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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN THE DEMOCRATIC REPUBLIC OF THE CONGO

FINAL REPORT

Nº IA/2019-05

07 March 2019

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in the Democratic Republic of the Congo (the Office). The audit covered the period from 01 January 2017 to 31 March 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 fourth Country Programme 2013–2017, approved by the Executive Board in its first regular session 2013, with indicative resources of USD 125.5 million; and (b) the first quarter of the Programme's first one-year extension approved by the Executive Director with information provided to the Executive Board in its second regular session of 2017. The extension was to align the Country Programme with the United Nations Development Assistance Framework and the National Strategic Development Plan 2017–2021, with additional indicative resources of USD 18.0 million.

3. Expenses covered by the audit amounted to USD 25.3 million, executed by 27 Implementing Partners (USD 7.6 million) and by UNFPA (USD 17.7 million), funded from core resources of USD 9.2 million and non-core resources of USD 16.1 million. In addition, the audit covered the supply of reproductive health commodities, procured primarily with funding provided by the UNFPA Supplies programme, totalling USD 3.6 million.

4. Approximately 61 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Adolescents and Youth, Gender Equality, and Population and Development components accounted for 16 per cent, 15 per cent, and 3 per cent of expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of expenses.[1]

Methodology and scope

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

6. Due to the deteriorating situation and travel restriction caused by the Ebola outbreak, the audit modality was changed during the planning phase, with the Auditor-in-Charge remaining at Headquarters while being supported by consultants from a local audit firm who undertook part of the audit work locally and conducted field visits under his guidance.

7. 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]

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

9. 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	*Major improvement needed*
Organizational structure and staffing	*Major improvement needed*
Risk management	*Some improvement needed*
Programme Management	**Not effective**
Programme planning and implementation	*Some improvement needed*
National execution	*Not effective*
Inventory management	*Not effective*
Management of non-core funding	*Major improvement needed*
Operations Management	**Some improvement needed**
Human resources management	*Some improvement needed*
Procurement	*Major improvement needed*
Financial management	*Some improvement needed*
General administration	*Some improvement needed*
Information and communications technology	*Not covered*
Security	*Not covered*

Key findings and recommendations

10. The audit identified some good practices implemented by the Office, as well as areas that require Management attention, some of a strategic nature, and others related to operational, reporting and compliance matters. Overall, the audit report includes 13 high priority and 4 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 17 recommendations, 3 are of strategic nature; 8 refer to operational, one to reporting and 5 to compliance matters.

Good practices

11. The audit identified several good practices implemented by the Office, mostly in line with the established policies and procedures. From a governance perspective, the Office registered high completion rates for the performance appraisal and development process. From a programme management perspective, the Office conducted a country programme evaluation to inform the development of the new country programme. Finally, in the area of operations management, the Office contracted with vendors in reliance on long-term agreements of other United Nations system organizations as a means of increasing the efficiency of the procurement process.

Strategic level

12. At strategic level, there is a need to expedite the implementation of the human resources realignment process, perform a more rigorous risk assessment, and implement supervisory controls to ensure the alignment of planned results in the Strategic Information System to approved country programme.

Operational level

13. From a governance perspective, the Office needs to improve its use of the Strategic Information System to plan, monitor, and report on Office activities. The Office also needs to strengthen the quality of the staff performance appraisal and development process by ensuring alignment of individual performance appraisals to the Office plan, systematically defining targets for all performance appraisal outputs, and fostering results-based reporting.

14. In the area of programme management, the Office should significantly strengthen the use of the Global Programming System for programme planning; and enhance resources management to avoid budget overruns. There is also a need to use competitive procedures in selecting Implementing Partners; assess Implementing Partners' capacity prior to formally engage them using prescribed agreement templates and workplans; and strengthen financial monitoring of Implementing Partner workplans through implementation of planned assurance activities. Finally, the Office needs to significantly improve the inventory management process by more effectively tracking commodities using the corporate Shipment Tracker, expediting inventory custom clearance and distribution, and ensuring adequate inventory storage conditions.

Reporting level

15. The Office needs to strengthen supervisory controls to prevent the recording of transactions to erroneous account codes.

Compliance level

16. The Office should enhance controls over compliance with co-financing agreements' reporting requirements. Further, the Office should ensure compliance with the policies and procedures mainly those related to procurement completion, and authority for contract review and award. There is also a need to improve travel management practices with regard to timely submission of travel requests.

Management response

17. The Office would like to thank the OAIS team, the East and Southern Africa Regional Office and of the different Headquarters units for their assistance throughout the audit. The Office generally agrees with the audit findings and recommendations and will take appropriate actions to improve operations excellence.

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

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered activities implemented by the Office in the period from 01 January 2017 to 31 March 2018. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate. Due to security circumstances (see para. 5 below), the audit modality was changed to mixing desk- and country-based specific audit procedures.

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 the Democratic Republic of the Congo (DR Congo).

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

a) The appropriateness of the activities and transactions reviewed in the context of the Office's programmes;
b) The operating effectiveness of the internal controls in place over the activities and transactions;
c) The level of compliance with the rules, regulations, policies and procedures applicable to activities and transactions; and
d) The accurate recording of activities and transactions

4. The scope of the audit included the review of the 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 procedures applied as part of the desk audit included the analytical review of Atlas financial information; results planning and reporting information in the Strategic Information System (SIS), workplan information in the Global Programming System (GPS); the review of supporting documents, records and other documentary evidence related to the activities and transactions reviewed; and inquiries from Management on matters arising from the procedures applied. The headquarter-based review was supplemented locally by consultants from an external audit firm who focused on operations management and conducted site visits as part of the review of the inventory management process.

5. The engagement was conducted by OAIS audit specialists, supplemented by consultants from an external audit firm. The audit started on 02 May 2018. Local audit work took place from 18 June to 06 July 2018. Preliminary findings and recommendations resulting from the audit were discussed with the Office Management at an exit meeting held on 20 July 2018. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to the Office Management on 17 December 2018, and a final Management response received on 20 February 2019.

II. BACKGROUND

6. DR Congo has a population of approximately 81.4 million and an annual population growth rate of 3.2 per cent. Despite the presence of valuable natural resources, the population is predominately poor, with more than 70 per cent living on less than USD 1 a day.

7. Over the past two decades, the security situation in the country has been characterized by complex and protracted humanitarian crisis due to recurrent conflicts. In 2017, the humanitarian crisis in DR Congo worsened and expanded, affecting people in areas previously considered stable, and deepening the vulnerability of people who were already affected by conflict. Some 13.1 million people need humanitarian assistance and protection – nearly 14 per cent of the country's total projected population for 2018. DR Congo has recently become the African country most affected by population movements. Around 1.7 million people were newly displaced in 2017, bringing to 4.3 million the number of internally displaced people in the country, of whom 52 per cent are women.[3]

8. The population is very young, with 65 per cent under the age of 25. The fertility rate is high (6.4 children per woman) and the modern contraceptive prevalence rate is low (5.4 per cent). The maternal mortality ratio is high at 690 maternal deaths per 100,000 live births. Early marriage is common, with 44 per cent of women married before age 18. Sexual violence against girls and women persists and is exasperated by armed conflicts.

9. The activities covered by the audit correspond to (a) the fifth year of the fourth Country Programme 2013–2017, approved by the Executive Board in its first regular session 2013, with indicative resources of USD 125.5 million; and (b) the first quarter of the Programme's first one-year extension approved by the Executive Director with information provided to the Executive Board in its second regular session of 2017. The extension was to align the Country Programme with the United Nations Development Assistance Framework and the National Strategic Development Plan 2017– 2021, with additional indicative resources of USD 18.0 million.

10. Expenses covered by the audit amounted to USD 25.3 million, executed by 27 Implementing Partners (USD 7.6 million) and by UNFPA (USD 17.7 million), funded from core resources of USD 9.2 million and non-core resources of USD 16.1 million. In addition, the audit covered the supply of reproductive health commodities, procured primarily with funding provided by the UNFPA Supplies programme, totalling USD 3.6 million.

11. Approximately 61 per cent of expenses incurred in the period under review corresponded to the Reproductive Health and Rights component. The Adolescents and Youth, Gender Equality, and Population and Development components accounted for 16 per cent, 15 per cent, and 3 per cent of expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of expenses.[4]

12. The UNFPA main Office in DR Congo is located in the city of Kinshasa, with three sub-offices in the cities of Kinshasa, Goma and Lubumbashi. During the period under review, the Office was managed by a Representative, who left in June 2017 and was replaced by the incumbent in January 2018, assisted by a Deputy Representative, two Assistant Representatives and an International Operations Manager.

[3] DR Congo: 2017-2019 Humanitarian Response Plan - 2018 Update

[4] Source: Cognos reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE	MAJOR IMPROVEMENT NEEDED

Good practices identified

13. The audit identified the following good practice in the area of governance which was in line with established policies and procedures:

a) The Office registered high completion rates for all three phases of the performance appraisal and development (PAD) process.

A.1 – OFFICE MANAGEMENT	MAJOR 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 2017 and 2018 annual management plan and the implementation level of activities in 2017; (c) the alignment of the 2017 and 2018 performance plans of key personnel to Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; and (e) the accuracy of the Office 2017 annual report data.

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

Strengthen the quality of information and use of the Strategic Information System to plan, monitor and report on Office results

Finalization of Office annual plans and report

16. The Office plans for 2017 and 2018 in the Strategic Information System (SIS) were finalized more than two months after the deadline set. Consequently, in 2017, the Office did not define any milestone for the first quarter of that year.

17. The 2017 annual report was finalized on time by the SIS Focal Point but not approved by the SIS 'myResults' approver.[5] The Office Management invoked the emergency response related-workload and the departure early 2018 of the Monitoring and Evaluation Officer and SIS focal point as the main reasons for the delays.

Milestone formulation

18. In 32 instances, output indicators were defined with only one milestone, i.e. the output indicator target. At least half of these instances correspond to output indicators requiring multiple activities to be performed to achieve the defined target, warranting the definition of more than one milestone. The same issue was noted in 2018, for at least 13 output indicators.

Accuracy of reported results

19. Reported results were not always accurate. For 19 different output indicators out of the 51 tested, discrepancies were found with regards to reported results, e.g. between results at milestone level and at output level; between the narrative on results in the annual report and the results reported in SIS or in the commodity availability survey; or between results achieved in 2017 and the baseline for 2018.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.* *Resources: Lack or Insufficient resources.*
IMPACT	*Delayed finalization of Office plans and inadequate formulation of milestones may adversely impact timely implementation of Office activities and achievement of expected results.* *Inaccurate results reporting diminishes Management ability to objectively measure achievements and take informed decisions.*
CATEGORY	*Operational*

[5] Approval rights were granted to the Representative, Deputy Representative, and two Assistant Representatives.

RECOMMENDATION 1	***PRIORITY: HIGH***

Revisit and, as deemed necessary, re-assign roles in Strategic Information System 'myResults', and implement supervisory controls to ensure timely finalization of quality Office plans and reports; the systematic documentation and accuracy of progress towards achievement of planned results reported in the Strategic Information System.

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

The Office takes note of the recommendation and will carry out the following actions to address the corresponding audit findings:

1- *Formally re-assign staff members to be in charge of each result in SIS/myResults, taking into consideration the staff job description. In addition, a senior staff will be assigned to oversee the process;*
2- *Regularly monitor the SIS/myResults planning and reporting to ensure proper formulation of milestones, compliance with the deadlines and accuracy of data reported; and*
3- *Provide evidences supporting the data reported in the system.*

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

20. At the time of the audit field mission, the Office had 81 approved staff posts, including 10 international and 27 national professional posts, 42 general service posts, and an additional two posts filled by contract personnel.

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

22. Based on the work performed the audit noted the following two matters that need Management attention.

Expedite the implementation of the human resources realignment process

23. At the time of the audit field work, 18 positions were vacant, 9 of which at the professional level. According to Office Management, a human resources realignment process started at the onset of the country programme cycle in 2013, was tabled in October 2017, and approved in December 2017.

24. At the time of drafting the audit report, the Office was implementing the realignment process.

ROOT CAUSE	*Guidance: Inadequate supervision at Office level.*
IMPACT	*Misalignment of the Office structure and personnel to programme and operations needs adversely affects the achievement of intended results.*
CATEGORY	*Strategic*

RECOMMENDATION 2	***PRIORITY: HIGH***

With the support of the East and Southern Africa Regional Office and the Division for Human Resources, expedite the implementation of the realignment process by filling vacant positions to ensure a better alignment of the Office staffing to programme delivery and operational requirements.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support of Directors, East and Southern Africa Regional Office and Division for Human Resources*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*June 2020*

The Office has been working on finalizing the implementation of the realignment process, which is due to be completed in 2019. To date, only 3 positions are still not filled. The East and Southern Africa Regional Office is committed to supporting the Office with the implementation of the approved realignment and will be sending a support mission at the earliest. A re-alignment advisory panel will be identified that will provide oversight and guidance to the Office.

Improve the staff Performance Appraisal and Development process

25. The review of the Office annual plans and staff Performance Appraisal and Development plans (PAD) for a sample of key staff members indicated instances of misalignment of the Office plan with staff PADs. For example, in nine instances in 2017 and in five in 2018, Office plan output indicators were not reflected in the corresponding team leaders' PADs.

26. Further, targets were not always set for PAD indicators in order to measure results. While the Office annual plan targets could be used as reference for those output indicators imported directly from the Office plan in SIS, for other output indicators, a definition of targets in PADs is a prerequisite for objective performance assessment. The audit identified 7 out of 12-tested PADs where output indicators did not include such targets or where indicators could not be related to targets in the Office plan.

27. PAD results reported at year-end did not always refer to the originally defined output indicators; instead, they focused on activities completed. Further, no results were reported for 46 of the 86 output indicators included in four 2017 PADs.

ROOT CAUSE	*Resources: Inadequate training.*
IMPACT	*Diminished ability to achieve results due to misalignment of Office plan and staff PADs.* *Limited ability to objectively assess staff performance.*
CATEGORY	*Operational*

RECOMMENDATION 3	***PRIORITY: MEDIUM***

Raise the awareness of staff members to ensure (a) the alignment of staff PADs to the Office annual plan, (b) the systematic inclusion of targets for all PAD output indicators, and (c) the alignment of the achieved results reported to the output indicators defined.

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

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

The Office will organize learning sessions for all staff on the development, review and assessment of the PAD, stressing the need for the staff to use the set performance indicators, as well as connecting individuals PAD to the Office annual plan.

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

28. Audit work performed in this area consisted of the review of the latest fraud and operational risk assessments completed by the Office, the process followed for identifying and assessing risks, and the actions undertaken to mitigate them.

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

Perform a more rigorous risk assessment

30. The risk assessment 2018 cycle, including the fraud risk assessment, was prepared and finalized in the SIS 'myRisks'[6] application in May 2018. Its review indicated that risk levels assigned were not always commensurate with the financial materiality and/or complexity of the areas to which they relate. For example, the risk of long outstanding vacancies in key national posts was assessed 'low'. The risk of not having qualified or knowledgeable staff was deemed 'not applicable' to the Office, and hence not rated – although the Office realignment process approved in 2017, which aims to align the Office skill set to its needs, was ongoing.

31. Similarly, the risk of high reliance on a limited number of implementing partners was assessed 'low' – which is inconsistent with the existing monopoly situation in the areas of warehousing and transportation of commodities and medical supplies.

[6] Part of the Strategic Information System (SIS)

32. Finally, two strategic risks related to compliance with policies and procedures in the areas of workplan management, IP management, inventory management and procurement were understated – given the issues identified and raised in this report. Although the risk assessment was validated online by the Regional Approvers, the exceptions raised above went undetected during the quality review process.

ROOT CAUSE	*Guidance: Lack of supervision at the Headquarters and/or Regional and Country Office level.*
IMPACT	*The ability to develop and implement appropriate mitigating measures to address identified risks is limited.*
CATEGORY	*Strategic*

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

With support from the East and Southern Africa Regional Office and Headquarters, 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.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:
Representative, with support from the Director, East and Southern Africa Regional Office

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2019*

The Office takes note of the finding and will improve its risk assessment exercise process in collaboration with Headquarters and the Regional Office, to ensure that risks are identified and appropriate ratings and mitigating measures are in place. Further, the Regional Office will work with the Office to conduct a more coherent risk assessment for each area of Operations.

B. PROGRAMME MANAGEMENT — NOT EFFECTIVE

Good practices identified

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

a) A country programme evaluation was conducted to inform the development of the new country programme.

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

34. Activities implemented by the Office during the period under review, with related expenses covered by the audit of USD 24.2 million, inclusive of programme coordination and assistance costs, corresponded to 10 outputs of the fifth year of the fourth Country Programme 2013–2017 and the first quarter of its first one-year extension through 2018, corresponding to financial implementation rates of 94 per cent in 2017 and 28 per cent as at 31 March 2018, measured based on annual budgets allocated in Atlas. Programme implementation activities during the period under review related mainly to: (a) the provision of integrated sexual and reproductive health services, including family planning, and maternal and newborn health services; (b) the provision of services to prevent HIV and sexually transmitted infections; (c) gender equality and reproductive rights; and (d) data availability and analysis.

35. Activities were implemented by UNFPA, with related expenses of USD 16.6 million (68 per cent of programme implementation expenses in the period under review) and financial implementation rates of 94 per cent in 2017, and 25 per cent as at 31 March 2018. A large portion of the expenses related to UNFPA-implemented activities corresponded to personnel and facilities costs and the procurement of inventory. Activities were also implemented by 27 IPs engaged by the Office, with related expenses of USD 7.6 million (32 per cent of programme implementation expenses in the period under review) and financial implementation rates of 94 per cent in 2017 and 42 per cent as at 31 March 2018. Section B.2 of the report provides further details on IP-implemented activities. Programme implementation activities were funded from core resources of USD 8.1 million and non-core resources of USD 16.1 million.

36. Audit work performed in this area focused on two outputs with aggregate expenses of USD 12.7 million during the period under review (52 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 these workplans; (c) the review of monitoring reports and other evidence of programme implementation; and (d) site visits to three facilities delivering reproductive health services funded by the Office.

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

Ensure the alignment of planned results to approved country programme indicators

38. The review of the revised Country Programme results and resources framework 2014-2017 indicated that output indicators defined in the Country Programme were not systematically tracked in SIS' annual results planning and reporting. For instance, output indicator '*Percentage of health facilities providing at least five modern contraceptive methods*' was not reflected in any of the annual plans for 2015, 2016 and 2017. However, a slightly different output indictor, also included in the revised Country Programme results and resources framework ('*Percentage of health facilities providing at least three modern contraceptive methods'*), was tracked annually in SIS.

39. A similar issue was noted in 2018 whereby four output indictors defined in the results and resources framework of the Country Programme extension were not tracked in the 2018 results plan in SIS, namely: (a) *'Percentage of health facilities providing at least five modern contraceptive methods'*; (b) '*Percentage of service-distribution points that have had no stock-outs of contraceptives within the last six months*'; (c) '*Percentage of health facilities that dispense thirteen life-saving medicines'*; and (d) '*Number of service providers trained in Minimum Initial Service Package (MISP)*'. These issues stem from an absence of supervisory controls to ensure that all country programme output indicators are captured in SIS.

40. Further, for four other output indicators, discrepancies were found between the baselines and targets included in the 2018 Country Programme Extension Results and Resources Framework compared to those reflected in the 2018 results planning in SIS, as the table below shows.

Output Indicator	CP Extension		2018 SIS Results Plan	
	Baseline	Target	Baseline	Target
Number of new family planning adherents	1,200,000	1,300,000	1,699,445	2,000,000
Number of providers trained to offer Family Planning services	2,400	2,640	515	2,100
Number of fistula cases repaired	2,808	3,000	3,970	4,320
Proportion of maternal deaths in health facilities reviewed	50	80	50	65

41. The Office explained that set targets have been adjusted taking into account the progress made and the resources mobilized.

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

IMPACT *The ability to monitor and achieve expected programme results is diminished.*

CATEGORY *Strategic*

RECOMMENDATION 5 ***PRIORITY: HIGH***

Leveraging on the new Policy and Procedure for Preparation, Management and Monitoring of Workplan (issued August 2018), improve tracking and monitoring of output indicators by developing a process to align planned results in the Strategic Information System to approved Country Programme.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2020*

The Office takes note of the finding and will ensure better oversight and consistency in baseline and target settings in SIS/myResults.

B.2 – NATIONAL EXECUTION — NOT EFFECTIVE

42. National Execution (NEX) expenses amounted to USD 7.6 million (32 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 11 Government IPs and 16 non-governmental organizations (NGO), with financial implementation rates of 94 per cent in 2017 and 42 per cent as at 31 March 2018.

43. As per available information, NEX expenses corresponded primarily to office and communication costs (USD 2.4 million – 31 per cent of NEX expenses); training and learning costs (USD 1.5 million – 20 per cent of NEX expenses); and contract personnel salaries (USD 1.3 million – 17 per cent of NEX expenses).

44. IP audits performed in 2017 covered 10 of the 25 IPs engaged by the Office,[7] with aggregated expenses of USD 6.2 million (88 per cent of total NEX expenses in 2017). Nine of the 10 IP audits conducted received unqualified audit opinions. The remaining IP audit received a qualified audit opinion for ineligible expenses amounting to USD 54,716. Insignificant ineligible expenses were also reported in three other audit reports.

45. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 1.5 million quarterly in 2017, and amounted to USD 0.3 million and USD 0.4 million as at 31 December 2017 and 31 March 2018, respectively.

46. Audit work performed in this area included a 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 the use of Funding Authorization and Certificate of Expenses (FACE) forms; (d) the controls implemented over the OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities for IPs engaged by the Office with aggregated programme implementation expenses of USD 3.5 million (approximately 46 per cent of NEX expenses) in the period under review.

47. Audit work in this area was affected by a scope limitation, as supporting documents for NEX expenses worth USD 71,248 necessary for performing planned audit procedures were not made available to the audit; additional audit findings may have been identified and different conclusions may have been reached had the audit been able to examine these documents.

48. Based on the work performed in this area, the following matters require Management attention.

<u>Strengthen the use of the Global Programming System for programme planning</u>

Finalization of workplans in GPS

49. Late finalization of workplans was noted in seven 2017 IP-implemented workplans, of which four were signed from May to as late as October 2017. The delayed signature of workplans contributed to a low financial implementation rate, ranging from 31 to 76 per cent of workplan amounts in 2017.

Workplan documentation in GPS

50. The review of 2017 workplan documentation in GPS disclosed several gaps: (a) workplans were not uploaded in GPS (seven workplans); (b) the uploaded workplan did not have the required signatures (one workplan); (c) signatures appearing on the workplan did not correspond to those of the authorized officers reflected in the IP agreement (two workplans); and (d), most importantly, the uploaded workplan amount did not match the amount appearing in the GPS 'snapshot' (six workplans). It is noted that the same issue has been noted in other OAIS audit reports.

Alignment of GPS workplan budgeted amounts to commitment control amounts in Atlas

51. From its review of 86 workplans, unjustified differences between workplan budget amounts in GPS and commitment control budgeted amounts in Atlas (where all financial transactions are subjected to budgetary controls) were found in 14 different workplans in 2017 and 3 workplans in 2018, for an absolute total variance of USD 2.5 million in 2017 and USD 0.5 million in 2018, respectively. Depending on the variance, this creates the potential for over- or under-spending of programme funds.

[7] Two more IPs were engaged in 2018.

52. It is noted that this issue, caused by lack of training and supervision, has been raised by OAIS in previous reports as well as by the Board of Auditors.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.* *Resources: Inadequate training.*
IMPACT	*Implementation of programme activities may be delayed due to late finalization of workplans.* *The ability to prevent and detect budget overruns and/or under-spending may be impaired, and limits the effectiveness of budgetary controls.*
CATEGORY	*Operational*

RECOMMENDATION 6 ***PRIORITY: HIGH***

Enhance Office personnel skills to use the Global Programming System for workplan management; and establish a more effective workplan management process which involves supervisory review process to ensure that: (a) workplans in GPS are duly signed by authorized individuals and systematically uploaded to the system; (b) potential discrepancies between workplan budget amounts and commitment control budgeted amounted are justified; and (c) programme activities are implemented and funds advanced only after signature of corresponding workplans.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2019*

The Office takes note of the finding and will implement the following activities to address the audit recommendation:

1- *Continue the training of staff members and IPs on the use of GPS;*
2- *Provide regular guidance to programme staff on the workplan preparation, with reference to the existing tools, policies and procedures; and*
3- *Regularly monitor the programme budget to avoid over or under budgeting; and ensure workplans are signed by appropriate officials before release of funds and implementation of activities.*

Significantly strengthen financial resource management to avoid budget overruns

53. The Office accumulated a financial deficit of approximately USD 0.2 million as at 31 December 2017, corresponding to programme activities implemented by IPs with signed workplans, yet in excess of available budget.

54. This situation was attributable to the weaknesses in the workplan management process previously described in paragraphs 51 and 52 above. The Office (a) assumed financial commitments without due consideration of resource availability; (b) absorbed a large amount of non-discretionary costs incurred by IPs as per signed workplans ; and (c) used the reimbursement cash transfer modality with IPs, albeit without a mechanism in place to determine whether (or not) sufficient financial resources were available – leading to allowing IPs to use their own funds to pay for expenses related to activities agreed in the workplan, then request the Office for reimbursement, without any ceiling.

55. A new Policy and Procedures for Management of Cash Transfers to Implementing Partners was issued in August 2018, requesting IPs under the reimbursement modality to obtain written authorization from UNFPA prior to incurring any programme implementation expenses and to submit reimbursement authorization requests. Compliance with this new policy should provide the ability to confirm funds availability prior to commitment, ultimately avoiding budget overruns.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.*
IMPACT	*The ability to prevent and detect budget overruns and/or under-spending may be impaired, and limits the effectiveness of budgetary controls.* *Available financial resources may not allow the Office to settle obligations resulting from the procurement of goods and services or the need to reimburse programme implementation expenses incurred by IPs, damaging the fund's reputation and financial sustainability.*
CATEGORY	*Operational.*

RECOMMENDATION 7	***PRIORITY: HIGH***

Implement review and supervisory procedures to ensure that: (a) funds are timely committed through the use of the appropriate GPS functionality; and (b) IPs submit reimbursement authorization requests, and obtain written authorization from UNFPA, prior to incurring any programme implementation expenses under the reimbursement modality, as per new policy requirement.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2019*

The Office Management will implement this recommendation through the following activities:

1- *Closely monitor the workplan preparation and implementation and the use of the programme budget, during the Programme and Operations Management meetings. The Office Management will ensure that there is no over-budgeting throughout the year;*

2- *Organize a learning session for programme staff and the IPs on the new Policy and Procedures for Management of Cash Transfers to Implementing Partners; and*

3- *Ensure full compliance with eFACE management policies and cash transfer through regular monitoring of the Office Programme Managers activities and the IPs' management and utilization of budget.*

Significantly strengthen the implementing partner management process

Basis for selecting and engaging Implementing Partners

56. The review of the selection process for five NGO IPs engaged by the Office during the period under review disclosed two instances where no document supported the competitive selection. The justification of strategic partnerships, claimed by Office Management, and the rationale that engaging these IPs was in the best interest of UNFPA were not documented.

57. The Office provided funds approximating USD 286,000 for programme implementation activities to 10 different NGOs outside of the IP management process, i.e. without signed IP agreement and workplan. The activities funded outside of the IP management process were reflected as paid grants under "direct UNFPA execution" and were, therefore, not subject to the applicable HACT[8] assurance process. This limited UNFPA's ability to obtain assurance about the proper use of the funding provided.

Programme activities implemented and OFA paid before workplan signature

58. There were four instances, involving one Government partner and three NGOs, where implementation of programme activities begun before signature of corresponding workplans. In the case of one of the three NGOs, funds were also advanced before signature of the workplan.

59. Further, expenses related to 2016 were unduly included in a 2017 Government partner-implemented workplan and paid by UNFPA for approximately USD 21,000. No workplan was signed with this Government partner in 2016. In opposition, expenses related to the fourth quarter of 2017 were unduly accounted as 2018 expenses for USD 49,414

Extension of IP agreements

60. Further, in 2018, as part of the country programme extension, the Office engaged 11 existing IPs, with related workplan totalling of USD 1.8 million, however, without signing any amendment to the previous signed IP agreements.

Quality of HACT micro-assessments and spot-checks

61. At the time of the audit fieldwork, 15 of the 27 IPs contracted by the Office during the period under review had not been HACT micro-assessed, including two IPs that received over USD 100,000 – the threshold for mandatory micro-assessment over the course of the programme cycle.

[8] Harmonized Approach to Cash Transfers

62. In addition, the Office planned spot-checks in 2016 and 2017. The review of the organization-wide Implementing Partner Assurance System (IPAS) records indicated that at the time of audit fieldwork, only 4 out of the 22 spot-checks planned in 2016 (18 per cent) and 10 out of the 21 ones planned in 2017 (48 per cent) had been finalized. Further, at the time of audit fieldwork, nine high priority findings identified in spot-checks (three for 2016 and six for 2017) were outstanding, with 'pending compliance' status in IPAS.

63. The review of five spot-checks undertaken in 2017 revealed multiple quality issues impacting all of them – thereby severely limiting the reliance that can be placed on the spot-check results. Issues found included: (a) insufficient spot-check scope (two instances); (b) insufficient sample size (one instance); (c) lack of sampling method documentation (two instances); (d) unsupported expenses identified in the spot-check testing worksheet not reported in the spot-check report and/or in IPAS (two instances, totalling USD 51,520); (e) no evidence of discussion of spot-check observations and issues with the IP (two instances); (f) the spot-check report not signed by those having conducted it (one instance); (g) lack of audit trail as the FACE forms uploaded in IPAS did not correspond to the forms subjected to review according to spot-check reports (five instances); and (h) incomplete IPAS records related to sample size (five instances).

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*IPs engaged may not be the best available to implement workplan activities with the highest quality and in the most cost-effective manner.* *UNFPA faces increased exposure to legal, financial and reputational risks and diminished protection due to lack of valid agreements and/or workplans.* *Management may not be able to obtain sufficient assurance about the proper use of funds by and commodities provided to IPs.*
CATEGORY	*Operational*

RECOMMENDATION 8 — ***PRIORITY: HIGH***

Going forward, follow a competitive selection process for the selection of non-governmental organization Implementing Partners. Should the Office decide to use a non-competitive selection process, document and maintain on file a comprehensive written justification of the partner's unique capabilities and other rationale underlying the selection, as required by the policy for 'Selection, Registration and Assessment of Implementing Partners'.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *December 2019*

The Office acknowledges that supporting documents (selection process or note to file for waiver) are not always on file. Hence, the Office will comply with the policy by proactively identifying in humanitarian prone areas, potential IPs for our mandate and by properly filing a comprehensive written justification. Indeed, the context of DR Congo does not always facilitate the competitive selection. In most cases in humanitarian settings, IPs are screened and selected by the humanitarian country team and UN-OCHA in various humanitarian hubs. Moreover, in some new hotspots, there are challenges in finding reliable and skilled IPs, obliging the Office to work with the only available field partners.

RECOMMENDATION 9 — ***PRIORITY: HIGH***

Systematically sign Implementing Partner agreements with Implementing Partners prior to commencing any implementation of programme activities, and ensure that amendments to signed IP agreement are processed on a timely manner.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *October 2019*

The Office will ensure the existence of valid IP agreements before signing workplans.

RECOMMENDATION 10	***PRIORITY: HIGH***

Promptly undertake Implementing Partner HACT micro-assessments and spot-checks, and periodically review performed spot-checks and the Implementing Partner Assurance System (IPAS) records for quality and proper documentation.

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

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

The following actions will be in place in 2019:

1- *Conduct micro assessments of new IPs or those with assessments over 5 years; and*
2- *Ensure that IPs not assessed are working on the direct payment modalities to mitigate risk.*

As for the spot-checks, a dedicated team is set up in the Office and will take the following actions:

1- *Perform regular review of the assurance plan (revise when needed) and undertake 2018 spot-checks; and*
2- *Work closely with the audit firm to achieve a 100 per cent completion of planned spot-checks.*

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

64. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of approximately USD 4.1 million,[9] with funding provided mainly by the UNFPA Supplies programme, for which DR Congo is one of the 46 priority countries. The inventory supplied consisted mainly of contraceptives (USD 3.8 million), pharmaceutical products (USD 0.1 million), and emergency reproductive health and dignity kits (USD 0.1 million), procured by the UNFPA Procurement Services Branch (PSB), located in Copenhagen, Denmark, on behalf of the Office. The reproductive health commodities were mainly stored at and distributed from the Ministry of Health warehouses as well as warehouses managed by four NGOs.

65. Audit work performed included the review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied in 2017 at a cost of approximately USD 3.0 million (73 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (a) procurement planning, requisitioning and ordering; (b) custom clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA's possession); (d) handover of the inventory to IPs; (e) distribution to intended beneficiaries; and (f) monitoring. For locally procured commodities, audit work also included a review of the related procurement processes.

66. Audit work performed further included site visits to: (a) a warehouse managed by a NGO; and (b) a service delivery point to: (i) verify the receipt of commodities procured by UNFPA; (ii) assess the warehouse controls in place and reliability of inventory records; and (iii) verify commodity availability and stock-out levels at the warehouse and service delivery point visited. The number of site visits was limited due to the Ebola situation. The audit also included a review of the results of the 2017 Reproductive Health Commodities and Services Availability Survey in DR Congo.

67. From the sample testing and visits, the audit found the following matter that need Management attention.

Urgently improve inventory management

68. The audit identified the following matters that are indicative of an urgent need to improve inventory management.

Use of 'Shipment Tracker'

69. The Office did not properly use the 'Shipment Tracker' system[10] to record, track and report on procured inventory items. Specifically, 'Shipment Tracker' was not updated on a timely manner, and Tracker-generated records were not periodically reviewed for accuracy and completeness. As a result, frequent errors were noted at the time

[9] This amount included USD 0.24 millions of procurement of dignity kits unduly recorded under 'Sundry' General Ledger account.

[10] Atlas integrated system.

of year-end inventory certification, including over- and under-statement of reported inventory levels, and not timely clearing of inventory in transit amounting to USD 2.6 million as of March 2018.

Inventory custom clearance

70. Custom clearance and release of the goods upon their arrival in country routinely experience delays. For example, USD 3.3 million worth of goods shipped in 2016 were released to the Office in 2017, after spending over three months in customs, due to a strike in the Ministry of Foreign Affairs; reproductive health kits, for a total value of USD 18,000, were kept in custom for more than six months, due to late receipt of shipping documents; and medical equipment worth USD 8,000 was held in customs for four months, pending payment of demurrage charges related to goods imported in 2015.

Inventory hand-over to Implementing Partners

71. Inventory hand-over to IPs experienced significant delays. The review of a sample of 10 inventory transactions revealed six instances where inventory items were handed over to IPs within an average period of six months from the date of arrival in country, incurring storage costs amounting to over USD 130,000 in 2017. The Office Management explained the high storage costs by the fact that the IP, which is the main recipient of health commodities, has neither a warehouse nor resources to pay for their storage; hence, UNFPA continued to be responsible for the warehouse and inventory distribution, even after the commodities hand-over to the IP. In accordance with the International Public Sector Accounting Standards(IPSAS), such inventory is however deemed to remain under UNFPA's control (paying for storage and authority to decide on distribution). Hence, in 2018, the Organization recognized as 'assets' the inventory, even if transferred to the IP, valued at approximately USD 3.5 million.

Warehousing conditions

72. The visits to a warehouse and to a service delivery point revealed that the physical security arrangements in place were insufficient. The warehouse lacked adequate fire prevention and extinguisher equipment such as smoke detectors and fire sprinklers.

Inventory monitoring

73. Further, the review identified significant capacity gaps as regards the IPs entrusted with inventory storage, in particular their ability to monitor consumption data and to produce useful and timely reports to help monitor stock levels.

74. The physical count of an inventory item performed during audit fieldwork also revealed an unexplained discrepancy with missing quantity worth USD 1,226. Further, the IP was unable to provide any evidence of reconciliation between inventory physical count and inventory records.

75. Due to the issues noted above, the audit was unable to test the distribution of commodities across the supply-chain. In early 2019, Management commissioned a review of inventory management, which was ongoing at the time of finalizing this report.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*The ability to efficiently achieve programme objectives, improve UNFPA visibility and discharge its fiduciary oversight and contractual obligation is diminished.* *The risk of inventory losses due to poor storage conditions, inadequate controls and inaccurate/incomplete recordkeeping is increased.*
CATEGORY	*Operational*

RECOMMENDATION 11 — ***PRIORITY: HIGH***

Significantly improve the inventory management process by: (a) consistently using the Shipment Tracker to track and report on inventory; (b) closely monitoring timely inventory custom clearance and hand-over to IPs; (c) improving warehouse physical security through installing smoke detectors, water sprinklers, and no smoke signs; and (d) building the capacity of IPs entrusted with inventory warehousing and distribution.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2020*

The Office agrees with the recommendations, and will take below actions:

1- *Timely update of Shipment Tracker;*
2- *Evaluation of IPs' warehouses for improvements;*
3- *Contribution to building IP capacities; and*
4- *Timely monitoring of inventory custom clearance and hand-over to IPs.*

B.4 – MANAGEMENT OF NON-CORE FUNDING — MAJOR IMPROVEMENT NEEDED

76. Programme implementation expenses funded from non-core resources amounted to USD 16.1 million (67 per cent of total programme expenses) in the period under review. Of this amount, USD 3.4 million corresponded to funding from a donor in support to a project to strengthen the supply-chain system, and enhancing sexual and gender-based violence prevention and survivors' access to quality comprehensive care in the Kivu region; USD 3.3 million contributed by another donor to enhance sexual and reproductive health and rights for young people; USD 2.3 million funding from the Central Emergency Response Fund (CERF) managed by the United Nations Office for the Coordination of Humanitarian Affairs (UN-OCHA). The remaining contributions were provided primarily by UNFPA Supplies, to enhance reproductive health commodity security, and by the Maternal Health Thematic Trust Fund.

77. 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.

78. Based on the audit work performed, the audit noted the following matters that require Management attention.

Systematically obtain required clearance of non-standard co-financing agreements before signature

79. As a part of consortium led by a private sector entity, the Office submitted a bid for the establishment of civil registration and vital statistics system with funding from the World Bank. Prior to formally award the contract, the Bank circulated a letter of intent to all members of the consortium for signature. The Office shared the letter with the Legal Unit for review and comments. Notwithstanding Legal Unit reservations, the Office signed a non-standard co-financing agreement with the Bank, without the policy-required clearance from the Resource Mobilization Branch.

80. As a consequence, several issues were noted in the signed agreement, including: (a) joint and severe liability of the consortium members for all of the contractual obligations towards the client; (b) absence of reference to UNFPA's privileges and immunities; (c) inadequate provisions on fraud/corruption, insurance, intellectual property, audit and settlement of disputes; and (d) unfavourable payment scheme and the reporting obligations. Further, in the absence of a consortium agreement, it is not clear what the obligations of each member are.

81. At the time of the draft audit report, the Resource Mobilization Branch and the Legal Unit were in the process of exploring options to address these issues. Accordingly, no recommendation is raised with this regards.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*The absence of clearance of non-standard agreement may increase the Organization's exposure to financial and reputational risks.*
CATEGORY	*Compliance*

RECOMMENDATION 12 — ***PRIORITY: HIGH***

Systematically submit non-standard co-financing agreement to the Resource Mobilization Branch for clearance before signature.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with guidance of the Chief, Resources Mobilization Branch*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*March 2020*

The Office will consistently seek clearance from the Resource Mobilization Branch for any non-standard co-financing agreements before their signature.

Timely submit reports to donors

82. The specific timelines prescribed in each co-financing agreement for reporting requirements were not always complied with.

83. In 2017, five reports were submitted to donors with an average two-month delay. In 2018, two reports were submitted with an average two-week delay, and five other reports were not submitted at all. Further, the Office did not use the Donor Agreement Reporting Tracking System dashboard to set deadline reminder. At the time of audit fieldwork, the overall delay averaged three months.

ROOT CAUSE	*Guidance: Lack of supervision at the Office level.*
IMPACT	*The perceived inability to timely report on the use of funds may diminish the Office's ability to mobilize/receive additional resources, and adversely impact programme delivery.*
CATEGORY	*Compliance*

RECOMMENDATION 13	***PRIORITY: MEDIUM***

Establish a close monitoring process to ensure compliance with reporting requirements, leveraging on report monitoring capabilities of the Donor Agreement Report Tracking System.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*		STATUS:	*Agree*
MANAGEMENT ACTION PLAN:		DUE DATE:	*March 2020*

The Office will ensure proper monitoring of the reporting requirement through regular situation update during the Programme and Operations Management meetings. All necessary measures will be taken in a timely manner to avoid any possible delay on reporting.

C. OPERATIONS MANAGEMENT — SOME IMPROVEMENT NEEDED

Good practices identified

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

a) As a means to increase the efficiency of the procurement process, the Office relied on long-term agreements (LTA) of other United Nations system Organizations.

C.1 – HUMAN RESOURCES MANAGEMENT — EFFECTIVE

85. The Office incurred staff payroll costs amounting to USD 7.8 million during the period under review. In addition, the Office made use of contract personnel and engaged 10 individuals under service contracts and another 29 under individual consultant contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 0.8 million. At the time of the audit fieldwork, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

86. Work performed in this area included an analytical review of payroll and contract personnel costs; a walk-through of payroll reconciliation controls with UNDP; and the testing of a sample of five individual consultancies awarded by the Office at a cost of USD 0.1 million (53 per cent of total individual consultant costs incurred in the period), for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for nine staff

members hired during the audit period; and testing of 18 payments of staff benefits and entitlements amounting to approximately USD 0.1 million.

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

C.2 – PROCUREMENT	MAJOR IMPROVEMENT NEEDED

88. During the period under review, the Office locally procured goods and services at a cost of USD 3.1 million. The most significant categories of goods and services procured corresponded to: (a) rent of office premises (USD 0.7 million); (b) freight, handling, storage and custom clearance (USD 0.6 million); (c) assets, including information technology equipment and vehicles (USD 0.6 million); and (d) printing services and publications (USD 0.3 million).

89. Audit work performed in this area included the review of a sample of 37 local purchases made at a cost of USD 1.5 million (approximately 48 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,[11] policies and procedures; and operating effectiveness of controls in the areas of: (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving, as well as the review of the procurement planning process.

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

Improve compliance with to procurement policies and procedures

91. The audit noted multiple deviations from procurement policies and procedures affecting 12 of the 37 procurement transactions tested. The most notable of these exceptions, which are due to a lack of proper training and supervision, were: (a) lack of competition for supplier selection, mainly for the provision of warehousing and logistic services (six instances, totalling USD 0.3 million); (b) lack of review by the Contract Review Committee and/or approval by the appropriate procurement authority of contracts awarded to a single supplier in a 12-month period with an aggregate value over USD 100,000 (five instances; totalling USD 0.7 million); and (c) absence of valid contracts for the procurement of warehousing and logistic services from suppliers beyond expiration of their respective contracts (two instances; totalling USD 0.2 million).

92. In one of the six cases of lack of competition referred to in paragraph 91 (a) above (amounting to USD 49,400), Office Management explained the decision by the urgency to procure and distribute procured kits. However, the review disclosed that the supplier selected was able to deliver only 45 per cent of the ordered kits and was paid accordingly. The contract was subsequently terminated.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: Lack of supervision at the Office level.*
IMPACT	*The ability to achieve best value for money may be diminished and exposure to reputational risk may be increased.*
CATEGORY	*Compliance*

RECOMMENDATION 14	***PRIORITY: HIGH***

Raise the awareness of relevant staff on the need to: (a) foster effective competition in all procurement processes as a means of ensuring fairness, integrity, transparency and achieving best value for money; (b) submit qualifying procurement cases to appropriate contract review committee and procurement authority's review and approval; and (c) closely monitor compliance thereof.

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

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support of the Chief, Procurement Services Branch*	STATUS:	*Agree*
MANAGEMENT ACTION PLAN:	DUE DATE:	*March 2020*

The Office agrees with the recommendation and has already taken actions to address the recommendation and will continue to strive to comply.

To address procurement gaps, the Office improved its staffing in 2017 with the arrival of the new International Operations Manager and the recruitment of a Procurement Associate. The Office has taken further measures to strengthening the Office procurement capacity, such as:

1- *Designation of a Programme Officer in Goma sub-office and of the Procurement Associate in Kinshasa as in charge of supply-chain management; and*
2- *Creation, in the realignment process, of a position of Operations Analyst, who will be focused on procurement processes and working in collaboration with the UNFPA Supplies team (recruitment to be finalized in 2019).*

In addition, with support from PSB, the Office will develop internal checklists, internal control mechanisms; and develop process flows that will help respect procurement steps while abiding by relevant procedures. The existing procurement committee members will be revised to include staff in sub-offices, and approval levels will be clearly re-defined.

RECOMMENDATION 15	***PRIORITY: HIGH***

Submit qualifying procurement transactions for post-facto review by the Contract Review Committee and approval by the appropriate procurement authority.

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

The Office will conduct a review of procurement transactions to ensure compliance with contract review and award procedures. If the Office identifies any procurement contracts established without securing the clearance/ approval from the appropriate review committee/ procurement authority review, such cases will be submitted with no further delay to the Headquarters Contract Review Committee or to the Chief, PSB for approval, as applicable, and mitigation measures will be identified accordingly to reduce the likelihood of such oversight in the future.

C.3 – FINANCIAL MANAGEMENT — SOME IMPROVEMENT NEEDED

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

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

Ensure that financial transactions are properly recorded

95. The review of the transactions tested in the various areas of the audit revealed a large number of account coding errors in Atlas. The errors, mainly impacted grants, travel, office supplies and locally procured inventory accounts.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: Lack of supervision at the Office level.*
IMPACT	*Increased risk of inaccurate financial reporting by the Office.*
CATEGORY	*Reporting*

RECOMMENDATION 16	***PRIORITY: MEDIUM***

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:	*March 2020*

The Office will implement the recommendation by putting in place control mechanism by the deadline.

The following actions will be taken:

1- *The account code section in Procurement and Payment requests will be filled prior to approval by Management;*
2- *All finance staff will have account code control in their PAD;*
3- *All vouchers will be verified by the Head of finance, prior to sending to payment; and*
4- *The Office will also closely work with the Finance Branch for periodic review of accounts.*

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

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

97. Travel expenses incurred by the Office during the period under review amounted to USD 1.0 million. Audit work performed in the area of travel included a walk-through of the travel process and testing of a sample of 97 travel-related transactions amounting to approximately USD 0.3 million (28 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures and operating effectiveness of the controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of Daily Subsistence Allowance.

98. Procurement of assets in the period under review amounted to USD 0.1 million. As at 31 March 2018, the Office held 246 in-service fixed asset items with a net book value of USD 4.7 million. The largest fixed asset categories included Office building, vehicles and information technology equipment. Audit work in this area included the review of all eight assets procured during the period under review for appropriateness of business purpose and compliance with the asset management policies and procedures.

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

Submit travel requests within policy timelines

100. The existing travel policy requires to confirm travel itineraries as early as possible and purchase airline tickets in advance of travel (at least 21 days when traveling in business class and at least 14 days in advance when traveling in economy class) was not adhered to in any of the 47 travel requests reviewed. In one case, a travel ticket was issued before formal approval of the corresponding travel authorization; in another case, a travel ticket was issued before issuance of the corresponding purchase order.

101. While acknowledging that some of these exceptions result from the humanitarian context prevailing in some areas of programme implementation, better travel planning combined with closer supervision would significantly improve compliance with policy requirements.

ROOT CAUSE	*Guidelines: Inadequate planning.* *Guidance: Lack of supervision at Office level.*
IMPACT	*Late procurement of tickets may prevent the Office from obtaining the lowest fares available.*
CATEGORY	*Compliance*

RECOMMENDATION 17	***PRIORITY: MEDIUM***

Raise staff awareness to better plan non-emergency travel and submit travel requests ahead of travel dates, within applicable policy requirements; and monitor compliance thereto.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2020*

The Office will continue its efforts to better plan travels and raise awareness of staff regarding the travel policy.

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,[12] 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.

[12] 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
CERF	Central Emergency Response Fund
DARTS	Donor Agreement Report Tracking System
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfer
IP	Implementing Partner
IPAS	Implementing Partner Assurance System
IPSAS	International Public Sector Accounting Standards
NEX	National Execution
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
PAD	Performance Appraisal and Development
PSB	Procurement Services Branch
SIS	Strategic Information System
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UN-OCHA	United Nations Office for the Coordination of Humanitarian Affairs
USD	United States Dollars