supported by the requisite number of quotations, with no reasons recorded in writing and filed in the respective procurement files, as required by applicable policy.

66. Office Management explained that two of the transactions, relating to the procurement of medical supplies for USD 65,268, were requested by a Government IP with a specific recommendation to procure exclusively from two suppliers for purposes of expediency in view of an urgent need to procure the items.

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

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

RECOMMENDATION 8	***PRIORITY: HIGH***

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 requests for quotations.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2019*

Office Management will ensure that all procurements are conducted using competitive bidding, including the sourcing of relevant requisite number of quotations according to stipulated procurement policies and procedures.

C.3 – FINANCIAL MANAGEMENT — MAJOR IMPROVEMENT NEEDED

67. Work performed in this area included a review of: (a) the financial management capacity of the Office; (b) the authorization and proper processing of financial transactions; (c) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; (d) the operating effectiveness of controls over the accounts payable and payments process; (e) the value-added tax control arrangements in place; (f) the budget management process; and (g) the effectiveness of the financial management accountability process.

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

Commit funds in Atlas before completing transactions

69. Requisitions and purchase orders for four transactions amounting to USD 29,575 were issued and approved on an "*ex post-facto*" basis, either after notifying suppliers of the contract award or after receiving the goods and 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.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.*
IMPACT	*Buying goods and services without committing the necessary funds in Atlas reduces the effectiveness of budgetary management controls, exposing the Offices to the risk of not having sufficient resources to settle obligations.*
CATEGORY	*Compliance*

RECOMMENDATION 9	***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.

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

MANAGEMENT ACTION PLAN: DUE DATE: *November 2019*

Office Management will ensure and closely monitor that all transactions within the set thresholds are committed in Atlas before contracting with suppliers. In addition, Office Management will ensure that requisitions and purchase orders are raised on a timely basis, prior to signing contracts.

Enhance control over accounts payable and recording of financial transactions

70. The testing of financial transactions revealed exceptions indicative of a need to significantly enhance controls over payment transaction processing and controls. For example: (a) the duplicate payment of USD 19,470 referred to in paragraph 44; (b) a duplicate payment of USD 2,589 for services rendered by a travel agency; and (c) an underpayment of USD 717 to a supplier as a result of using an incorrect foreign currency exchange rate.

71. Further, out of 157 travel and procurement transactions reviewed, 17 instances of misclassification of expenses, in the amount of USD 64,930, were noted. In addition, as part of the 2017 UNFPA financial statements preparation process, the Finance Branch processed several reclassifications of incorrectly recorded transactions amounting to USD 174,624 in relation to the Office – indicating a need for improvement in this area. Most of the transaction posting errors occurred in the area of travel management.

72. Office Management indicated that the above errors were as a result of a lack of human resource capacity (skills).

ROOT CAUSE	*Resources: inadequate training.* *Guidance: inadequate supervision at the Office level.*
IMPACT	*There is increased risk of financial loss to and inaccurate financial reporting by UNFPA.*
CATEGORY	*Reporting*

RECOMMENDATION 10	***PRIORITY: HIGH***

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

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*October 2019*

Office Management will share the account dictionary with all staff and mechanisms will be put in place to ensure that all approvers check that account codes are correct before approving. Office Management will also conduct a learning afternoon on the same, with emphasis on checking accounting codes.

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

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

Travel Management

74. Travel expenses incurred by the Office during the period under review amounted to USD 75,609. Audit work performed in this area included a walk-through of the travel process and testing of a sample of 19 travel-related transactions amounting to USD 52,149 (69 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 allowances.

75. Aside from the misclassification of expenses issue already discussed in paragraph 71 and addressed there, no other reportable matters were identified based on the audit work performed.

Asset Management

76. Procurement of assets in the period under review amounted to USD 0.1 million. As at 30 June 2018, the Office held 20 in-service fixed asset items with a net book value of USD 0.6 million. The largest fixed asset categories included vehicles and information technology equipment. Audit work in this area included the review of a sample of three assets procured at a cost of USD 85,682 (86 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures.

77. In addition, audit work focused on the review of 15,000 computer tablets and related accessories[21] procured at a cost of USD 2.5 million in July and August 2018. The tablets were handed over to a Government IP for use in the collection of data during the 2018 Census.

78. Based on the work performed, the audit noted one matter that requires Management attention.

[21] Solar power banks and stickers

Strengthen supervision to ensure that financial transactions are properly recorded

79. As noted in paragraph 77 above, the Office purchased 15,000 tablets for use in the 2018 Census. The donor contract that funded the procurement specified that, following completion of the census, the tablets would be transferred to a second Country Office for similar use in an upcoming 2020 census. Following the procurement, the Office expensed the full cost of the tablets and its accessories (USD 2.5 million) and, for control purposes, commenced recording them in the Asset Management Module[22] as 'attractive items' on the basis that the individual tablets did not meet the criteria to qualify as fixed assets. Owing to the large number of tablets and human resource capacity limitations (numbers) at the Office, only 2,500 of the 15,000 procured had been recorded at the time of the audit field mission. The recording exercise was, however, ongoing.

80. A review of the 2,500 tablets already recorded in the Asset Management Module identified 14 duplicate entries of serial and tag numbers. Office Management explained that the errors were occasioned by multiple personnel – many drawn from other Country Offices to assist in the exercise – who simultaneously record data in the module. The Office had, however, commenced a process to identify and rectify the duplicate entries.

81. The audit is of the view that expensing the full cost of the tablets in one Country Office and yet sharing the benefits of the tablets between two Country Offices in different accounting periods is inconsistent with IPSAS[23] – more so given that the benefits relating to the second Country Office will only be realized in a future accounting period.

ROOT CAUSE	*Resources: insufficient human resources (numbers) to carry out an activity or function.* *Guidance: inadequate supervision at the Office level.*
IMPACT	*UNFPA financial statements may be misstated.*
CATEGORY	*Reporting*

RECOMMENDATION 11	***PRIORITY: HIGH***

Liaise with the UNFPA Finance Branch to correct the transaction recording ahead of the Financial Statements 2018 closure.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with the support of the Director, Division for Management Services.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented as of March 2019*

The Division for Management Services has already reflected the accounting adjustment in the 2018 Financial Statements.

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

RECOMMENDATION 12	***PRIORITY: MEDIUM***

Expedite recording of the tablets in the Asset Management Module and employ supervisory review controls to identify and rectify any existing and future recording errors.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2019*

Office Management will seek guidance and support from the East and Southern Africa Regional Office on the recording of the tablets in the Assets Management Module. The Office will continue to supervise entries to address any outstanding and future errors and liaise with the Finance Branch to determine the appropriate action to recognize these items in accordance with IPSAS.

[22] Atlas module used by UNFPA to record all asset management function transactions.

[23] International Public Sector Accounting Standards.

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY	EFFECTIVE

82. This area was assessed as presenting a low audit risk. Work performed was, therefore, limited to testing for compliance with Atlas access rights and a walk-through of the Office backup policy, disaster recovery plan and business continuity plan.

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

C.6 – SECURITY	EFFECTIVE

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

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

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,[24] are explained below:

▪ **Effective**	The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives.
▪ **Some improvement needed**	The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.
▪ **Major improvement needed**	The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.
▪ **Not effective**	The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

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

Guidance: inadequate or lack of supervision by supervisors

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

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

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

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

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

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

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

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

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

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

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

GLOSSARY

Acronym	Description
Atlas	UNFPA's ERP (Enterprise Resource Planning) system
DaO	Delivering as One
ERM	Enterprise Risk Management
ESARO	Eastern and Southern Africa Regional Office
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfers
IP	Implementing Partner
MOSS	Minimum Operating Security Standards
NEX	National Execution
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
PSB	Procurement Services Branch
RH	Reproductive Health
SDP	Service Delivery Point
SIS	Strategic Information System
SRH	Sexual and Reproductive Health
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNFPA	United Nations Population Fund
USD	United States Dollars