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OFFICE OF AUDIT AND INVESTIGATION SERVICES

REMOTE AUDIT AND MONITORING (RAM)

UNFPA OFFICES IN THE ASIA AND PACIFIC REGION

FINAL REPORT

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed a remote audit (the audit) of the UNFPA Offices located in the Asia and Pacific (AP) Region (APR Offices). The audit covered selected programme and operations management activities, and transactions executed by the APR Offices in the period from 01 January to 31 December 2018.

Background

2. The UNFPA AP Region comprises a Regional Office located in Bangkok, Thailand; a Sub-Regional Office located in Suva, Fiji; and 22 Country Offices with vastly different economic structures, languages and cultures. Some of the countries in the region are affected by humanitarian emergencies caused by conflict or natural disasters. In addition, two Liaison Offices are located in the region: in Seoul, Republic of Korea and in Tokyo, Japan; these two offices report to the Division of Communications and Strategic Partnerships (DCS) at Headquarters and were excluded from the scope of the present audit.

3. Expenses incurred in the period under review amounted to USD 133.7 million, corresponding to activities and transactions executed directly by the APR Offices (USD 80.9 million) and by 282 Implementing Partners (USD 52.8 million – ‘national execution’ or NEX). Expenses were funded from core resources of USD 61.4 million and non-core resources of USD 72.3 million.¹

Methodology and scope

4. 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 operations and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions. The work was conducted out of Headquarters and no field missions to any of the APR countries were undertaken.

5. The scope of the audit included an assessment of the operating effectiveness of internal controls over workplan management, national execution; inventory management; human resource management; procurement; financial management; travel; and asset management activities and transactions. These were selected using a risk-based approach. Staff payroll expenses, amounting to USD 40.9 million in the period under review, were excluded from the scope of the audit as payroll is managed by another United Nations organization on behalf of UNFPA, which relies on the internal controls implemented by that organization.

Audit rating

6. The overall audit rating is “**Some Improvement Needed**”, which means that the assessed controls were adequately established and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited area should be achieved. Issues 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.

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

¹ Based on 2018 Atlas expense figures extracted on 02 July 2019.

Audit ratings by key audit area		
Programme management		<i>Some improvement needed</i>
<i>Workplan management</i>		<i>Some improvement needed</i>
<i>National execution</i>		<i>Major improvement needed</i>
<i>Inventory management</i>		<i>Some improvement needed</i>
Operations management		<i>Some improvement needed</i>
<i>Human resources management</i>		<i>Some improvement needed</i>
<i>Procurement</i>		<i>Some improvement needed</i>
<i>Financial management</i>		<i>Some improvement needed</i>
<i>Travel</i>		<i>Some improvement needed</i>
<i>Asset management</i>		<i>Effective</i>

Key findings and agreed Management actions

8. The audit identified areas where the APR Offices' practices were fully compliant with established policies and procedures. However, there are a number of areas that require Management attention, related to operational, compliance and reporting matters. Overall, the audit report includes four high priority and five medium priority agreed Management actions to help the Office improve its programme delivery and operations.

Operational level

9. Use of the Global Programming System in programme planning could be improved upon, through timely finalization of workplans, better workplan budgeting at the monitoring account level to provide greater details on the nature of inputs budgeted, and accurate and timely processing of workplan revisions in the system.

Compliance level

10. To ensure availability of financial resources to settle obligations, Implementing Partners operating on a reimbursement cash transfer modality should seek and obtain prior approval from APR Offices before incurring UNFPA-funded programme implementation expenses.

11. The processing of Funding Authorization and Certificate of Expense forms, which are used by Implementing Partners to request funding and report expenses incurred for nationally executed programme activities, needs improvement regarding their timely submission by Implementing Partners and the controls applied in their review and approval by UNFPA Management.

12. The APR Offices should apply the policy-prescribed receiving and inspection controls upon physical receipt of programme supplies.

13. To minimize the issuance of *ex post-facto* requisitions and purchase orders, APR Offices need to timely commit financial resources in Atlas at the time of making local procurement awards.

14. Some improvement in compliance with UNFPA policies and procedures is required in the areas of contract personnel management – e.g. restricting the commencement of work by individual consultants without signed contracts and better documenting certifications of payments and consultant evaluations; procurement – e.g. preparing comprehensive procurement plans that capture as many procurement actions as possibly foreseeable in as much detail as possible; and travel – e.g. timely submitting travel requests, obtaining security clearances before official travel and accurately computing daily subsistence allowances.

Reporting level

15. To enhance financial reporting and the use of financial information for monitoring, accuracy and timeliness in financial accounting and recording of transactions needs to be improved through training relevant staff, as well as implementing appropriate supervisory controls.

Agreed Management actions

16. APRO Senior Management, as well as all Representatives and Heads of Office in the region, are in agreement with the findings of the report. In August 2019, APRO conducted a regional webinar for all Representatives and their respective management teams to discuss the results of the audit. The following key follow-up actions were agreed upon and will be implemented throughout the remainder of 2019 and 2020:

- a) Representatives and Heads of Offices will ensure implementation of the identified shortcomings at their respective offices;
- b) APRO, together with management teams at the Country Offices, will identify office-specific capacity gaps and conduct focused capacity-building activities through regional webinars, workshops, face-to-face trainings, tailored missions and staff exchanges;
- c) Under its oversight framework, APRO will continue to conduct dashboard calls to ensure management oversight, as well as monitor implementation of audit findings;
- d) APRO will engage with UNFPA Headquarters to address systemic issues that have been identified through the audit in order to find field-focused solutions; and
- e) Several staff members from APRO and the AP Region are actively involved in all change management streams and contribute to the development of corporate management systems and structures that will allow Country Offices to maintain efficiency and effectiveness without compromising compliance.

17. APRO Senior Management takes this opportunity to thank the OASIS team for the remote audit and monitoring exercise and will share comments and suggestions on process improvement for similar engagements in the future.

18. The audit team would like to thank the Management and staff of all Country and Liaison Offices in the Asia and Pacific Region for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The objective of the remote audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance on the operating effectiveness of internal controls over activities and transactions executed by the APR Offices (see complete list in paragraph 7) in the period from 01 January to 31 December 2018, for the following processes:

- Programme management:
 - a) Workplan management;
 - b) National execution;
 - c) Inventory management;
- Operations management:
 - a) Human resources management;
 - b) Procurement;
 - c) Financial management;
 - d) Travel; and
 - e) Asset management.

2. 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 Offices' 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.

3. Audit procedures applied as part of the audit included an analytical review of Atlas financial information; a review of workplan information in the Global Programming System (GPS); a review of supporting documents, records and other documentary evidence related to the activities and transactions reviewed; and inquiries to Management on matters arising from the procedures applied. All work was conducted out of Headquarters with no field missions undertaken to any of the APR Offices.

4. Activities and transactions reviewed were selected using a risk-based approach. Staff payroll transactions were excluded from the scope of the audit as they are managed by another United Nations organization on behalf of UNFPA, which relies on the internal controls implemented by that organization.

5. The engagement was conducted by a team of OAIS audit specialists and individual professionally qualified audit consultants, starting on 22 October 2018. Comments received and clarifications provided throughout the report preparation period were incorporated in a draft report submitted to the Asia and Pacific Regional Office (APRO) on 30 July 2019. Final management actions agreed with APRO, received on 04 October 2019, are reflected in the report.

II. BACKGROUND

6. The Asia and the Pacific region is home to 60 per cent of the world’s population – approximately 4.3 billion people² – and includes the world’s most populous countries, China and India. The region also has some of the smallest populations on the planet, especially among the Small Island Developing States in the Pacific. This diversity is accompanied by changing demographic trends, characterized by overall lower than average global fertility and mortality rates, as well as rapid urbanization and sizeable migration flows within and outside the region.³

7. The UNFPA Asia and the Pacific Region comprises a Regional Office located in Bangkok, Thailand; a Sub-Regional Office located in Suva, Republic of Fiji; and 22 Country Offices located in: Afghanistan, Bangladesh, Bhutan, Cambodia, China, Democratic Republic of Korea, India, Indonesia, Iran, Lao, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand, Timor Leste, and Viet Nam. The countries have vastly different economic structures, languages and cultures.

8. The countries⁴ in the region have made progress in securing the rights of people to universal access to sexual and reproductive health in recent years, which has led, for example, to a reduction in maternal mortality, new legal frameworks and steps towards building the necessary systems for responsive governance. Service delivery interventions in the areas of maternal health and gender violence are also undertaken, primarily in countries affected by humanitarian emergencies caused by conflicts or natural disasters.⁵

9. The Asia and the Pacific Region achieved significant progress in increasing the coverage of effective sexual and reproductive health services. The maternal mortality ratio declined by two thirds between 1990 (200/100,000 births) and 2015 (73/100,000 births), the contraceptive prevalence rate at 87.4 per cent was 3 per cent above the global level in 2015, and the adolescent birth rate of 35/1,000 was considerably lower than the global average of 52/1,000. The coverage of antiretroviral therapy for HIV was, however, 5 per cent below the estimated global average of 46 per cent. While the HIV prevalence in the region is low, the incidence of other sexually transmitted infections is higher than the global average.⁶

10. Further, two Liaison Offices are located in the region: in Seoul, Republic of Korea and in Tokyo, Japan. These two offices report to the Division of Communications and Strategic Partnerships (DCS) at Headquarters and were excluded from the scope of this audit.

11. Expenses incurred in the period under review amounted to USD 133.7 million, corresponding to activities and transactions executed directly by the Asia Pacific Offices (USD 80.7 million – ‘direct execution’) and by 282 Implementing Partners (IP) (USD 52.8 million – ‘national execution’ or NEX). The main individual expense categories are presented in Table 1 below.

² 2013 Estimates.

³ UNFPA in Asia and the Pacific, 1 January 2013.

⁴ Five countries are classified in the “red” quadrant of the UNFPA Strategic Plan 2018-2021, seven in the “orange” one, two in the “yellow” one and eight in the “pink” one.

⁵ Making Universal Health Coverage work for women and young people – Putting sexual and reproductive health at the center of universal health care reforms in Asia-Pacific, April 2018.

⁶ Universal Health Coverage for sexual and reproductive health in the Asia-Pacific Region, September 2017.

Table 1 - Key expense categories⁷ for the period in scope

Activities implemented by	Value in USD million	Percentage of total	Percentage within each category
APR Offices	80.9	61%	100%
Staff payroll	40.9	31	51
Contract personnel costs	11.4	9	14
Procurement of other goods and services	8.0	6	10
Procurement of inventory items	7.8	5	9
Travel	5.7	4	7
All other expenses (aggregated)	7.1	6	9
IP (NEX expenses)	52.8	39%	100%
Consultancies and salaries	18.0	13	34
Training	16.4	12	31
Procurement	16.0	12	30
All other expenses (aggregated)	2.4	2	5
TOTAL	133.7	100%	--

12. Expenses were funded from core resources of USD 61.4 million and non-core resources of USD 72.3 million.⁸ Approximately USD 112.7 million (84 per cent) corresponded to programme expenses, with 50 per cent allocated to the Reproductive Health component (USD 56.8 million); 22 per cent to the Gender component (USD 24.7 million); 15 per cent to the Population and Development component (USD 16.4 million); and 13 per cent to the Adolescents component (USD 14.8 million). 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 16 per cent of expenses.⁹

⁷ Based on 2018 Atlas expense figures.

⁸ Based on 2018 Atlas expense figures

⁹ Based on 2018 Atlas expense figures

III. DETAILED FINDINGS

A. PROGRAMME MANAGEMENT

SOME IMPROVEMENT NEEDED

A.1 – WORKPLAN MANAGEMENT

SOME IMPROVEMENT NEEDED

12. During the period under review, APR Offices implemented programme activities that were managed through 306 workplans,¹⁰ inclusive of 24 UNFPA workplans, amounting to USD 133.7 million. A large portion of the expenses incurred in relation to UNFPA-implemented activities corresponded to personnel costs and the procurement of programme supplies and other goods and services.

13. Audit procedures performed focused on the analysis of 288 workplans maintained in and generated from GPS, with aggregate total expenses of USD 124.6 million during the period under review (93 per cent of programme implementation expenses). The review was limited to specific procedures and analyses of GPS data during the audit period and was based only on information available as at 31 December 2018. The procedures included follow-up inquiries of APR Offices' focal points on identified potential exceptions or inconsistencies in data generated from GPS, especially with regard to workplan management.

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

Strengthen the use of GPS for programme planning

Late finalization of workplans in GPS

15. There were significant delays in finalizing the 2018 workplans in GPS. In particular, 80 out of the 288 workplans reviewed (28 per cent) were finalized between May and December 2018. The delayed finalization of the workplans contributed to low financial implementation rates in 2018, with 46 IPs registering rates between 9 and 79 per cent. Management of the APR Offices attributed the delays in finalizing the workplans to (a) late receipt of co-financing funds; (b) a need to register new IPs during the course of year – which proved to be time consuming, and (c) the commencement of new country programme cycles, some of which involved more humanitarian interventions – presenting a shift in focus from previous mainly development-oriented programmes, and thereby creating a steep learning curve.

Workplan budgeting

16. Eighty-eight IP workplans reviewed revealed differences between budget amounts in the workplans and commitment control¹¹ budgeted amounts in Atlas, for an absolute total value of USD 22.5 million – which could lead to potential overspending. The differences were mainly caused by workplan budget revisions that were not accurately and timely processed by the relevant programme managers in GPS. The differences noted also corresponded to workplan budget revisions that were not properly supported by appropriate documents. For example, 63 workplans in GPS had more than five revisions each, which were not supported by the requisite documents such as signed letters with the concerned IPs.

17. Further, programme activities amounting to USD 59.6 million relating to 73 workplans were budgeted in GPS at the aggregate account level of “General Operation Expenses” – instead of the corresponding sub-account levels by expense type (i.e. the “monitoring” account level), which could significantly improve monitoring by providing greater details on the nature of inputs budgeted.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level. Other: factors beyond the control of UNFPA.</i>
IMPACT	<i>Implementation of programme activities may be delayed due to late finalization of workplans and the effectiveness of budgetary controls may be diminished.</i>
CATEGORY	<i>Operational</i>

¹⁰ Source: Global Programming System (GPS) data extracted in April 2019

¹¹ Atlas module where all financial transactions are subjected to budgetary controls

AGREED MANAGEMENT ACTION NO. 1

PRIORITY: HIGH

While each Country Office will review its own programme management planning schedules and prioritize signing of workplans, APRO will seek to increase awareness of the Offices with regard to prevailing policies and procedures pertaining to budgeting and the finalization of workplans, including in GPS.

This will be accomplished through a webinar. Before the webinar takes place, an analysis of bottlenecks experienced by Country Offices in these areas will be undertaken to help inform the planning of the webinar and to identify issues that may need to be addressed at the corporate level, in order to achieve further improvement in this area.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: Heads, AP Offices; Programme Managers, AP Offices; and Programme Advisor, APRO.

DUE DATE: March 2020

A.2 – NATIONAL EXECUTION

MAJOR IMPROVEMENT NEEDED

18. During the period under review, IPs engaged by the APR Offices for implementation of programme activities incurred expenses amounting to USD 52.8 million. Per the available general ledger information, expenses incurred by IPs corresponded primarily to consultancies and salaries, training costs, and procurement (see details in Table 1).

19. Audit work performed in this area included an analytical review of NEX expenses in the period under review, as well as detailed testing of a sample of 70 Funding Authorization and Certificate of Expenditure (FACE) forms amounting to USD 12.4 million (23 per cent of NEX expenses) as regards: (a) the existence of appropriate agreements and signed workplans with the concerned IPs; (b) controls implemented for the review, authorization and processing of the FACE forms; (c) reconciliation, for a sample of activities, of expenses reported in the FACE forms to itemized cost estimates, transaction details, and copies of supporting documents obtained from the concerned IPs; (d) submission of Workplan Progress Reports by the IPs; and (e) controls implemented over the Operating Fund Account, used to record and control funds advanced to the IPs.

20. Based on the work performed, the audit identified the following matters in need of Management attention.

Implement effective authorization controls and procedures for cash transfers to IPs

21. Two IPs operating on a reimbursement cash transfer modality did not seek or obtain prior approval from the two APR Offices that engaged them before incurring programme implementation expenses in the aggregate amount of USD 1.0 million during the fourth quarter of 2018. In both cases, the concerned IPs spent in excess of the USD 100,000 threshold set in applicable policy that requires prior authorization by the relevant project managers.

ROOT CAUSE *Guidance: inadequate supervision at Office level.*

IMPACT *Available financial resources may not allow the Offices to settle obligations resulting from the need to reimburse programme implementation expenses incurred by IPs.*

CATEGORY *Compliance*

AGREED MANAGEMENT ACTION NO. 2

PRIORITY: HIGH

APRO will discuss these observations with the senior management teams of the concerned Country Offices, with a view to ensuring that the findings are fully understood and that measures are taken to prevent their happening again in the future. A series of programming policy webinars is scheduled for 2020. Policy guidance related to reimbursements will be taken up at one of the planned webinars.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: Heads of the concerned AP Offices; Programme Advisor, APRO; and International Operations Manager, APRO.

DUE DATE: March 2020

Significantly improve controls over FACE form review and approval

22. Of the 70 FACE form transactions reviewed, 33 showed, overall, 54 exceptions. While not all being significant or pervasive in nature, the exceptions are reflective of gaps in the effectiveness of FACE form review and approval.

23. These include:

- (a) Twenty-nine (29) cash advances made to IPs, in the amount of USD 10.9 million, where the related cash advance requests were not accompanied by itemized cost estimates or detailed transaction lists, as required by applicable policy;
- (b) Two (2) instances where advances made to two IPs micro-assessed as ‘high risk’, in the aggregate amount of USD 1.1 million and each in excess of the policy threshold of USD 0.5 million requiring approval by the Head of Finance at Headquarters, were not properly approved in accordance with the requirement;
- (c) Six (6) instances of late (delays of more than two weeks) submission of FACE forms;
- (d) USD 1.3 million in expenses reported by five IPs, each in excess of the policy threshold of USD 250,000, were not approved by the respective Heads of Office, as required by applicable policy;
- (e) Three (3) instances where expenses reported by IPs, in the total amount of USD 0.3 million, varied from those listed in the corresponding itemized cost estimates by more than the policy threshold of USD 10,000, without documented explanations, in GPS, for the variances, as required by applicable policy;
- (f) Three (3) instances of FACE forms with ineligible expenses in the aggregate amount of USD 0.6 million; and
- (g) Six (6) instances of disallowed expenses in the total amount of USD 0.1 million where the rationale for their disallowance was not documented in notes-to-file and uploaded in GPS by the concerned APR Offices, as required by policy.

24. Further, in one isolated case, an IP procured contraceptives for programme activities in the amount of USD 500, contrary to the restrictions placed by applicable policy on the procurement of contraceptives, which can only be undertaken by UNFPA in order to meet quality standards.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Errors and other issues may not be identified and remediated in a timely and effective manner. There is increased risk of financial loss and reputational risk to UNFPA.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION NO. 3

PRIORITY: MEDIUM

Each year, since 2015, as part of the Framework for Operational Support and Oversight, APRO has been conducting dedicated regional capacity-building activities through webinars, face-to-face workshops and trainings, regional operations community of practices, staff exchanges and technical missions covering financial and budget management, procurement, IP management, administration and discussion of information and communications technology topics.

During the period from October 2019 to March 2020, APRO, together with Quality Management Unit at the Division for Management Services, will conduct regional webinars, individual calls with priority Country Offices, and a regional operations workshop, with the aim of strengthening the capacity of Country Offices in relation to IP management, assurance activities, and FACE form management and processing.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
International Operations Manager, APRO; Programme Managers, AP Offices; and Operations Managers, AP Offices

DUE DATE: *March 2020*

A.3 – INVENTORY MANAGEMENT

SOME IMPROVEMENT NEEDED

25. During the period under review, APR Offices supplied inventory worth USD 7.8 million, consisting primarily of contraceptives, dignity and medical kits for humanitarian response activities. The inventory supplied was procured by the UNFPA Procurement Services Branch, based in Copenhagen, Denmark (USD 3.0 million), and locally by the APR Offices (USD 4.8 million).

26. Audit work in this area included an analytical review of inventory transactions in the period under review, as well as tests of detail on a sample of 18 transactions amounting to USD 0.8 million (10 per cent of the inventory supplied), as regards: (a) linkage to annual workplans or other appropriate evidence of the transactions’ business purpose; and (b) compliance with the applicable policies and procedures, and operating effectiveness of controls in the areas of: (i) requisitioning; (ii) customs clearance, receiving and inspection; (iii) handover of the inventory to IPs; and (iv) transaction recording. For locally procured inventory, audit work included a review of the related procurement processes (refer to section B.2 of the report for details on the work performed).

27. OASIS also held extensive consultations with the Division for Management Services (DMS) on the controls the Division put in place in this area. The value of inventory received by individual IPs in APR was significantly lower compared to other regions; hence, no IP was subject to a dedicated inventory audit. DMS nevertheless undertook analytical reviews of inventory transactions in the region, through the ‘shipment tracker’¹² application. These reviews did not reveal major issues in the region, yet a need for continuous attention.

28. Based on the overall audit work performed, one specific matter is brought to Management’s attention, further to maintaining constant attention in this field. Upcoming OASIS country office audits in the region will also put further emphasis in this area.

Enhance inventory receiving and inspection controls

29. Three out of the 18 inventory transactions reviewed, in the aggregate amount of USD 0.1 million, did not have any evidence of the related commodities having undergone the requisite receiving and inspection processes upon physical receipt by the concerned APR Office.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Receipt and inspection procedures of inventory items may not be sufficiently established and timely action may not be taken as regards non-conformance of the ordered goods, shortages and damage.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION No. 4 **PRIORITY: MEDIUM**

At the beginning of 2019, APRO established an oversight coordination mechanism to ensure better management of supplies and commodity security in the region. Both the Reproductive Health Commodity Security (RHCS) Advisor and the Humanitarian Coordinator with the prepositioning team, have already undertaken inventory management capacity-building missions to Country Offices to monitor and provide oversight over the in-country inventory management processes. This work will continue in 2020, as part of the regular reproductive health commodity security and humanitarian supplies prepositioning workplans.

At the end of September 2019, the RHCS Advisor and the Humanitarian Coordinator will attend a workshop on “last mile assurance” and ensure that the knowledge gained is passed to Country Offices in the region. The regional workshop on “promoting the use of generics” is planned for October 2019, and will bring together commodity security focal persons from the Country Offices, as well as select Government counterparts. It will also cover topics on supply chain management, forecasting, as well as monitoring of supplies and quality assurance.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: DUE DATE: July 2020
RHCS Advisor, APRO; and Humanitarian Coordinator, APRO

¹² IT system following inventory movements.

B. OPERATIONS MANAGEMENT

SOME IMPROVEMENT NEEDED

B.1 – HUMAN RESOURCES

SOME IMPROVEMENT NEEDED

30. During the period under review, APR Offices incurred staff payroll expenses amounting to USD 40.9 million (not in the scope of this audit). In addition, the Offices made use of contract personnel and engaged 161 individuals¹³ under service contracts, at a cost of USD 4.5 million, and 667 individual consultants, at a cost of USD 6.9 million, for operational and programme delivery activities.

31. Audit tests performed included an analytical review of contract personnel transactions in the period under review, as well as detailed tests of a sample of 231 contracts awarded by the Offices at a cost of USD 2.1 million (18 per cent of the contract personnel costs), as regards: (a) linkage to annual workplans or other appropriate evidence of the business purpose of the transactions; (b) use of appropriate personnel contracting modalities; and (c) compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (i) recruitment; (ii) contract award and management; (iii) performance assessment; (iv) transaction recording; and (v) payments. Audit procedures applied also included testing of 44 payments of staff benefits and entitlements amounting to USD 0.6 million.

32. Based on the work performed, the audit identified the following matter in need of Management attention.

Strengthen supervision of the application of rules and procedures for managing contract personnel

33. The review of the 231 contract personnel transactions identified 83 exceptions (36 per cent) where rules and procedures should have been applied more rigorously:

- (a) Three (3) instances where the competencies required to perform an assignment were not documented in the ‘Terms of Reference for Individual Consultant Form’ when initiating requests for the individual consultants, as required by applicable policy;
- (b) Twenty-eight (28) instances where individual consultants were engaged without providing the requisite certifications for health insurance, health statements or, for those traveling, without completing the prescribed security courses;
- (c) Sixteen (16) instances amounting to USD 0.2 million where individual consultants commenced work without valid contracts – the contracts were approved and signed retrospectively;
- (d) One (1) instance where an Individual Consultant was granted Atlas approval rights for purchase orders – a function that is explicitly reserved for staff members under applicable UNFPA Financial Regulations and Rules;
- (e) Twenty-seven (27) instances (USD 0.1 million) where certifications of payment and evaluations of the overall performance of individual consultants were either not documented or were not prepared in a timely manner; and
- (f) Eight (8) instances of delays ranging between one and seven months in evaluating and paying consultants following the completion of assignments.

ROOT CAUSE *Guidance: inadequate supervision at Office level.*

IMPACT *Non-compliance with policies and procedures may diminish competitiveness in the selection of personnel, result in inconsistencies in the treatment of contract personnel, limit performance evaluations, and create legal liability.*

CATEGORY *Compliance*

¹³ Based on Cognos figures

AGREED MANAGEMENT ACTION NO. 5

PRIORITY: HIGH

APRO has already conducted dedicated capacity-building sessions on human resource policies and procedures, including consultancies. One was conducted in conjunction with a Division for Human Resources Policy Specialist in December 2018, and another in May 2019, as part of a regional human resource workshop.

Following these remote audit and monitoring findings, a webinar was held for Representatives and Heads of Office for the discussion of policy compliance and liability-related issues – helping highlight accountability and remedial actions. An additional webinar on the Individual Consultants policy, further addressing the issues highlighted from this audit, will be held in the fourth quarter of 2019.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
Human Resource Strategic Partner, APRO

DUE DATE: March 2020

B.2 – PROCUREMENT

SOME IMPROVEMENT NEEDED

34. During the period under review, the APR Offices locally procured goods (other than inventory items) and services, at a cost of approximately USD 8.0 million. The most significant goods or services procured were event services for workshops and trainings; facility and information technology services; and office and communication supplies.

35. Audit work in this area included an analytical review of procurement transactions in the period under review, as well as detailed tests of a sample of 173 local purchases made at a cost of USD 2.2 million (28 per cent locally-managed procurement transactions), as regards: (a) linkage to annual work plans or other appropriate evidence of the business purpose of the transactions; (b) compliance with UNFPA procurement principles¹⁴ and applicable policies and procedures; and (c) operating effectiveness of controls in the areas of: (i) procurement planning; (ii) requisitioning; (iii) solicitation and bidding; (iv) bid assessment; (v) vendor selection; (vi) contract award; and (vii) accounts payable and payments.

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

Improve the use of the procurement plan as a managerial tool

37. The 2018 procurement plans prepared by five APR Offices were either incomplete, omitting significant procurement needs such as assets, workshops and programme supplies, or not updated. In addition, one APR Office did not prepare a procurement plan in 2018.

38. The procurement plan should capture as many procurement actions as can possibly be foreseen, and be as detailed as possible. A comprehensive plan can also facilitate better coordination between programme and operations management teams as regards procurement needs, including expected completion timeframes which, in turn, allows operations staff to plan their work more effectively. Procurement plans, regularly monitored with appropriate actions taken to address any issues, could constitute an effective management tool to help minimize any adverse impact on programme implementation as a result of delays in procurement completion.

39. Other exceptions noted, while not individually significant or pervasive in nature, indicate non-compliance with procurement policies and procedures. The most notable of these exceptions were:

- (a) Eleven (11) instances, in the total amount of USD 0.1 million, where solicitation documents did not include all the relevant details of the goods or services to be procured or the specified deadlines for receiving quotations were not in accordance with policy-prescribed timelines – in all instances shorter; and
- (b) One (1) isolated case involving the of procurement of UNFPA-branded merchandise at a cost of USD 8,482 that was not included in the relevant approved workplan.

¹⁴ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>The effectiveness and efficiency of the procurement process, as well as its transparency and fairness, may be diminished.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION NO. 6

PRIORITY: MEDIUM

Each year, since 2015, as part of the Framework for Operational Support and Oversight, APRO has been conducting dedicated regional capacity-building activities through webinars, face-to-face workshops and trainings, regional operations community of practices, staff exchanges and technical missions covering financial and budget management, procurement, IP management, administration and discussion of information and communications technology topics.

In October 2016, APRO conducted a regional procurement workshop and a regional supply management workshop in July 2018 for all operations managers and procurement focal persons in the region. Since the introduction of new procurement policy in mid-2019, APRO has been in discussion with the Procurement Services Branch to organize webinars and training on the new policy, and plans to conduct a regional webinar before the end of 2019, and a regional procurement training in the first quarter of 2020 to strengthen the procurement capacity of Country Offices. Thereafter, the AP Heads of Office will ensure appropriate attention and supervision is provided to procurement planning and execution processes.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:

DUE DATE: July 2020

Heads, AP Offices; and International Operations Manager, APRO

B.3 – FINANCIAL MANAGEMENT

SOME IMPROVEMENT NEEDED

40. During the period under review, the APR Offices processed approximately 23,038 financial transactions, including roughly 15,659 Accounts Payable Vouchers (used for payments); and 7,379 Accounts Payable Journal Vouchers used primarily to process adjustments and record expenses reported by IPs. The remaining transactions corresponded to payroll and other automated transactions, mainly of an accounting nature (e.g., accruals, asset and inventory capitalization, exchange gains and losses, etc.), which were not tested, as they were assessed to present low risk.

41. Work performed in this area included tests of detail, for all transactions within the scope of the audit as indicated in the other sections of this report, as regards: (a) the authorization and proper processing of the related financial transactions; (b) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; and (c) the operating effectiveness of the accounts payable and payments process controls.

42. From the work performed, the audit noted the following matters that require Management attention.

Commit funds in Atlas before completing transactions

43. Requisitions and purchase orders for 134 transactions (21 per cent of total transactions reviewed) comprising 26 procurement transactions (USD 0.3 million), 24 travel transactions (USD 0.3 million), and 84 individual consultant transactions (USD 0.3 million) 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.

44. Processing of requisitions and purchase orders on an “*ex post-facto*” basis and other inadequate funds management processes could significantly diminish the effectiveness of UNFPA’s commitment controls – creating the risk that resources are no longer available to pay for goods and services procured if the required funds are committed for other purposes before these transactions are processed.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>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.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION NO.7

PRIORITY: HIGH

Each year, since 2015, as part of the Framework for Operational Support and Oversight, APRO has been conducting dedicated regional capacity-building activities through webinars, face-to-face workshops and trainings, regional operations community of practices, staff exchanges and technical missions covering financial and budget management, procurement, IP management, administration and discussion of information and communications technology topics.

In November 2019, APRO, in coordination with the Division for Management Services, plans to conduct a regional operations workshop aimed at strengthening the capacity of Country Offices in relation to financial and budget management and will invite all operations managers and finance and administrative associates in the region.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
International Operations Manager, APRO

DUE DATE: *March 2020*

Improve financial transaction coding and processing

45. Thirty-eight instances of inaccurate recording of expenses, in the aggregate amount of USD 0.1 million, were noted – charged to incorrect general ledger accounts, specifically in relation to individual consultants, travel, assets and procurement voucher transactions. Further, as part of the 2018 financial statement preparation process, the Headquarters Finance Branch processed reclassification adjustments of transactions incorrectly recorded by APR Offices in the amount of USD 0.4 million, corresponding primarily to the recording of purchased medical kits in one APR Office and value-added tax charges in another.

46. In addition, three IP-related transactions were posted late in Atlas – more than three weeks following the end of a quarter, instead of the policy-prescribed 15 days. In two of the cases, the concerned APR Offices indicated that the concerned IPs faced challenges in completing the then newly introduced electronic FACE forms due to the learning curve involved – leading to delays in finalizing the forms. The third instance was attributed to a delay in the submission of FACE forms by the concerned IP.

ROOT CAUSE	<i>Human error: unintentional mistakes. Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Accounting data inaccuracies limit management’s ability to use the information for monitoring and could distort the presentation of UNFPA financial information.</i>
CATEGORY	<i>Reporting</i>

AGREED MANAGEMENT ACTION NO.8

PRIORITY: MEDIUM

Each year, since 2015, as part of the Framework for Operational Support and Oversight, APRO has been conducting dedicated regional capacity-building activities through webinars, face-to-face workshops and trainings, regional operations community of practices, staff exchanges and technical missions covering financial and budget management, procurement, IP management, administration and discussion of information and communications technology topics.

In addition, through regular follow-up and oversight dashboard calls, APRO monitors financial performance across the region. In November 2019, APRO, in coordination with the Division for Management Services, plans to conduct a regional operations workshop aimed at strengthening the capacity of Country Offices in relation to financial and budget management and will invite all operations managers and finance and administrative associates in the region.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
International Operations Manager, APRO

DUE DATE: *March 2020*

B.4 – TRAVEL

SOME IMPROVEMENT NEEDED

47. Travel expenses incurred by APR Offices during the period under review amounted to USD 5.7 million. A significant portion thereof corresponded to Daily Subsistence Allowance (DSA) payments for training workshops, meetings, and consultancies.

48. Audit work performed in this area included an analytical review of travel transactions in the period under review, as well as detailed testing of a sample of 87 travel transactions amounting to USD 0.9 million (16 per cent of total travel expenses), as regards: (a) linkage to workplans or other appropriate evidence of the business purpose of the transactions; and (b) operating effectiveness of controls in the areas of: (i) procurement of travel services; (ii) security clearance; (iii) authorization, computation and payment of DSA; and (iv) submission and approval of travel expense reports.

49. From the work performed, the audit noted the following matter that requires Management attention.

Improve travel planning

50. The travel policy requirement regarding the submission of travel requests (at least 21 days before travel date for business class and 14 days for economy class) was inconsistently followed. The review of a sample of 87 travel requests identified 35 instances (40 per cent of transactions tested) where requests were submitted between 1 and 15 days prior to travel dates. While the testing did not reveal any significant price differentials when comparing the prices paid to current prices (absent contemporaneous quotes), there is a potential risk that Offices may not be able to obtain the lowest fares available.

51. Other exceptions noted in the testing of travel transactions included: (a) seven instances of official travel having been undertaken without the necessary security clearances or travel authorizations; (b) two inaccurate DSA calculations resulting in the overpayment of a total of USD 25,373 to two members of staff on lengthy detail assignments; and (c) two instances of unsupported travel expenses, in the total amount of USD 10,000, involving one APR Office. These exceptions were communicated to the concerned APR Offices for remedial action during the audit fieldwork.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
	<i>Late procurement of tickets may prevent the Offices from obtaining the lowest fares available.</i>
IMPACT	<i>Travel without the necessary security clearances and authorization increases safety and security risks for Office personnel and legal liability risk for UNFPA.</i>
	<i>There is increased risk of financial loss for UNFPA.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION NO.9

PRIORITY: MEDIUM

APRO is the only UNFPA field office that uses the travel module in Atlas. It was introduced in May 2018. In 2019, with the aim of improving travel management across the region, APRO identified and set up seven Country Offices to pilot the module. Training by the Division for Management Services is scheduled for November 2019, with the module roll-out in early 2020. Further, in 2018 and 2019, APRO together with the Division for Management Services conducted travel management webinars. Another webinar is being scheduled for the fourth quarter of 2019 to cover the entire region.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
International Operations Manager, APRO

DUE DATE: *July 2020*

B.5 – ASSET MANAGEMENT

EFFECTIVE

52. During the period under review, the APR Offices procured fixed assets for their own use and that of IPs, at a cost of USD 1.3 million. The most significant fixed asset categories procured were motor vehicles and computer equipment.

53. Audit work in this area included the review of a sample of 19 assets, including vehicles, procured in 2018 for use either by the APR Offices or IPs, at a cost of USD 0.4 million (31 per cent of the value of fixed assets procured), for appropriateness of business purpose and compliance with the asset management policies and procedures, including the procurement of vehicles.

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

ANNEX I - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016¹⁵, are explained below:

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

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

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

Guidance: inadequate or lack of supervision by supervisors

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

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

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

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

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

¹⁵ 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 obligation

ANNEX II – AUDIT COVERAGE AND FINDINGS
By transaction type

Type of Transaction	Population		Sample Tested		Issues Noted	
	# of Vouchers	000 USD	# of Vouchers	000 USD	# of Vouchers	000 USD
Personnel	3,190	52,378	271	2,132	123	595
NEX	1,312	52,818	68	15,850	16	4,203
Inventory	1,263	7,805	18	813	4	97
Procurement	6,089	8,032	173	2,227	56	530
Travel	7,557	5,721	87	900	54	608
Fixed assets	630	1,268	19	409	6	90
Other	2,414	5,631	5	91	1	3
Total	22,455	133,653	641	22,422	260	6,126
<i>Percentage of sample</i>	--	--	100%	100%	41%	27%

By business unit

Business Unit	Population		Sample tested		Issues noted	
	# of Vouchers	000 USD	# of Vouchers	000 USD	# of Vouchers	000 USD
Afghanistan	900	13,469	51	3,511	18	1,380
Bangladesh	2,395	28,913	92	5,550	57	1,456
Bhutan	232	610	3	12	2	4
Cambodia	513	2,357	19	468	3	164
China	400	2,793	24	300	7	106
Dem Rep Korea	471	1,541	3	12	2	8
India	1,901	7,080	32	701	12	68
Indonesia	1,241	6,463	26	541	14	209
Iran	391	1,835	6	81	1	6
Lao	586	3,682	13	483	1	15
Malaysia	252	697	8	54	1	4
Maldives	266	416	11	67	4	21
Mongolia	910	2,776	10	108	4	9
Myanmar	1,558	12,435	41	1,405	22	593
Nepal	1,781	7,696	18	1,915	8	296
Pakistan	1,292	10,052	75	4,459	38	1,153
Papua New Guinea	854	4,229	31	736	5	30
Philippines	1,642	5,352	37	286	12	65
Regional Office	1,961	10,735	37	669	-	-
Sri Lanka	829	1,360	19	72	6	23
Sub-Regional	1,574	5,680	60	773	31	449
Thailand	307	1,066	5	65	-	-
Timor Leste	782	2,416	20	154	12	67
Total	23,038¹⁶	133,653	641	22,442	260	6,126

¹⁶ The total number of vouchers do not add up in the above tables (by transaction type and by business united) because some vouchers may impact multiple countries and/or areas.

Exceptions in GPS workplans

Type of Transaction	Volume		Value	
	# of Transactions	Per cent (rounded)	000 USD	Per cent (rounded)
Population Total	306		133,653	
Sample tested¹⁷	288	100%	124,600	100%
Issues noted in test	231	80%	113,832	91%
<i>of which workplans with</i>				
Budgets at the aggregate account level	73	25%	59,588	48%
Budgeted amounts different in GPS from those in the Atlas Commitment Control module	88	31%	22,479	18%
Multiple unsupported revisions	63	22%	22,453	18%
Budget support cost above agreed level	--	--	--	--
Not approved as at 31 March 2018	80	28%	9,312	7%

¹⁷ Some vouchers were tested for or had more than one type of issue.

GLOSSARY

Acronym	Description
APR	Asia and Pacific Region
APRO	Asia and Pacific Regional Office
Atlas	UNFPA’s Enterprise Resource Planning system
DCS	Division of Communications and Strategic Partnerships
DMS	Division for Management Services
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
IP	Implementing Partner
NEX	National Execution
OAIS	Office of Audit and Investigation Services
RHCS	Reproductive Health Commodity Security
UNFPA	United Nations Population Fund
UN-RIAS	United Nations Representatives of Internal Audit Services
USD	United States Dollars