United Nations Population Fund
Delivering a world where every pregnancy is wanted,
every childbirth is safe and
every young person's potential is fulfilled.

OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN PAKISTAN

FINAL REPORT
Nº IA/2020-05

27 August 2020

TABLE OF CONTENTS

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Pakistan (the Office). The audit covered the period from 01 January 2018 to 30 June 2019. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. Activities covered by the audit correspond primarily to the first and second years of the ninth Country Programme 2018 – 2022, approved by the Executive Board in its 2017 second regular session, with indicative resources of USD 39.5 million.

3. Expenses covered by the audit amounted to USD 17.4 million, executed by 27 implementing partners (USD 9.7 million) and by UNFPA (USD 7.7 million), funded from core resources of USD 7.7 million and non-core resources of USD 9.7 million. In addition, the audit covered the supply of reproductive health commodities during the period under review, procured with funding provided by the UNFPA Supplies programme, amounting to USD 2.8 million.

4. Approximately 44 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Population and Development component accounted for 24 per cent of the expenses incurred and the Youth and Gender equality and women's empowerment components for another 23 per cent. 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 9 per cent of expenses.[1]

Methodology and scope

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

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

Audit rating[2]

7. The overall audit rating is ***"Major Improvement Needed"*** – which means that the assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the Office should be achieved. The issues identified could significantly affect the achievement of the Office's objectives. Prompt management action is required to ensure that the identified risks are adequately mitigated.

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

[1] Source: Cognos reports
[2] See complete set of definitions in Annex 1

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

Key findings and recommendations

9. The audit identified some good practices, as well as areas that require Management attention, some of a strategic nature, and others related to operational, reporting and compliance matters. Overall, the audit report includes eight high priority and nine medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 17 recommendations, 2 are of a strategic nature, 9 are operational, 5 refer to compliance matters, and one to reporting.

Good practices

10. Several good practices adopted by the Office were identified, some of which could be considered for replication by other offices. From a governance perspective, the Office actively participates in the coordination of the emergency response mechanisms such as inter-agency clusters, including lead roles in the gender-based violence and sexual and reproduction health sub-clusters. Also, the Office introduced "team coaching sessions" to support and enhance staff skills and competencies in critical areas, including programme, finance and operational management.

11. From a programme management perspective, the Office has developed a 'Monitoring and Evaluation and Operational Framework' document in a collaborative effort with relevant stakeholders to facilitate monitoring and periodic evaluation of the ninth Country Programme cycle. The Office developed a 'Public-Private Partnership' framework to enhance partnerships and promote the essential role of the private sector to accelerate family planning uptake across Pakistan.

12. Finally, in the area of operations management, payments of allowances to meeting and training participants were largely managed through local bank services to minimize the risks associated with handling cash payments. The Office, in partnership with other United Nations organizations, continued to utilize a carpooling system, which reduces the number of local trips made in official vehicles and increases fuel efficiency.

Strategic level

13. At the strategic level, there is a need to perform more rigorous risk assessments, assigning risk ratings commensurate with the materiality and complexity of the assessed areas. The Office should also improve Strategic Information System programme planning and quality-review processes to ensure formulation of quality milestones with realistic, measurable and achievable target indicators.

Operational level

14. From a governance perspective, the Office needs to strengthen planning and completion of personnel training activities. The Office also needs to improve the staff performance appraisal and development process to ensure the alignment of staff individual plans to the Office annual plan, and the alignment of the achieved results reported to the output indicators defined.

15. In the area of programme management, the Office needs to enhance the effectiveness and efficiency of the workplan management process; improve the programme monitoring process as well as reinforce the financial monitoring of implementing partners. There is also a need to improve the documentation for selecting implementing partners as well as improve inventory management in line with the requirements of the management of programme supplies policy.

16. In the area of operations management, the Office should improve the documentation of receipt verification of goods and services procured. There is a need for the Office to continue collaborating with the inter-agency operations management team and obtain clarity on the process for value-added tax exemption for United Nations organizations and for implementing partners.

Compliance level

17. The Office should ensure compliance with the policies and procedures, mainly those related to the use of Funding Authorization and Certificate of Expenditure form checklists; and the oversight over the non-core fund management process. The Office should raise the awareness of relevant staff on the importance of better planning and committing funds in Atlas before contracting with local suppliers.

18. The Office should enforce the application of ICT policies on security, software, and vulnerability management, removing unauthorized software from all office computers.

Reporting level

19. The Office should strengthen supervisory controls and training to ensure that financial transactions are recorded in the appropriate account and financial receipts are recorded in Atlas.

Management response

20. The Office Management appreciates the Office of Audit and Investigation Services (OAIS) team for their quality and professional work. The Office agrees with the recommendations made by the OAIS team and has taken management actions against most of them and will continue reinforcing corrective actions, in line with the Office Management Action Plan. Building on the implementation of previous audits' recommendations, including those of the UN Board of Auditors (2016) and of the OAIS remote audit in the Asia Pacific Region (2019), the Office has reinforced a number of control measures and put systems in place to ensure effective and much improved functioning of the Office.

21. The OAIS team would like to thank the Management and personnel of the Office, of the Asia and Pacific Regional Office (APRO), 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 2018 to 30 June 2019. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over UNFPA's operations in Pakistan.

3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:

a) The effectiveness and efficiency of the Office operations;
b) The conformity of expenses with the purposes for which funds were appropriated;
c) The safeguarding of assets entrusted to the Office;
d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
e) The reliability of the Office financial and operational reporting.

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

5. The engagement was conducted by two OAIS audit specialists, supported by staff from a local external audit firm and an international individual consultant. The audit started on 03 September 2019. A field mission took place from 30 September to 18 October 2019. Preliminary findings and recommendations resulting from the field mission were discussed with Office Management at an exit meeting held on 18 October 2019. Additional field work audit work and a review of reported issues were discussed with the Office Management in December 2019. The outcome of this work, as well as comments and clarifications provided by Management in the first quarter of 2020 were reflected in a draft report submitted to the Office Management on 15 June 2020, and a final management response received on 22 August 2020.

II. BACKGROUND

6. Pakistan, officially the Islamic Republic of Pakistan, is a country in South Asia with an estimated total population of 212 million in 2017 and an estimated annual growth rate of 2.1 per cent.[3] The country's Gross Domestic Product (GDP) growth slowed to 3.3 per cent in 2019, a 2.2 per cent points decline compared to previous year.[4]

7. As one of the most populous countries in the world, Pakistan remains a major humanitarian concern. Inter-communal violence and clashes between the military and non-state armed groups have displaced people and created recurring insecurity. It hosts more than 1.4 million registered Afghans who have been forced to flee their homes.[5] In addition, the country is also vulnerable to the devastating effects of natural disasters, including those related to climate change, leading to displacement and internal migration.[6]

8. The contraceptive prevalence rate for modern methods is 26 per cent, significantly lower than other South Asian and Muslim-majority countries, thereby contributing to the continuing high maternal mortality (178 per 100,000 live births). The unmet need for family planning is 20 per cent among married women and the contraceptive discontinuation rate is high (37 per cent).[6] Although the overall prevalence is still less than 1 per cent in the adult population, the latest estimate (2017) of people living with human immunodeficiency virus (HIV) was 150,000 and in 2018, 21,000 new people living with HIV cases were recorded.[7]

9. Pakistan has been a United Nations Delivering-As-One (DaO) country since 2006. The ninth UNFPA Country Programme were guided by the 'United Nations Sustainable Development Framework for Pakistan (UNSDF) 2018 – 2022, also known as the 'Pakistan One United Nations Programme III', which had indicative total resources of USD 877 million for the period. The Programme is aligned to the 'Government of Pakistan Vision 2025', the International Conference on Population and Development, the 2030 Agenda for Sustainable Development, and the Family Planning 2020.

10. Activities covered by the audit correspond primarily to the first and second years of the ninth Country Programme 2018 – 2022, approved by the Executive Board in its 2017 second regular session, with indicative resources of USD 39.5 million.

11. Expenses covered by the audit amounted to USD 17.4 million, executed by 27 implementing partners (USD 9.7 million) and by UNFPA (USD 7.7 million), funded from core resources of USD 7.7 million and non-core resources of USD 9.7 million. In addition, the audit covered the supply of reproductive health commodities during the period under review, procured with funding provided by the UNFPA Supplies programme, amounting to USD 2.8 million.

12. Approximately 44 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Population and Development component accounted for 24 per cent of the expenses incurred and the Youth and Gender equality and women's empowerment components for another 23 per cent. 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 9 per cent of expenses.[8]

13. The main UNFPA Office in Pakistan is located in the capital city of Islamabad, with a decentralized Office in the city of Karachi. During the period under review and at the time of the audit field mission, the Office was managed by a Representative, assisted by a Deputy Representative, and an International Operations Manager.

---

[3] https://data.worldbank.org/country/pakistan

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

[5] https://www.unhcr.org/en-us/pakistan.html

[6] UNFPA Country Programme Document for Pakistan (2018 -2022)

[7] https://www.who.int/csr/don/03-july-2019-hiv-cases-pakistan/en/

[8] Source: Cognos reports

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE — SOME IMPROVEMENT NEEDED

Good practices identified

14. The following good practices in the area of governance were identified, some of which could be considered for replication by other Country Offices:

a) The Office introduced "team coaching sessions", which are interactive in nature and comprise of combination of presentations and on-job training activities, to support and enhance staff skills and competencies in critical areas including programme, finance and operational management; and

b) The Office actively participated in the coordination emergency response mechanisms such as inter-agency clusters, including lead roles in the gender-based violence and sexual and reproductive health sub clusters.

A.1 – OFFICE MANAGEMENT — EFFECTIVE

15. Audit procedures performed in this area included the review of: (a) the Office planning process in 2019; (b) the relevance of the 2019 annual management plan and the implementation level of activities in 2018; (c) the alignment of the 2018 performance plans of key personnel to Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2018 annual report data; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.

16. The audit also included inquiries of the United Nations Resident Coordinator/Humanitarian Coordinator (acting Officer-in-Charge) in Pakistan to obtain an understanding of their working relationship with the Office and an assessment of the UNFPA performance and achievements.

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

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

18. At the time of the audit field mission, the Office had 37 approved staff posts – including 7 international posts, 11 national posts, and 19 general service posts. An additional 15 posts covered under the Service Contract modality. In addition, the Office engaged 58 individual consultants during the period under review.

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

20. Based on the work performed, the following two matters require Management attention.

Strengthen the planning and completion of personnel training activities

21. At the time of the audit field mission, all Office personnel had completed the mandatory security training courses and the 'Prevention of Sexual Exploitation and Abuse' course. Completion rates for other mandatory courses, including those related to 'Ethics and Integrity at UNFPA', UNFPA 'One Voice eOrientation', 'Working Together Harmoniously', and 'UN Cares' HIV in the Workplace Training' ranged from zero to 83 per cent of the Office's total workforce. Office Management explained that the low completion rate attributes to several factors including: (a) staff movement in 2018 due to robust Human Resource (HR) realignment; (b) new courses introduced as mandatory in 2018; (c) absence of a central learning platform to access all mandatory courses at one place; and (d) late approval of costed training/learning activities from the Regional Training and Learning Budget in June-July after a robust review.

22. To help prioritize training needs, Office Management developed a comprehensive training plan providing an overview of planned training activities and the related costs. However, none of the 2018 proposed training was completed and, at the time of the field mission, 13 out of 38 (34 per cent) of the 2019 proposed training were completed. In addition, lack of training was identified as the root for many issues discussed throughout this report

as will be seen in the coming sections, included, those related to staff performance appraisal and development plans, programme implementation monitoring process, supply chain management and financial management.

ROOT CAUSE	*Guidance: Lack of or inadequate guidance or supervision at the Country Office level.* *Guidelines: Inadequate planning.*
IMPACT	*Skill capacity gaps may adversely impact programme delivery and operational activities.*
CATEGORY	*Operational.*

RECOMMENDATION 1 ***PRIORITY: HIGH***

Strengthen the training management process through: (a) ensuring completion of any outstanding mandatory courses; and (b) devising an Office training plan which takes into account programme delivery and operations requirements as well as staff development needs.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2021*

Office Management has already taken action on the mandatory courses and, as of August 2020, all mandatory courses are completed. Further, Management has devised and implemented a team coaching and on-the-job training plan focusing on programme delivery, results-based management, operations requirements and other staff development needs.

The Office Management is continuously monitoring the implementation of the plan through the HR focal person. Staff in supervisory roles are responsible to ensure that staff member's mandatory courses are completed/updated, and other training/learning activities are properly reflected in respective Performance Appraisal and Development Plans and Performance Annual Reviews .

Better align staff performance appraisal and development plans to Office annual plan

23. The review of the 2018 output indicators for four staff members and the related Performance Appraisal and Development plans (PAD) showed, at least, 20 instances where Office plan output indicators were not reflected in the corresponding PADs. In one case, the assigned Programme Team Lead performance appraisal was not available at the time of the audit visit.

24. These issues, mainly caused by lack of training and supervision, have been raised in other OAIS reports.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: inadequate supervision at Office level.*
IMPACT	*Misalignment of the Office annual plan and staff PADs may limit the accountability for and ability to monitor expected results and hence, whether to achieve planned programme results.*
CATEGORY	*Operational.*

RECOMMENDATION 2 ***PRIORITY: MEDIUM***

In order to strengthen the achievement of planned results, better align individual staff members' performance appraisal plans to the Office annual plan, in particular regarding results achieved versus output indicators defined.

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

MANAGEMENT ACTION PLAN: DUE DATE: *Implemented*

Office Management had taken action and has fully implemented the recommendation. Management advised and provided guidance to supervisors and their respective direct reports to reflect changes in supervisor and job functions. In 2019, special staff coaching sessions were organized. Supervisors were orientated to ensure alignment of the SIS milestones with staff members' PAD 2019. Moving forward, paper-based SIS planning (outside the SIS platform) was introduced for reference of all staff to support PAD Planning and its alignment with SIS.

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

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

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

26. Based on the work performed, one matter needs Management attention.

Enhance the process for assessing and managing risks

27. The Office completed a strategic risk assessment, as well as a fraud risk assessment, for the periods 2018 and 2019, under the umbrella of the corporate Enterprise Risk Management (ERM), using the 'myRisks' functionality in the Strategic Information System (SIS).

28. A review of the 2019 strategic risk assessment indicated that the assessed risk levels were not always commensurate with the financial materiality and complexity of the areas to which they relate. Most strategic risk factors were assessed by the Office as either "medium" or "low", including those in areas of 'Non-Delivery of Programme Results' and 'Management of Strategic and Operational Partners', despite challenges faced in engaging Implementing Partners (IP), including the clearance process at the national and international IP level – resulting in late signature of workplans and implementation of programme activities as detailed later in paragraph 41; as well as in obtaining visas for international staff – adversely impacting programme delivery.

29. The Office assessed most risk factors included in the 2019 fraud risk framework as presenting low inherent and residual risk levels, with the related controls operating effectively. This assessment did not appear to accurately reflect the actual fraud risk level faced by the Office; the challenging security context in the local operating environment; nor the issues identified in the areas of National Execution (see section B.2 of this report) and the perception expressed by major donors (see section B.4 of this report).

30. Further, the Office did not complete the 2018 control self-assessment. As a result, OAIS could neither undertake a review of the depth of risk monitoring nor assess the implementation of risk mitigation activities by the Office.

ROOT CAUSE	*Guidelines: inadequate risk management process.*
IMPACT	*Inaccurate identification of risks limits the ability to develop and implement appropriate mitigating measures.*
CATEGORY	*Strategic.*

RECOMMENDATION 3	***PRIORITY: HIGH***

Leveraging on the 2020 Enterprise Risk Management process, perform more rigorous strategic risk assessment and fraud risk assessment, assigning risk ratings commensurate with the materiality and complexity of the assessed areas, to design and implement appropriate risk mitigation measures.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative with support from the Director, Asia and Pacific Regional Office; and Director, Division for Management Services as the ERM Lead.*	STATUS**:**	*Agree*
MANAGEMENT ACTION PLAN:	DUE DATE:	*January 2021*

Office Management will ensure a rigorous risk assessment process through team meetings and consultations using the broader UN Pakistan frameworks – e.g. Coronavirus (CoVID-19) Socio-Economic Impact Assessment and Plan; Common Country Assessment; UN Pakistan Programme Criticality Assessment – and compliance to corporate guidelines.

B. PROGRAMME MANAGEMENT — MAJOR IMPROVEMENT NEEDED

Good practices identified

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

a) The Office has developed a 'Monitoring and Evaluation and Operational Framework' document in a collaborative effort with Government ministries, IPs and relevant stakeholders, to facilitate the monitoring and periodic evaluation of the ninth Country Programme cycle, including reporting data on programme implementation activities at output and outcome levels; and

b) A 'Public-Private Partnership' framework has been developed by the Office to enhance partnerships and promote the private sector's essential role to accelerate family planning uptake across Pakistan. The framework is based on the evidence generated through a stakeholder analysis on improving access to family planning services through the private sector in Pakistan.

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

32. During the period under review, the Office implemented activities related to six outputs of the ninth Country Programme 2018 – 2022 at a cost of USD 15.9 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 83 per cent in 2018 and 56 per cent as at 30 June 2019, measured based on annual budgets allocated in Atlas.

33. Activities were implemented by UNFPA, with related expenses of USD 6.2 million (39 per cent of programme implementation expenses in the period under review) and financial implementation rates of 87 per cent in 2018 and 52 per cent as at 30 June 2019. A large part of the expenses related to UNFPA-implemented activities corresponded to personnel and facilities costs and expenses related to training activities.

34. Activities were also implemented by 27 IPs engaged by the Office, with related expenses of USD 9.7 million (61 per cent of programme implementation expenses in the period under review) and financial implementation rates of 81 per cent in 2018 and 60 per cent as at 30 June 2019. Section B.2 of the report provides further details on IP-implemented activities. In the period under review, programme implementation activities were funded from core resources (USD 6.2 million) and non-core resources (USD 9.7 million).

35. Audit work performed in this area focused on two outputs with aggregate expenses of USD 11.9 million during the period under review (75 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for both 2018 and 2019; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as to monitor their implementation by the Office and by other partners; and (c) the review of monitoring reports and other evidence of programme implementation, along with site visits to three facilities that delivered reproductive health services funded by the Office. The audit also included a review of the process followed in the development of the ninth Country Programme 2018 – 2022.

36. Based on the audit work performed in this area, the following three matters require Management attention.

Continue to improve on the relevance and achievability of annual indicator targets and milestones

37. A review of the Office's 2018 annual report, which was prepared on the basis of information obtained from SIS, indicated that only 70 per cent of output indicator targets were achieved in 2018. The Office Management attributed the under-performance to a combination of factors, including over-ambitious target setting, HR realignment process, and other factors beyond the Office's control, such as lengthy interactions with IPs, country general election, and obtaining clearance for some donor-funded projects at national and provincial levels.

38. To remedy the under-performance noted in 2018 caused by the over-ambitious target setting, Office Management explained that it built on lessons learned and adopted a new approach to prioritizing and defining annual targets and milestones to ensure that they are specific, realistic and achievable.

39. Performance improvements were noted with in 2019, with 89 per cent of all output indicator targets achieved. Continued efforts are nevertheless warranted to meet programme objectives.

ROOT CAUSE	*Guidelines: Inadequate planning.*
IMPACT	*The ability to monitor and achieve expected programme results may be hindered.*
CATEGORY	*Strategic.*

RECOMMENDATION 4 ***PRIORITY: HIGH***

Continue to improve on the planning and quality review of the Office's annual results plans (in the Strategic Information System) to ensure the formulation of quality milestones with realistic, measurable and achievable target indicators.

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

MANAGEMENT ACTION PLAN: DUE DATE: *June 2021*

Office Management will continue to use the existing robust annual review and programming practice at national and provincial level involving all programme stakeholders, development partners and thematic teams to ensure realistic interventions, targets and ownership, followed by regular programme reviews with all stakeholders informing SIS progress reviews. Further, the Office has introduced an internal integrated team management platform/structure to break down silos and synergize SIS and GPS workplan monitoring and quality assurance.

Timely finalize workplans and enhance the use of the Global Programming System

40. Despite early engagement with IPs with initial planning meeting commencing as early as November 2018, 14 workplans sampled were signed at various points in time between April and August 2019. Consequently, programme activities were implemented predominantly in the second half of the year, resulting in multiple revisions of workplan budget activities.

41. Office Management attributed the above-mentioned delays to a combination of factors, the majority of which were beyond the Office's control, including: (a) delays in the governmental IP registration and clearance process for national and international non-governmental organizations ; (b) complex and lengthy processes for the clearance and approval of project activities at both national and province levels; and (c) Government restrictions on the transport and movement of Office personnel in certain areas, resulting in delays in programme and/or project coordination review meetings with IPs.

42. The review of the Office's use of the Global Programming System (GPS) in 2018 and 2019 revealed several areas for improvement for a more effective use of GPS: (a) workplans relating to programme implementation by the Office not uploaded into GPS (six instances); (b) differences between workplan budget amounts and Atlas 'Commitment Control Budgets',[9] mainly due to revisions made in Atlas 'Commitment Control Budgets' that were not reflected in the GPS workplan budgets (11 instances, with accumulative amount USD 1.3 million in absolute value); (c) programme activities (amounting to USD 8.9 million) incorporated in GPS at the aggregate account level of 'General Operation Expenses' instead of the corresponding sub-account levels by expense type (i.e. the "monitoring" account level) – which would significantly improve monitoring by providing greater details on the nature of inputs budgeted.

ROOT CAUSE	*Guidance: inadequate supervision at the Office level.* *Guidelines: Inadequate planning.* *Other: factors beyond the control of UNFPA.*
IMPACT	*Delayed implementation of programme activities may hamper the achievement of the Office's goals.*
CATEGORY	*Operational.*

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

RECOMMENDATION 5	***PRIORITY: HIGH***

Enhance the effectiveness and efficiency of the workplan management process by: (a) establishing, in collaboration with the Office's implementing partners, a more effective planning process, with clearly defined milestones and deadlines, for timely finalizing and signing workplans; and (b) instituting more effective supervisory reviews in the use of the Global Programming System.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:
Representative, with support from the Asia and the Pacific Regional Office — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *May 2021*

Office Management will continue developing and rolling out workplanning roadmaps to ensure timely finalization of workplans. The Office will conduct orientation and coaching sessions for the programme teams to strengthen workplan management in GPS and ensure budget commitment in the Atlas commitment control at the monitoring account level.

Strengthen the monitoring process

43. A review of Office monitoring activities during the audit period revealed two key areas for improvement, notably planning and reporting, as detailed below:

Absence of a monitoring plan and inconsistent reports

44. The Office did not have a detailed monitoring calendar to keep track of planned and actual monitoring activities specifying, e.g. locations and dates of planned monitoring visits, responsible personnel, and the expected level of completion or coverage achieved of the planned monitoring actions. The absence of a monitoring plan hampers the Office's visibility of programme implementation, level of completion or coverage achieved of the planned monitoring actions and timely remedial of issues that may arise.

45. The review of a sample of monitoring visits reports undertaken by the Office revealed multiple and inconsistent formats to document findings, recommendations and action plans – which also diminishes the effectiveness of monitoring activities. Further, the Office monitoring mechanism relied mostly on reports submitted by the IPs during progress meetings (quarterly, mid-year and annually). The verification of reported results by Office staff was limited, especially in programme implementation areas with high security risk. The Office was yet to develop mitigating actions to ensure implementation visibility in the concerned areas.

46. There was also limited evidence that the Office utilized monitoring tools, such as checklists, to guide and standardize data collection and monitoring procedures, to assess progress towards stated objectives, and identify issues for corrective action.

Absence of a central repository of findings, recommendations and action plans

47. The existence of a centralized repository of all monitoring findings (including those from spot-checks), of recommendations made and of actions to be undertaken, could not be established during the period under review. Yet, some evidence of monitoring activities' follow-up could be found in various documents (e.g. meeting minutes, e-mail correspondence, ad-hoc notes in project files, specific programme/office reports).

48. A well-defined repository to track and keep up-to-date the status of monitoring activities, including field visit findings of recommendations and actions should be part of a consistent and comprehensive programme monitoring process previously mentioned. Office Management stated that several measures were initiated and aimed to strengthen supervision and address the above mentioned issues, including a guidance memo shared with all programme staff indicating key procedures in performing monitoring activities.

ROOT CAUSE	*Guidance: inadequate guidance and supervision at Office Level.*
IMPACT	*Programmatic management issues may not be timely identified and remediated, potentially adversely affecting the achievement of programme results or the use of funding for its intended purpose, as well as expose UNFPA to reputational risk.*
CATEGORY	*Operational.*

RECOMMENDATION 6	***PRIORITY: MEDIUM***

Improve the monitoring process, through appropriate supervisory controls, with: (a) preparing, implementing and tracking a detailed monitoring plan; (b) standardizing monitoring visit report documentation; and (c) developing a central information repository to capture all monitoring findings and recommendations for easy follow-up.

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

MANAGEMENT ACTION PLAN: DUE DATE: *August 2021*

The Office issued a memo to guide programme teams and ensure the use of the tools included in the Country Programme Document Monitoring and Evaluation Framework for systematic monitoring of the UNFPA-supported workplans with all implementing partners.

To implement this memo, an online platform has been created on a shared drive which comprises of (a) monitoring calendar; (b) IP structure for reports repository; and (c) a follow-up matrix. The Office Management will continue to hold regular integrated programme review meetings to monitor the national execution and direct execution) workplan implementation.

B.2 – IMPLEMENTING PARTNER MANAGEMENT	**MAJOR IMPROVEMENT NEEDED**

49. National Execution (NEX) expenses amounted to USD 9.7 million (61 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 16 Government IPs and 11 non-government organizations (NGO), with financial implementation rates of 81 per cent in 2018 and 60 per cent as at 30 June 2019.

50. As per the available information, NEX expenses corresponded primarily to contract personnel salaries (USD 1.8 million); facility costs (USD 1.6 million); training and learning (USD 1.6 million); travel (USD 1.0 million); and office and communications (USD 0.6 million).

51. The IP audits performed in 2019 for the 2018 audit cycle covered four IPs engaged by the Office, with aggregated expenses of USD 4.0 million (60 per cent of total NEX expenses in 2018). All four IP audits received unqualified audit opinions. However, unsupported expenses were reported in two audit reports, for an aggregate amount of USD 7,825 (0.2 per cent of the total audited amount).

52. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.9 million quarterly in 2018 and amounted to USD 0.8 million 30 June 2019 (nil as at 31 December 2019).

53. 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 Funding Authorization and Certificate of Expenditure (FACE) forms; (d) the controls implemented over OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor IP activities for five IPs engaged by the Office with aggregate programme implementation expenses of USD 9.0 million (89 per cent of NEX expenses) in the period under review.

54. Audit work in this area was affected by a scope limitation, as supporting documents for NEX expenses worth USD 77,925 necessary for performing planned OAIS audit procedures were not made available as the project implementation had ended; the IP premises were officially closed; and the files handed over to OAIS for review could not be easily identified due to filling issues (the supporting documentation was stockpiled in unmarked boxes). Additional audit findings may have been identified and different conclusions may have been reached, had OAIS been able to examine these documents for the sampled expenses. While on site, OAIS selected files from available documents for review and no issues were noted. Prior to the project closure, the IP was subjected to an IP audit which had resulted in an unmodified opinion.

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

Improve on the supporting documentation when waiving the competitive selection of implementing partners

56. For five NGO IPs reviewed, the Office made use of the flexibility offered by the 'policy and procedures for selection and assessment of implementing partners' to waive competition and directly select IPs deemed to be strategic partners. For three of these IPs, the assessment templates to justify why the type of partnering was in the best interest of UNFPA, as per applicable policies, were incomplete. In another instance, the justification section of the non-competitive partnership template was not filled.

57. Insufficient documentation to support waivers of competition may lead to a non-transparent and/or inadequate IP selection process.

ROOT CAUSE	*Guidance: inadequate guidance and supervision at Office Level.*
IMPACT	*Lack of documentation of the rationale underlying decisions for waiving implementing partner competitive selection goes counter to transparency and accountability.* *IPs engaged may not have the required capabilities.*
CATEGORY	*Compliance.*

RECOMMENDATION 7 **PRIORITY: HIGH**

When waiving the competitive selection process of non-governmental organization implementing partners, maintain complete documentation of justifications thereof 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: *Implemented*

Office management has taken action on this recommendation and has implemented it. The Office published a Request for Proposals in November 2019 for the selection of Non-Governmental Organizations as Implementing Partners across all programme outputs through a competitive selection process, to ensure compliance to the Policy and Procedures and to select the Implementing Partners with a comparative advantage and capacity to deliver on results envisaged under each programme output. As a result, Office has established a pool of potential implementing Partners, assessed and selected through a competitive process.

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

Strengthen the financial monitoring of implementing partners

58. The audit's review of the IP capacity assessments, IP audit results, project monitoring activities, including visits to IP sites, revealed several areas for improvement in the financial monitoring process as discussed in detail below.

Incomplete audit trail

59. Tracing sampled expenses to the IP's accounting records and underlying supporting documents was challenging for one out of 5 IP FACE forms reviewed. There was insufficient documentation to validate the bid solicitation process for local goods and services procured amounting to USD 18,500 and for contract pay rate. The issue of lack of audit trail issue was also reported in the IP audits.

60. The review of five spot-check reports prepared by Office staff showed results pointing out to relevant weaknesses at the IPs. At the same time, the review also revealed quality issues. Some spot-checks were incomplete. Others showed ratings that are not always commensurate with the underlying issues. For instance, incomplete or absence of supporting documents to substantiate IP expenditures, or lack of evidence of a competitive procurement process were rated as a low priority in four out of the five reports reviewed. Noting that the HACT guidelines do not require to follow up low priority issues, an incorrect rating hampers the Office's ability to look into deviations that could signal an inadequate use of donors' funds. Hence, only limiting reliance can be placed on spot-check results.

61. Further, there was no formalized and documented follow-up of the findings from IP audits and spot-checks performed in 2018 – therefore reducing the efficiency of the process.

62. Weaknesses in the HACT process is a matter that was also noted by the Board of Auditors as well as in other OAIS reports.

Undetected financial management capacity gaps

63. The visit to a supplier engaged by an IP with an estimated contract value of USD 85,906, to assist in a survey on the 'Women's Social and Economic Well-being' project aimed at generating provincial and district level data on economic and social status of women, revealed several financial management capacity gaps affecting both the IP and the company contracted, in particular the absence of documentation supporting the competitive recruitment process of enumerators, as well as the authorized pay scale rates.

64. For example, the review of 10 enumerator files revealed: (a) recruitment documents being unavailable (10 instances); (b) salary payments not corresponding to the time reported on project documents (two instances; discrepancies were not material); and (c) payments deposited to a bank account belonging to an official of the company, rather than to the company's bank account (two instances; the enumerators were subsequently paid). These issues were not identified through the spot-check undertaken by the Office.

ROOT CAUSE	*Guidance: inadequate guidance and supervision at Office Level.*
IMPACT	*The risk of financial loss to UNFPA increases due to the inadequate review of implementing partners' expenses* *Funds provided to IPs for programme implementation may not be adequately safeguarded*
CATEGORY	*Operational.*

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

Strengthen the financial monitoring of Implementing Partners, giving appropriate attention to large expenses and raising IPs' awareness on the need to properly file and retain documents supporting UNFPA-funded expenses, including all required details to allow for validation and verification.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *September 2021*

Office Management conducts trainings on programme and operational management (i.e. finance, audit, human resources and procurement) for all Implementing Partners annually, with a special focus on fraud risk prevention and maintaining complete financial records to establish complete audit trail.

Furthermore, the Office has developed and has been using since 2018, an detailed ledger by activity, in a spreadsheet, to report all IP expenses and to ensure that reported expenses are matched and reconciled with FACE amounts. The Office will promote coordinated follow-up of the programme and operations teams for HACT assurance activities (i.e. programme monitoring, spot-checks and scheduled/special audits).

In addition to the specific actions above, Office Management will closely monitor the timely submission of financial reporting by all Implementing Partners.

Use FACE form checklist to reinforce FACE form reviews

65. For the four IPs reviewed, the Office did not complete FACE form checklists as evidence of FACE form reviews by Programme Officers and Finance staff members, as recommended by the applicable programme and financial monitoring and reporting policies. Management explained that they developed a parallel mitigating process in lieu of the checklist; however, the process was limited compared to the checklist, hampering sufficient Management's supervisory controls. The purpose of the checklist is to help staff practice due diligence, in particular detecting possibly excessive, unauthorized or ineligible expenses, and thereby better manage risk.

ROOT CAUSE	*Guidance: inadequate supervision at the Country Office.*
IMPACT	*UNFPA may accept excessive unauthorized or ineligible expenses resulting in financial loss.*
CATEGORY	*Compliance.*

RECOMMENDATION 9	***PRIORITY: MEDIUM***

Use the FACE form checklists during the review and approval of the FACE forms and ensure that these checklists are filed for audit trail purposes.

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

MANAGEMENT ACTION PLAN: DUE DATE: *May 2021*

The Office has started using the FACE review checklist since the beginning of 2020 in addition to the Office internal FACE clearance page (message on the use of checklist provided through a shared platform). The Office Management will continue monitor and ensure compliance.

B.3 – SUPPLY-CHAIN MANAGEMENT	**MAJOR IMPROVEMENT NEEDED**

66. During the period under review, the Office supplied reproductive health commodities and other inventory items at a total cost of USD 2.8 million, with funding provided by UNFPA Supplies programme. The commodities were procured by the UNFPA Procurement Services Branch, based in Copenhagen, Denmark (USD 2.4 million) and by the Office (USD 0.4 million).

67. The inventory supplied consisted primarily of contraceptives (USD 1.5 million); emergency reproductive health kits (USD 0.3 million); and medical equipment (USD 0.2 million). In addition, the Office incurred freight costs amounting to USD 0.7 million. The contraceptives, kits and medical equipment were distributed primarily from a warehouse managed by the World Food Programme (WFP).

68. Audit work performed included a review of the needs assessment and forecasting arrangements in place, as well as testing of a sample of inventory supplied in 2018 and in the first quarter 2019 at a cost of USD 1.3 million (45 per cent of the value of inventory supplied), of the processes and controls in place in the areas of: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) inventory controls; (iv) handover of inventory to IPs; (v) distribution to intended beneficiaries; and (vi) monitoring and recording in UNFPA financial systems. For locally procured commodities, audit work also included a review of the related procurement processes (see to section C.2 of the report).

69. Additionally, audit work performed included a site visit to a warehouse managed by a NGO IP in the city of Peshawar to: (i) verify the receipt of commodities procured by UNFPA; (ii) assess warehouse controls in place and the reliability of inventory records; (iii) test the distribution of commodities by tracing a sample of deliveries across the supply-chain; and (iv) verify commodity availability and stock-out levels at the warehouses and health facilities visited.

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

Assess whether pre-shipment customs clearance improves clearance timeline

71. Custom clearance and release of the goods upon their arrival in country routinely experienced delays during the period under review. For example, three out of four shipments of commodities sampled took an average of 183 days to be cleared at the port of entry. The delay resulted in the incurrence of demurrage charges amounting to roughly USD 23,700. Management attributed the delays to new procedure requirements for customs clearance and to longer than expected discussions between the Office and the relevant stakeholder to obtain a waiver on detention of commodities. The Office put in place Standard Operating Procedures (SOP) for pre-shipment clearance. However, the outcome of the SOP at the time of the audit field mission was yet to yield results.

Improve controls and documentation over inventory reception and distribution

72. The 'Receipt and Inspection' reports and delivery slips documentation, mainly for 'basic dignity' kits amounting to USD 0.2 million, lacked pertinent information such as dates and authorized signatories – which made it cumbersome to follow stock movements. In addition, the UNFPA corporate 'Shipment Tracker'[10] was not updated timely with all inventory transactions – e.g. physical receipt; storage in warehouse; handover; disposals/ adjustments, receiving and inspection forms – as stipulated in the 'Policy and procedure on management of programme supplies'.

[10] a UNFPA customization of the Atlas Purchasing module used for tracking, recording and reporting field office inventory.

73. One inventory transaction amounting to approximately USD 8,000 did not have any evidence of preparation of detailed 'Receipt and Inspection' reports upon the physical receipt of the commodities as required in by the Organization policy and procedures. The lack of a sufficient documented tracking, receiving and inspection process could result in late discovery of damages and/or shortages, which might hamper efforts to obtain rectification or compensation from the suppliers and/or insurers.

74. Further, IP distribution plans did not provide clear estimated distribution time, creating limited visibility on the distribution of commodities. Therefore, it is not easy to determine whether the Office performs appropriate and systematic receiving and inspection procedures: (i) upon clearance of the inventory at the port of entry; and (ii) at the time of delivery to warehouse and distribution to implementing partners.

Improve inventory monitoring, including spot-checks

75. A review of inventory spot-checks and monitoring visit reports, which were completed by Office staff, did not include some procedures in line with established policy and procedures. Missing steps were, for example, the reconciliation of the volume and value of goods supplied by UNFPA to the IPs records; a review of samples of distributions recorded by the IPs against appropriate signed distribution reports or other appropriate supporting documents; or the physical tracking of samples of distributions reported by the IPs through the supply-chain down to the beneficiary facilities.

76. Lack of compliance to the policy prevents the Office from ensuring that goods provided by UNFPA are adequately safeguarded and controlled.

Insure inventory held at warehouses managed by WFP and NGO Implementing Partners

77. At the time of the audit field mission, the Office did not provide evidence of inventory insurance coverage at the warehouses managed by WFP and NGO IPs. The agreement signed between WFP and the Office stipulates that UNFPA shall be responsible for making adequate arrangements for insurance, up to the designated destination, of any goods transported, handled or stored in execution of the agreement. UNFPA shall obtain from its insurers an express waiver of subrogation rights against WFP.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: lack of supervision at the Office level.*
IMPACT	*Timely action may not be taken as regards the non-conformance of ordered goods, shortages, and damages and the receipt of commodities – increasing both reputational and financial loss risks for UNFPA.* *Inadequate oversight of inventory may increase UNFPA's exposure to loss and damage.*
CATEGORY	*Operational.*

RECOMMENDATION 10	***PRIORITY: HIGH***

Significantly improve the inventory management process by: (a) further collaborating with relevant stakeholders to address, with appropriate supervisory controls, on the need to implement solutions that will enable a faster customs clearance process and avoid onerous demurrage changes; (b) enhancing inventory spot-check activities, in line with the requirements in the management of programme supplies policy; and (c) ensuring insurance coverage of inventory maintained under Office control.

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

MANAGEMENT ACTION PLAN: DUE DATE: January 2022

The Office takes note of the finding and is implementing the following activities to address the audit recommendation:

- *(a) Standard Operating Procedures clearly specifying the roles and responsibilities of the concerned staff for the management of programme supplies as per Management of Programme Supplies Policy;*
- *(b) Organize a comprehensive training with the technical support of APRO on Management of Programme Supplies for programme partners;*

(c) Remind the programme team that all procurement requests – particularly those relating to Programme Supplies – should be supported with tentative distribution plan to ensure cost effectiveness and timely delivery of goods to the end beneficiaries;

(d) Secure appropriate insurance arrangements for UNFPA commodities;

(e) Plan to conduct the inventory spot-checks. However, due to COVID-19, it is almost impossible to complete as per plan. The Office will conduct the spot-checks as soon as the situation normalizes; and

(f) Staff to attend webinars organized by the Finance Branch on the management of programme supplies, focusing on Fulfilment and Delivery processes and recurring inventory management issues.

B.4 – MANAGEMENT OF NON-CORE FUNDING	**SOME IMPROVEMENT NEEDED**

78. Programme implementation expenses funded from non-core resources amounted to USD 27.4 million (70 per cent of total programme expenses) in the period under review. Of this amount, approximately USD 19 million corresponded to funding provided by two donors, to focus on strengthening midwifery education, improving conditions for delivery of environmentally sound maternal, new-born and child health services and creating an enabling environment to facilitate gender-sensitive midwifery and obstetrics care practices.

79. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for four co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the cost recovery policy. Inquiries of representatives of two donors were made to gain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements.

80. Based on the work performed in this area, the following matter requires Management attention.

Strengthen oversight over the non-core fund management process

Quality and timeliness of reports

81. Both donors visited expressed a need for the Office to: (a) improve on the quality and details of the programmatic and financial reports provided, in particular regarding achievements, which they deemed under-reported; (b) ensure adequate staffing, especially for programme management; and (c) increase fraud risk awareness to staff and implementing partners.

82. In three of the nine co-financing agreements reviewed, the specific timelines prescribed for reporting requirements were not complied, with reports submitted after due dates, with delays ranging from 8 to 16 days.

Management of non-core resources

83. Personnel and conference event costs related to the 'Social Economic Wellbeing survey' and amounting to USD 25,874 were charged to core resources instead of non-core resources because the payments were processed after expiration of the non-core funds.

84. Further, during the period under review, two fund codes expired, resulting in a refund estimate amounting to USD 1.9 million, which Office Management justified by delays in the completion of the survey due to the 2017 census and the 2018 general elections. The donor which provided the first tranche of funding in 2015 extended the agreement twice over 2016—2018, and objected to a no-cost extension beyond 2018; it requested the return of funds.

85. The refund to donors is indicative of under-achievement of the agreed workplan and project activities as mentioned in paragraph 39.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level.* *Other: factors beyond the control of UNFPA.*
IMPACT	*Perceived inability to timely report on the use of funds may diminish the Office's ability to mobilize/ receive additional resources and impact programme delivery.* *Donor confidence in UNFPA's ability to efficiently implement projects may decrease.*
CATEGORY	*Compliance.*

RECOMMENDATION 11	***PRIORITY: MEDIUM***

Enhance managerial oversight to: (a) improve quality and timelines of donor reporting; and (b) ensure timely and optimum utilization of resources and timely charge all direct costs to relevant non-core funding codes.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:
Representative with support, as appropriate, from the Regional Resource Mobilization Adviser — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *July 2021*

The following actions have been taken to address the reported issue:

(a) The Office Management has developed a monitoring dashboard and workflow mechanism (preparation, review and management approval) for timely submission, results-based and quality assured project progress reports to the donors;

(b) The Office has recruited personnel for all major donor funded projects to further scale up programme monitoring and reporting to donors;

(c) Office Management will continue to prioritize comprehensive trainings on key programme management and operational topics for all IPs, with a special focus on fraud risk prevention and management;

(d) In 2019, the Office conducted team coaching exercises for all programme and operations staff including new programme personnel. It included focused sessions on risk awareness and mitigation measures. Through team coaching, the Office will continue to further strengthen the staff capacity in managing projects and implementing partners effectively, underlining risk awareness, prevention and mitigation; and

(e) Office Management will ensure compliance with the recommendation through continuous monitoring, optimum utilization and relevant time charge of donor resources.

C. OPERATIONS MANAGEMENT — MAJOR IMPROVEMENT NEEDED

Good practices identified

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

a) Payments of allowances to meeting and training participants were largely managed through local bank services, minimizing the risks associated with handling cash payments, and allowing for a more accurate identification of recipients and reconciliation of funds paid out and refunds to the Office;

b) The Office keeps comprehensive and well-documented human resources files, including contract personnel assessment and selection files, performance assessment files, and personnel leave files; and

c) The Office, in partnership with United Nations Country Team in Pakistan, used a carpooling system, which reduces the number of local trips made in official vehicles and increases fuel efficiency.

C.1 – HUMAN RESOURCES MANAGEMENT — EFFECTIVE

87. During the period under review, the Office incurred staff payroll costs amounting to USD 2.8 million and engaged 15 individuals under the service contract modality and another 58 under the individual consultant contract modality, for management and programme delivery and support activities, incurring related expenses in the amount of USD 2.6 million. At the time of the audit field mission, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

88. Work performed in this area included the analytical review of payroll and contract personnel costs; a walk-through of the payroll reconciliation controls with UNDP; and testing of a sample of 19 individual consultancies awarded by the Office at a cost of USD 0.3 million (25 per cent of total contract costs incurred in the period), for linkage to corresponding workplans and compliance with applicable policies and procedures and operating effectiveness of controls in the area of (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for five staff members hired during the audit period and testing of locally paid staff benefits and entitlements amounting to USD 60,000 (24 per cent of benefits and entitlements paid in the period under review).

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

C.2 – PROCUREMENT — MAJOR IMPROVEMENT NEEDED

90. During the period under review, the Office locally procured goods and services at a cost of USD 2.2 million. The most significant categories of goods and services procured corresponded to facilities management (USD 0.6 million); common services (USD 0.4 million); inventory (USD 0.4 million); and fixed assets (USD 0.2 million).

91. Audit work performed in this area included the review of a sample of 59 local purchases made at a cost of USD 9 million (approximately 44 per cent of total local procurement) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles,[11] and policies and procedures, as well as the operating effectiveness of controls in the areas of: (a) requisitioning; (b) solicitation and bidding; (c) bid assessment; (d) vendor selection; (e) contract award; (f) purchase order issuance; and (g) receiving.

92. Audit work also included the review of: (a) the procurement planning process; and (b) the management of charges related to services (premises and connectivity) shared with and charged by other United Nations (UN) organizations in the country.

93. Based on the work performed in this area, the following matter requires Management attention.

Improve documentation of receipt verification of goods and services procured

94. Receiving documents were not consistently issued to evidence the receipt of locally procured goods and services. While delivery notes issued by suppliers were sometimes signed as evidence of receipt of goods, for six transactions amounting to USD 29,565, there was limited documented evidence of receipt and verification of quantity, condition, quality and other relevant attributes of the goods and services procured against the corresponding requisition and purchase order specifications on file.

95. In accordance with the policy on Procurement Procedures, receiving reports should be issued to serve as the documentary evidence upon which goods and services procured are financially received in Atlas and payment is initiated and authorized. The issue seems to originate from an incorrect application of the Financial Regulations and Rules, which the Office identified and provided guidance on the staff involved.

ROOT CAUSE	*Resource: Inadequate training.* *Guidance: Lack of supervision at the Office level.*
IMPACT	*The efficiency and effectiveness of the procurement process may be diminished by impairing Office Management's ability to obtain adequate assurance about the conformance of the goods received to those ordered.*
CATEGORY	*Operational.*

RECOMMENDATION 12 — ***PRIORITY: MEDIUM***

Continue raising the awareness of relevant staff on the need to evidence the receipt of goods and services procured through issuance of receiving reports, to be used as a basis for Atlas financial receipt and vendor invoice payment initiation and authorization.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *April 2021*

The Office has developed and started using Receiving and Inspection Reports for locally procured goods and creating financial receipts in Atlas. Office Management will continue to monitor the implementation to ensure the compliance to procurement procedures.

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

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

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

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

Commit funds in Atlas prior to entering into transactions

98. Procurement of goods and services including travel, amounting to USD 0.3 million (35 per cent of the transactions reviewed), were issued and approved on an '*ex-post facto*' basis, either after notifying suppliers of the contract award or after delivery of service procured.

99. Processing of requisitions and purchase orders on an *"ex post-facto" basis* could significantly diminish the effectiveness of UNFPA's commitment controls, creating the risk that resources are no longer available to pay for goods and services procured if the required funds are committed for other purposes before the transactions are processed. Similar issues were noted on the remote audit of the UNFPA Offices in the Asia and Pacific Regional and Country Offices issued in October 2019, and management actions were taken. However, these actions are still to yield results.

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

RECOMMENDATION 13	***PRIORITY: MEDIUM***

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

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*	STATUS: *Agree*
MANAGEMENT ACTION PLAN:	DUE DATE: *May 2021*

Office Management has already started raising requisitions and creating POs to commit funds in ATLAS for the procurement of goods and services including travel. Office Management will continue monitoring the implementation thereof through the process of preparation and completion of monthly and quarterly accountability checklists.

Enhance financial transaction processing and supervision controls

100. The testing of financial transactions revealed exceptions indicative of the need to enhance transaction processing and supervisory controls, as detailed below.

Incorrect financial transaction coding

101. The review of the transactions tested in the various areas of the audit revealed a large number of account coding errors in Atlas amounting to approximately USD 148,779, mainly impacting travel-related expenses. Further, as part of the financial statements preparation process, the Finance Branch of the Division for Management Services processed some reclassification adjustments of transactions incorrectly recorded by the Office, amounting to USD 15,626 in 2018 and USD 764 in 2019, respectively.

Payment vouchers without financial receipts in Atlas

102. UNFPA Financial Regulations and Rules prescribe that goods and services are to be physically received by business units and have to be timely received in Atlas. The review disclosed payments amounting to approximately USD 0.6 million related to payment vouchers without a financial receipt in Atlas. Further, 'Certified Financial Accountability' checklists[12] completed by the Office did not indicate, in the financial receipts line item, the number of receipts that were omitted. This reduces the efficiency of the checklist as a monitoring tool.

103. All the issues discussed above could be a consequence of a combination of factors, including: (a) lack of understanding of controls and risk related to financial and budget management; (b) insufficient management supervision and oversight by approving managers for ensuring that transactions are coded in Atlas to the correct account; and (c) lack of awareness and insufficient knowledge of UNFPA accounting policies.

ROOT CAUSE	*Resource: Inadequate training.* *Guidance: inadequate supervision at the Office level.*
IMPACT	*Buying goods and services without appropriate receipts in Atlas reduces the effectiveness of budgetary and expenditure management controls, exposing the Office to the risk of not having sufficient resources to settle obligations.* *Errors in financial recording may increase the risk of inaccurate financial reporting by UNFPA and incorrect decision making.*
CATEGORY	*Reporting.*

RECOMMENDATION 14 — ***PRIORITY: MEDIUM***

Strengthen training and supervisory controls to ensure: (a) financial transactions are recorded in the appropriate accounts; (b) financial receipt is recorded in Atlas; and (c) appropriate controls are in place for processing travel invoices

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

MANAGEMENT ACTION PLAN: — DUE DATE: *April 2021*

Office Management has already shared the accounts dictionary among all staff and reiterated the use of correct account codes, creation of financial receipt in ATLAS. Senior Management has also instructed the relevant travel focal person to raise the requisition at the time of booking/buying the ticket and immediately coordinate with the travel agent for the timely submission of invoices to avoid, e.g., delayed processing of payments and manual calculation.

The implementation of Field Office payment request workflow under the UNFPA cloud document service platform has further strengthened this process where all reviewers (programme and finance) and approvers are required to ensure the correctness of selected account codes. The Office will continue conducting trainings for new staff on the importance of selecting appropriate account codes and creation of Atlas financial receipts at the time of processing payments.

Clarify the procedures for value-added tax exemption in-country with the United Nations Country Team

104. Goods and services procured directly by UNFPA and its IPs for the implementation of its programmes are considered to be exempt from value-added tax (VAT) in the country. From the sample selected in the period under review, the Office paid approximately USD 4,360 in VAT over UNFPA procurement.

105. Upon inquiring with Office Management and other UN organizations in country, there seems to be a lack of clarity about the scope and procedures for VAT exemption on procurement made by UN organizations in country. Office Management explained that the UN Country Team has engaged a consultant to liaise with relevant Government ministries for the provision of tax exemption to UN agencies working in Pakistan.

[12] The Integrated Accountability Checklist consists of several components intended to help offices improve their financial and budget management.

ROOT CAUSE	*Other: factors beyond the control of UNFPA*
IMPACT	*Cost saving opportunity, increasing funds available for programming may not be realized.*
CATEGORY	*Operational.*

RECOMMENDATION 15 — ***PRIORITY: MEDIUM***

In collaboration with the inter-agency Operations Management Team of the United Nations Country Team, continue dialoguing as necessary with local authorities to obtain clarity on the process for value-added tax exemption for United Nations organizations and for the Implementing Partners using their funding to procure goods and services.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *January 2022*

Office Management will continue advocating for the issue of clarity on VAT exemption for UN organizations and their Implementing Partners through the Operation Management Team (OMT) and the United Nations Country Team (UNCT). However, it should be noted that the matter is beyond Office control.

C.4 – GENERAL ADMINISTRATION — SOME IMPROVEMENT NEEDED

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

107. Travel expenses incurred by the Office during the period under review amounted to USD 0.4 million. Audit work performed in this area included (a) a walk-through of the travel process and (b) testing of a sample of 98 travel-related transactions amounting to approximately USD 0.17 million (37 per cent of total travel expenses) for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) the procurement of travel services; and (b) the authorization, calculation and payment of daily subsistence allowances.

108. Procurement of assets in the period under review amounted to USD 0.2 million. As at 31 December 2018, the Office held in-service fixed asset items with a net book value of USD 60,000. The largest fixed asset categories included vehicles and information technology equipment. Audit work in this area included the review of 50 per cent of the in-service fixed assets for appropriateness of business purpose and compliance with the asset management policies and procedures. The testing sample consisted of transactions amounting to USD 0.1 million including payments made on behalf of IPs charged to fixed assets items account.

109. Facilities management costs incurred by the Office during the audit period amounted to approximately USD 0.6 million. Work performed in this area included the review of rental agreements and testing of procurement transactions arising from shared common services amounting to USD 0.27 million (45 per cent of the costs incurred) as well as compliance with policies and procedures.

110. Based on the work performed in this area, one matter requires Management attention.

Strengthen the travel process

111. In 36 out of the 98 transactions reviewed, the travel policy – which requires submission of travel vouchers within two weeks after the official mission – was not complied with. Discrepancies noted varied from 18 to 90 days.

112. Further, four ticket payments related to travel transactions showed discrepancies between submitted invoice amount and amount paid to the vendor, amounting to roughly USD 3,400. Office Management explained that the Office finance personnel manually reconciles invoices and individual ticket information to avoid duplication of payment. The ability to validate the accuracy of invoices submitted was further undermined as requisitions and purchase orders were issued and approved on an "*ex post facto*" basis, after the travel date as reported in para 98.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: inadequate supervision at the Office level.*
IMPACT	*Limited ability to track travel advances may lead to inaccurate financial reporting.*
CATEGORY	*Operational.*

RECOMMENDATION 16 — ***PRIORITY: MEDIUM***

Raise staff awareness to adequately complete and timely submit travel expense claims, and institute supervisory controls over the computation and reconciliation of invoices to ensure travel billing is accurate.

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

MANAGEMENT ACTION PLAN: — DUE DATE: *July 2021*

Office Management has developed an SOP and a tracking sheet to monitor the status of timely submission of travel vouchers by staff upon completion of field missions. Management appointed travel focal points who have been instructed to create the requisitions at the time of booking/procuring tickets, to ensure timely commitment of funds and mitigation of risks related to manual computation of vendor invoices.

In November 2019, the focal points received a five-day training on travel management and on the new travel module at the regional operations workshop conducted by APRO and the Division for Management Services. Office Management will ensure compliance with the travel policy through regular reviews of the tracking sheet and encouraging staff to abide by the travel policy requirements.

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY — MAJOR IMPROVEMENT NEEDED

113. Work performed in this area included testing for compliance with Information and Communication Technology (ICT) policies including Atlas access rights and a walk-through of the Office backup policy, disaster recovery plan and business continuity plan.

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

Remove unauthorized software from Office computers

115. Two out of five staff selected for testing had one or more software installed on their computers, for office use, other than what is prescribed from the general listing of supported software of the Information and Communication Technology (ICT) Software policy. Unauthorized software poses the risk of illegal copies as well as increasing the risk of breaches of UNFPA applications and data.

ROOT CAUSE	*Resources: Inadequate training.* *Guidance: inadequate supervision at the Office level.*
IMPACT	*Unauthorized software increases the risk of application and data breaches, leakage of information and breaching software license rights – which negatively affects the Organization's reputation.*
CATEGORY	*Compliance.*

RECOMMENDATION 17 — ***PRIORITY: HIGH***

Immediately enforce the application of the ICT policies on security, software, and vulnerability management, removing unauthorized software from all office computers.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2021*

The Office has undertaken a thorough review of all utilized software. All unauthorized software has been removed, and only licensed software was allowed to be maintained on UNFPA equipment. The Office Information Technology focal point is directed to regularly monitor the staff computers and to remove unauthorized software.

With regard to use of Shareware/Free software, staff are required to get the Information Technology focal point Manager's approval in advance. Further, the focal point is mandated to obtain clearance from the Information Technology Solution Office at Headquarters prior to installing Shareware/Free software.

C.6 – SECURITY	EFFECTIVE

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

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

ANNEX 1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,[13] 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 or Regional Offices

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.

[13] 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
APRO	Asia and Pacific Regional Office
Atlas	UNFPA's Enterprise Resource Planning system
COVID-19	Coronavirus
DaO	United Nations Delivering-as-One
ERM	Enterprise Risk Management
FACE	Funding Authorization and Certificate of Expenditure
GDP	Gross Domestic Product
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfer
HR	Human Resource
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
MOSS	United Nations Minimum Operating Security Standards
MORSS	United Nations Minimum Operating Residential Security Standards
NEX	National Execution
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
OMT	Operation Management Team
PAD	Performance Appraisal and Development Plan
PSB	Procurement Services Branch
SIS	Strategic Information System
SOP	Standard Operating Procedure
UN	United Nations
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNDSS	United Nations Department of Safety and Security
UNSDF	United Nations Sustainable Development Framework
USD	United States Dollars
VAT	Value-added tax
WFP	World Food Programme