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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN MADAGASCAR

FINAL REPORT
Nº IA/2023-08

21 August 2023

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EXECUTIVE SUMMARY

Audit Scope

1.   The UNFPA Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Country Office in Madagascar (referred to hereafter as the Office). Audit planning activities commenced on 14 November 2022, and a field mission took place from 28 November 2022 to 09 December 2022. Results of the audit were discussed with the Office Management at an exit meeting held on 9 December 2022. Comments received and clarifications provided by Management were incorporated in a draft report, which was submitted to the Office Management on 25 May 2023. The final Management response was received on 09 June 2023 and updated on 14 August 2023, and is reflected in this report. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and controls relating to the following areas:

   a)   Office Governance – office management, organizational structure and staffing, and risk management;
   b)   Programme Management – programme planning and implementation, Implementing Partner management, programme supplies management, and management of non-core funding; and
   c)   Operations Management – human resources management, procurement, financial management, general administration, information and communication technology, and staff safety and security.

2.   The Office was last audited by OAIS in 2008.[1] It has not been recently audited by the United Nations Board of Auditors. All 2008 audit recommendations have been closed.

3.   The audit covered the activities of the Office from 1 January 2021 to 30 September 2022, which corresponds to the second and third extensions of the seventh Country Programme 2015–2019, which covered the periods from 1 January 2021 to 30 June 2021 and from 1 July 2021 to 30 September 2021, respectively, and to the first year of the eighth Country Programme 2021–2023 approved by the Executive Board in its second regular session 2021, with indicative resources of USD 29.7 million. Expenditure covered by the audit amounted to USD 16.2 million, executed by 18 Implementing Partners (USD 5.4 million or 33.3 per cent) and by UNFPA (USD 10.8 million or 67.7 per cent), and were funded from core resources (USD 8.0 million or 49.4 per cent) and non-core resources (USD 8.2 million or 50.6 per cent). In addition, the audit covered the supply of reproductive health commodities valued at USD 9.9 million, procured primarily with funding provided by the UNFPA Supplies Partnership programme.

4.   Approximately 42 per cent of the expenditure incurred in the period under review corresponded to the quality of care and services output. The gender and social norms output accounted for 17 per cent of the expenses incurred, the humanitarian action output accounted for 15 per cent, the adolescents and youth output accounted for 11 per cent, the population change and data output accounted for 7 per cent, and the policy and accountability output accounted for 1 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 7 per cent of expenditure.[2]

Audit rating[3]

5.   The overall audit rating is "***Partially satisfactory with some improvement needed",*** which means that 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 Office should be achieved. Issues and improvement opportunities identified did not significantly affect the achievement of the Office's objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

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[1] Then named the Division for Oversight Services – Report No: MDG101 issued on 8 August 2008 with a 'Partially Satisfactory' rating.

[2] Source: Cognos budgets and expenditures by programme cycle output reports.

[3] See Annex I for the definitions of audit terms used in the report.

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

Audit ratings by key audit area		
Office Governance		**Partially satisfactory with some improvement needed**
Office management		*Partially satisfactory with Major improvement needed*
Organizational structure and staffing		*Satisfactory*
Risk management		*Satisfactory*
Programme Management		**Partially satisfactory with some improvement needed**
Programme planning and implementation		*Partially satisfactory with some improvement needed*
Implementing Partner Management		*Partially satisfactory with some improvement needed*
Programme Supplies Management		*Partially satisfactory with Major improvement needed*
Management of non-core funding		*Partially satisfactory with some improvement needed*
Operations Management		**Partially satisfactory with some improvement needed**
Human resources management		*Satisfactory*
Procurement		*Partially satisfactory with some improvement needed*
Financial management		*Partially satisfactory with some improvement needed*
General administration		*Satisfactory*
Information and communication Technology		*Satisfactory*
Staff safety and security		*Satisfactory*

Good practices identified

7.   The audit identified the following good practices of the Office, which have enhanced governance and strengthened internal controls:

a)   The Office has expanded its presence to the key areas of intervention to support the groups left behind, including populations in the rural and hard-to-reach areas and those requiring humanitarian assistance due to cyclones, flooding, and droughts; and

b)   Periodic programme and operations staff meetings were held and were well documented.

Key recommendations

8.   The audit identified several areas that require Management attention. Overall, the audit report includes four high priority and six medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the ten recommendations, two are of a strategic nature, and five on operational, two on compliance matters and one on reporting matters. Issues identified during the audit and considered as low risks were discussed and presented separately to the Office Management.

Strategic level

9.   In developing the Country Programme Document (CPD), the Office needs to assess the accuracy of the output indicator baseline values and the accuracy and achievability of related output indicator target values, along with documenting the sources for the baseline values used. The Office is also to introduce a framework to break down the high-level results of the CPD into lower, more manageable results formulations.

Operational level

10.   From an operational perspective, the Office needs to establish a robust quality assurance process to ensure that only valid, accurate, and supported results plans are included in the Strategic Information System (SIS) against output indicators which are fully aligned to the Country Programme results and resources framework. In addition, there is a need to enhance the existing results verification and documentation process to provide evidence for the reported results.

11.   In the area of programme management, the Office needs to improve the programme monitoring process, through provision of training to relevant personnel and implementation of supervisory controls aimed at quality results planning and timely undertaking of all planned Implementing Partner (IP) assurance activities. Further, it is

recommended for the Office, in collaboration with the appropriate programme stakeholders, to support the Government of Madagascar in the development and implementation of a strategy to build capacity in addressing the challenges that negatively impact commodity availability and originating stock-outs at Service Delivery Points (SDPs).

12.   Finally, the Office needs to leverage on the implementation of the new ERP system to: (a) refine the UNFPA Policy and Procedures for Fixed Asset Management to include specific guidance on accounting and/or registering compound assets, and (b) ensure that the new ERP system's asset register contains a functionality to record, track and monitor all individual items comprising a compound asset.

Reporting

13.   The Office needs to provide training and raise the awareness of relevant staff concerning the need to correctly record financial transactions, and implement review and supervisory procedures to prevent the charging of expenses to erroneous account codes.

Compliance level

14.   With regard to donor reporting, the Office needs to collaborate with other United Nation organizations to develop an inter-agency communication timetable to enable timely reporting to donors.

15.   Finally, there is a need to raise the awareness of relevant staff members and implement controls to ensure the use of appropriate document templates and compliance with procurement policies and procedures, including those related to the lead time for bid solicitations, as a means of ensuring fairness, integrity, transparency and achieving best value for money; and closely monitor compliance therewith.

Management response

16.   The Office agree with the recommendations as contained in this report and has developed action plans to implement them. Several actions are already being undertaken to address issues identified by the audit and accelerate implementation of the report's recommendations.

Acknowledgement

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

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Office of Audit and Investigation Services

I.   AUDIT BACKGROUND

1.   Madagascar is a low-income country with a population of approximately 30 million.[4] Madagascar's Human Development Index (HDI) value for 2021 was 0.501— placing the country in the low human development category — with a rank of 173 out of 191 countries and territories.[5] The maternal mortality rate was high at 335 deaths per 100,000 live births in 2017, and the unmet need for family planning for women aged 15-49 was at 14 per cent in 2022. The contraceptive prevalence rate was 37 per cent. The country's prevalence rates of child marriage (40 per cent are married by age 18) is above the regional average (31 per cent).[6] Madagascar has a Gender Inequality Index (GII) value of 0.556, ranking it 143 out of 191 countries in the 2021 index.[7] Madagascar was in the Red[8] quadrant, as per the UNFPA Strategic Plan 2018-2021. It is classified as a tier I programme country in the 2022-2025 Strategic Plan,[9] and a priority country for the UNFPA Supplies Partnership programme.

2.   As set out in the 2022 OAIS Annual Workplan, the audit of UNFPA's Madagascar Country Office 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 assurances on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and controls relating to the following areas:

    a)   Governance – office management, organizational structure and staffing, and risk management.
    b)   Programme activities – programme planning and implementation, and the management of implementing partners, programme supplies, and non-core funds.
    c)   Operations – human resources management, procurement, financial management, general administration, information technology and security.

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

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

4.   The audit covered the activities of the Office from 1 January 2021 to 30 September 2022, which corresponds to:

    a) the second and third extensions of the seventh Country Programme 2015–2019, which covered the periods from 1 January 2021 to 30 June 2021 and from 1 July 2021 to 30 September 2021, respectively, and

    b) the first year of the eighth Country Programme 2021–2023 approved by the Executive Board in its second regular session 2021, with indicative resources of USD 29.7 million.

5.   Expenditure covered by the audit amounted to USD 16.2 million, executed by 18 Implementing Partners (USD 5.4 million or 33.3 per cent) and by UNFPA (USD 10.8 million or 67.7 per cent), and were funded from core resources (USD 8.0 million or 49.4 per cent) and non-core resources (USD 8.2 million or 50.6 per cent). In addition, the audit covered the supply of reproductive health commodities valued at USD 9.9 million, procured primarily with funding provided by the UNFPA Supplies Partnership programme.

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[4] Source: https://population.un.org/wpp/DataQuery/

[5] Source: https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf

[6] Source: https://www.unfpa.org/data/world-population/MG

[7] Source: https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index#/indicies/GII

[8] Countries placed in the red quadrant had a combination of: (a) highest need and low or lower-middle level ability to finance their programme; and (b) high need and low ability to finance.

[9] Tier I comprises programme countries that have not achieved any of the three UNFPA transformative results.

6.   Approximately 42 per cent of the expenditure incurred in the period covered in audit corresponded to the quality of care and services output. The 51 per cent was incurred on thematic areas of gender and social norms, (17 per cent) humanitarian action, (15 per cent) adolescents and youth, (11 per cent) population change and data, and (7 per cent) policy and accountability (1 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 7 per cent of expenses.[10]

7.   The engagement was conducted by a team led by an OAIS audit specialist supported by audit specialist consultants under the supervision of the Chief of Unit 1 in the Internal Audit Branch responsible for the East and Southern Africa Regional Office. The audit started on 14 November 2022. A field mission took place from 28 November to 9 December 2022. Results of the audit were discussed with the Office Management at an exit meeting held on 9 December 2022. Comments received and clarifications provided by Management were incorporated in a draft report, which was submitted to the Office Management on 25 May 2023. The final Management response was received on 09 June 2023 and updated on 14 August 2023, and is reflected in this report.

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[10] Source: Cognos budgets and expenditures by programme cycle output reports.

II. AUDIT RESULTS

8.   Audit results including good practices identified for each audit area, are presented below as well as the corresponding responses from Management.

A. OFFICE GOVERNANCE	**PARTIALLY SATISFACTORY WITH SOME IMPROVEMENT NEEDED**

Good practices identified

9.   The audit identified the following good practices adopted in office governance which are in line with established policies and procedures:

   a) The Office has expanded its presence to the key areas of intervention to support groups left behind, including populations in rural and hard-to-reach areas and those requiring humanitarian assistance due to cyclones, flooding and droughts. During the implementation of the eighth Country Programme the decentralized office in Tulear was complimented by local representatives of the Office in several locations who provided additional capacity overseeing and monitoring interventions; and

   b) Periodic programme and operations staff meetings were held and were well documented. These meetings are used as a management tool to share information, discuss the programmatic and operational challenges faced by the Office, take appropriate decisions and report on the status of implementation of activities.

A.1 – OFFICE MANAGEMENT	**Partially Satisfactory with Major Improvement Needed**

Unclear definition of the output indicators and insufficient evidence to support their baselines and targets

10.   Review of documentation related to the development of the eighth Country Programme Document (CPD) revealed inconsistencies in defining output indicators and a lack of supporting evidence for their baseline and target values.

11.   In one case, the audit was not able to verify evidence for a baseline value due to an inconsistency in reporting the indicator's historical and targeted figures, which were on either a non-cumulative or a cumulative basis in different periods. As a result, it was not possible to reconcile the baseline value indicated in the CPD to earlier reports. The audit noted two other CPD output indicators that also involved difficulties in interpretation and monitoring due to similar reasons.

12.   In another case, the baseline value provided in the CPD was higher than the most recently reported figure for the output indicator. Consequently, the related target value included in the CPD could be overstated.

13.   Finally, for one output indicator – *percentage of basic health centres providing basic emergency obstetric and neonatal care services* - the audit analysis revealed that the CPD baseline value was significantly higher than the figures consistently reported for the indicator in question during preceding years. Given that historical data was available in this case for an extended period of time, the overstated baseline resulted in the corresponding output indicator target value being overly ambitious and unattainable. According to the explanation offered by Management, the figures reported for this indicator can fluctuate significantly due its nature, without necessarily indicating any fundamental issues in achieving the desired outcome. The audit notes that both the unsupported baseline value as well as the inherent volatility of the indicator hinder the Office's ability to plan, monitor and report progress in achieving programmatic goals.

ROOT CAUSE	*Resources: inadequate training (insufficient monitoring capacity (skills) in the Office).*
IMPACT	*Unclear definition of the output indicators and unsupported baseline values can result in establishing inappropriate output target values, which can further undermine the quality and reliability of programme planning, monitoring and reporting.*

CATEGORY   *Strategic.*

RECOMMENDATION 1	*PRIORITY: HIGH*

Assess the accuracy and document the sources of the output indicator baseline values and achievability of related output indicator target values indicated in the Country Programme Document.

Provide training to personnel involved in results planning, monitoring and reporting, and establish more rigorous and frequent supervision to strengthen the existing quality assurance review process and to ensure the formulation of quality results plans.

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

MANAGEMENT ACTION PLAN: DUE DATE: *February 2024*

The Office agrees with the observation and recommendation. To address the observation, the Office will undertake the following actions: 1) Assess the accuracy of the Country Programme Document (CPD) output indicator baseline values, and the accuracy and achievability of related output indicator target values within the evaluation of the programme extension and the eighth CPD, and document the sources for the baseline values used during a workshop which will bring together programme staff and implementing partners; 2) Provide training on RBM to personnel involved in results planning, monitoring and reporting, and establish more rigorous supervisory controls; 3) Establish supervisory controls and data collection on SRH, FP, adolescents and Youth, Gender and GBV.

Lack of a framework to articulate the high-level results plan of the CPD into annualized output indicator targets and quarterly milestones

14.   Review of the documentation related to the development of the eighth CPD revealed a lack of a structured approach in breaking down the CPD output targets into annualized output indicator targets. At the time of drafting the CPD, only the ultimate country programme cycle output targets were established, without a breakdown analysis which could have informed their validity and achievability, as well as providing a basis for annual and quarterly planning and monitoring processes.

15.   It is acknowledged that the process of developing the Country Programme Action Plan (CPAP) alongside the CPD is no longer a mandatory requirement, and that as a result, annualized targets for the Office were developed at a later stage of the annual planning process, through close cooperation with the Office's implementing partners. However, it is desirable that the high-level results of the CPD be broken down from the start of the CPD cycle into finer, more manageable results formulations to inform the overall planning process and to better align the CPD targets with the interventions planned in the respective years and the resources required to implement them.

16.   In addition, the audit reviewed milestones included in the Strategic Information System (SIS)[11] for the 2021 and 2022 annual plans as basis to monitor their implementation. The audit was not always able to assess the alignment of the quarterly milestones with the underlying output indicators. The nature of the values reported in SIS as quarterly milestones, as well as their connection to the target values, was not intuitive and reconcilable, thus indicating a lack of rigor in the process of establishing and monitoring the milestones. The most notable exceptions included:

   a)   In one case, the annual target of the output indicator - *"Number of women victims of obstetric fistula having benefitted from surgical treatment with the support of UNFPA"* – was set at 6,420, while the baseline was set at 5,335, so that the plan was to treat 1,085 women during the year. The quarterly milestones included in SIS were 200, 400 and 700 for the second, third and fourth quarters of the year, respectively. Assuming these were cumulative figures, representing the number of women to be treated by the end of the respective quarter, the annual target would be 700. On the other hand, assuming they were non-cumulative figures, representing the number of women to be treated during the respective quarters, the annual target would be 1,300. Neither of these two figures corresponded to the planned result of 1,085;

   b)   In another similar case, the annual target of the output indicator – *"New users of modern contraceptive methods"* – was set at 650,000 against the baseline of 622,294. However, quarterly milestones included in

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[11] SIS is a UNFPA corporate tool used in programme planning, progress and final reporting.

SIS were 100,000, 200,000, 30,000 and 400,000 for the first, second, third and fourth quarters, respectively. The quarterly milestones, either taken cumulatively (assuming 400,000 was the annual progressive target), or non-cumulatively (730,000 as the total annual result) corresponded to the difference between the annual target and the baseline (27,706);

c) In a third case, quarterly milestones for the output indicator – *"Users of modern contraceptives who started within the last two years"* were set at 50,000, 100,000, 150,000 and 200,000 for the first, second, third and fourth quarters, respectively. These numbers significantly exceeded the annual target of 75,000; and

d) Finally, the breakdown of the annual target by quarters of two underlying milestones were not articulated, but rather were designed to monitor different related indicators, whose progress was meant to indirectly inform the progress of the output indicator. The audit noted that while both milestone indicators were over-achieved, the main annual target was significantly under-achieved (6.8 per cent reported against 28 per cent targeted), which raises a question about the suitability of the metrics selected for monitoring.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level (Gaps in quality assurance and reviews).* *Resources: inadequate training (insufficient monitoring capacity (skills) in the Office).*
IMPACT	*Lack of a well-developed lower-level results framework weakens the programme planning, monitoring, and reporting processes and as a result, management's accountability for and ability to plan and track progress towards the achievement of expected results may be diminished.*
CATEGORY	*Strategic*

RECOMMENDATION 2	PRIORITY: HIGH

Leveraging on the development of the upcoming ninth Country Programme Document (CPD), introduce a framework to break down the high-level results of the CPD into lower, more manageable results formulation. This will better inform the overall planning process and better align CPD targets with interventions planned in each of the respective years, and the resources required to implement them. Utilize the framework to articulate in a granular way the lower-level results further into the quarterly milestones for a clearer linkage between the milestones and the respective annualized output indicator targets. Further, provide training to personnel involved in results planning, monitoring and reporting, and establish a more rigorous supervisory controls to strengthen the existing quality assurance review process to ensure the formulation of accurate results plans.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2024*

The Office accepts the observation and the recommendation put forward and will develop a document showing yearly output indicator targets, quarterly milestones and budgets for the ninth Country Programme Document.

Inadequate data validation for baseline and target values in the Strategic Information System and CPD tracking tool

17.   OAIS' review of the 2021 and 2022 results plans, documentation used to track the progress of the implementation of eighth country programme, and the 2021 results report in SIS revealed inconsistencies and numerical errors in various documents, and gaps in the effectiveness of the quality review process in place. The most notable exceptions included:

a) An instance where annual planning baseline values of an output indicator in SIS were not updated with the baseline values included in the CPD tracking tool;

b) Three instances where the annualized target values of output indicators recorded in the CPD tracking tool and in SIS did not match;

c) Several instances where reported results of output indicators in the CPD tracking tool and in SIS were not supported by appropriate evidentiary documentation. While the tracking tool describes verification means that should be used for each of the output indicators, the Office did not maintain appropriate documentation to provide an audit trail for the results reported.

18.   The inconsistencies and numerical errors in various documents, and lack of documentary evidence to provide an audit trail hinders the Office's ability to perform supervisory controls over the validity and accuracy of the reported data.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level (Gaps in quality assurance and reviews).*
IMPACT	*Misaligned, inaccurate and unsupported results planning may diminish Management's ability to objectively measure, monitor and report on the achievements of results.*
CATEGORY	*Operational*

RECOMMENDATION 3	*PRIORITY: MEDIUM*

Establish a robust quality assurance process to ensure that only valid, accurate, and supported results plans are included in the Strategic Information System, together with output indicators that are fully aligned to the Country Programme results and resources framework. In addition, enhance the existing results verification documentation to provide evidence for the reported results.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2024*

The Country Office will strengthen the existing quality assurance mechanisms on programme and operations for effective delivery by organizing quarterly meeting to harmonize baseline and target values in the Strategic Information System and country programme document tracking tool.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING	**Satisfactory**

A prolonged vacancy in a key position

19.   The Office was adversely impacted by the prolonged vacancy in a key post in the Operations Unit. At the time of the audit field mission, the Operations Manager post had remained vacant for more than fifteen months, mainly due to multiple recruitment cycles having failed to yield suitable candidates for the post, and partly due to the small pool of candidates having the language proficiency requisite for the post and willingness of applicants to be deployed to the duty station. Consequently, the Operations Unit's ability to provide efficient procurement services and effective oversight, including quality assurance over the Unit's various functions, was inhibited.

20.   To mitigate the circumstances, the responsibilities of the vacant post were being discharged by the existing staff complement, which led to a heavy workload and strained capacities in handling high volumes of work over long periods of time.

21.   Subsequent to the audit field mission, the Office worked with the Division of Human Resources (DHR) to re-profile the key vacant posts and completed recruitment of the substantive International Operations Manager (IOM) in May 2023. In view of the foregoing, no recommendation is provided as regards this matter due to the efforts already demonstrated by the Office in resolving the issue.

A.3 – RISK MANAGEMENT	**Satisfactory**

22.   Other than those issues raised in the various sections of this report, no reportable matters were identified based on the audit work performed in this area.

B. PROGRAMME MANAGEMENT	PARTIALLY SATISFACTORY WITH SOME IMPROVEMENT NEEDED

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION	Partially Satisfactory with Some Improvement Needed

Inadequate programme monitoring process

23.   The programme monitoring activities of the Office included: holding weekly programme meetings to assess the monitoring dashboards completed by Implementing Partners (IPs); a review of quarterly work plan progress reports and FACE forms received from IPs; monthly, quarterly, semi-annual and annual review meetings with IPs; periodic joint programme site visit with IPs; and quarterly reporting of results through SIS. Review of the Office's programme monitoring activities identified areas for improvement, mainly related to the planning, reporting, and follow-up of monitoring activities.

Absence of a structured monitoring plan

24.   The Office did not develop and maintain a detailed monitoring plan and calendar to keep track of planned monitoring activities, specifying the name of the IP, workplan activities to be monitored, the objectives, scope and type of monitoring activities to be undertaken (e.g., visit to project site, the office of the IP, etc.), locations and dates of planned monitoring visits, and the monitoring team and other stakeholders involved in the monitoring visit (e.g., Implementing Partner, donor, Government counterpart). The absence of a detailed monitoring plan hampers the Office's visibility of programme implementation and timely remediation of issues that may arise from monitoring activities.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level. (The Office did not establish a process for planning, reporting and follow-up of monitoring activities).*
IMPACT	*Ineffective programme monitoring process leading to issues that may not be timely identified and remediated could adversely affect the achievement of programme results.*
CATEGORY	*Operational*

RECOMMENDATION 4	*PRIORITY: MEDIUM*

Improve the programme monitoring process, through provision of training to relevant personnel and implementation of supervisory controls aimed at: (a) preparing, implementing and tracking of detailed programme monitoring plans; (b) detailing monitoring objectives and activities to be performed during monitoring visits; (c) enhancing the monitoring repository system by including action plans to be performed by the Office or its implementing partners to address monitoring findings and recommendations; and (d) enhancing the recommendation follow-up process so that all findings, recommendations, and corresponding action plans are tracked and implemented in a timely manner.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2024*

The Office agrees with the observations and the recommendations put forward. In this regard, it will organize training on the programme monitoring process that will take into account the thematic issues raised and recommended in (a, b, c, d) above. At the end of the training, an Action Plan shall be elaborated and communicated to all stakeholders.

B.2 – IMPLEMENTING PARTNER MANAGEMENT	**Partially Satisfactory with Some Improvement Needed**

Gaps in Implementing Partner assurance activities

25.   As part of the HACT assurance process, the Office planned to conduct spot-checks covering eight IPs in 2020. However, review of the Implementing Partner Assurance System (IPAS) indicated that the spot checks planned in 2020 for four of the IPs were never carried out, thereby negating the benefits of timely spot check monitoring activities and learning from the results, including potential remedial activities.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level (spot-checks were not carried out as planned).*
IMPACT	*Inadequate implementation of assurance activities may limit the effectiveness and efficiency of programme implementation, the safeguarding of assets, and the reporting of programme and operational activities.*
CATEGORY	*Operational*

RECOMMENDATION 5	*PRIORITY: HIGH*

Strengthen the supervisory controls over Implementing Partner assurance activities through systematically and timely undertaking all planned HACT assurance activities, including spot-checks.

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

MANAGEMENT ACTION PLAN: DUE DATE: *March 2024*

The Office acknowledges this observation, and it has indicated in Implementing Partner Assurance System all planned HACT assurance activities including spot-checks in order to adhere to corporate deadlines to be undertaken. Audit for three IPs and Spot-checks for eight IPs have been undertaken.

B.3 – PROGRAMME SUPPLIES MANAGEMENT	**Partially Satisfactory with Major Improvement Needed**

Significant weaknesses in programme supplies management

26.   The audit team visited three central warehouses, three decentralized warehouses and three Service Delivery Points (SDPs) in two regions, Analamanga and Atsimo Andrefana. All of these facilities were storing inventory items such as contraceptives, medical kits and life-saving medicines. One of the central warehouses, all three decentralized warehouses and all three SDPs were managed by a Government IP, Salama. The visit revealed the following gaps in programme supplies management:

        Commodity availability and stock-outs

27.   In the two regions, there were stock-outs of family planning commodities for varying durations in five of the nine facilities visited. At the time of the audit field mission one SDP had no reproductive health commodities despite periodic commodity requests to the warehouses being made in a timely manner. The stock-outs lasted between 32 days and 249 days for 7 products. [12]

28.   In addition, there were instances where the reproductive health commodities, especially *Implanon,* were not delivered with the corresponding quantities of consumables, that are required for Implanon insertion and removal, at two of the three decentralized warehouses visited. The lack of the consumables reduces the usage of the available commodities.

29.   Office management and warehouse facility personnel interviewed by the audit team explained that the stock-outs were partly attributable to: (a) global shortages of some commodities, which affected local supplies; (b)

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[12] Triclofem (32 days), Male condoms (33 days), Sayana press (74 days), Misoprostol (111 days), Microgynon (125 days), Implanon (160 days), and Depo-Provera (249 days)

incidences of falsely reported shortages at SDPs emanating from poor communications, and redistribution systems and triggers; and (c) delays caused by incompatibility challenges of various electronic Logistic Management Information Systems (eLMIS) used at multiple levels of the commodity distribution chain that limited the visibility of stock levels at SDPs.

Shipping storage conditions

30.   There was an instance of reproductive health kits valued at USD 97,490 declared unsafe for use and recommended for destruction by the government quality assurance team at a government operated warehouse. During the shipping of these reproductive health kits, the storage temperature was inappropriately set for the duration of the voyage resulting in damage of the health kits.

Warehouse storage conditions

31.   Three central warehouses, three decentralized warehouses and two SDPs with UNFPA-donated supplies had insufficient storage space, lacked adequate fire detection and extinguishing mechanisms, did not have adequate and fully functional ventilation systems, lacked orderly commodity storage without systematic arrangement of shelves, pallets, and in some instances, commodities were placed between aisles awaiting dispatch, as opposed to being in a designated dispatch area.

Documentation and recordkeeping

32.   Visits to the three SDPs warehouses revealed gaps in inventory documentation and recordkeeping that created a lack of visibility in the receipt and distribution of commodities to/from the facilities, including: (a) inaccurate entries on stock cards that were not timely updated for stock movements; (b) commodities not being tracked by the batch numbers and not recorded using the standard unit of measure, thereby making reconciliation between physical count results and inventory records difficult; and (c) eLMIS at various SDPs were different and incompatible, thus information sharing challenges were encountered in the distribution chain that limited the visibility of stock levels.

33.   The Office Management attributed the national programme supplies management challenges to significant budget cuts (about 85 per cent) by a major donor in funding the procurement of family planning and reproductive health commodities, which consequently affected the national capacity to manage the supply chain and contributed to the issues noted above. The Office Management noted a number of actions being undertaken to mitigate the impact of the significant reduction in funding.

ROOT CAUSE	*Other: Factors beyond the control of UNFPA (supply chain disruption and significant budget cuts by a major donor to the national government)* *Guidance: Inadequate supervision at the Office level (inadequate monitoring of warehouses and SDPs).*
IMPACT	*Warehouse capacity deficits and Inadequate programme supplies management processes and storage arrangements may result in inventory unavailability when needed, undetermined losses, and/or undetected pilferage.*
CATEGORY	*Operational*

RECOMMENDATION 6	*PRIORITY: HIGH*

In collaboration with the relevant programme stakeholders, support the Government of Madagascar in the development and implementation of a strategy to build capacity in addressing the challenges that negatively impact commodity availability levels and result in stock-outs at Service Delivery Points.

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

MANAGEMENT ACTION PLAN: DUE DATE: *April 2024*

As mentioned during the audit mission, many actions have been undertaken to address the stock-out of Family Planning (FP) products including the support to the Government of Madagascar through: i) The elaboration of Reproductive Health Commodities Supply (RHCS) Strategy 2022-2026 in September 2022 and validated in December 2022; ii) The elaboration of Resource Mobilization Strategy for FP 2022-2026 in September 2022 and validated in December 2022; iii) Provision of Technical support by Last Mile Assurance (LMA) Team from Copenhagen in

December 2022; iv) Carrying out of End-year Inventory 2022 and Spot-Check. In addition, the Office is finalizing a Third-Party Procurement MOU between Ministry of Health, World Bank and UNFPA to address the stock-out of FP products.

Furthermore, the Office will also provide technical support in close collaboration with the Supply Chain Management Unit through a study tour in Copenhagen to strengthen national capacity. The LMA Team will provide additional RHCS capacity building in October 2023 to ensure that the observations noted in this report are adequately addressed (e.g., documentation and record-keeping, shipping storage conditions and warehouse storage conditions).

B.4 – MANAGEMENT OF NON-CORE FUNDING	Partially Satisfactory with Some Improvement Needed

Late donor reporting

34.	Review of the Donor Agreement and Reporting Tracking System[13] dashboard revealed that during the period under audit, the Office had a 36 per cent rate of late donor reporting. There were also donor reports overdue at the time of drafting this report.

35.	Office Management attributed the late donor reporting to the requirement for joint reporting. The donor reports that were submitted late related to projects jointly implemented in the country with three other United Nations organizations. The Office further explained that the delays originated from waiting for inputs from those other stakeholders (especially co-implementing UN organizations).

36.	To forestall recurrence of reporting delays, the Office has set up an alert system, including meetings during which reminders of donor report submission deadlines are made and timelines are set for milestone actions necessary for the timely submission of reports.

ROOT CAUSE	*Other: Factors beyond the control of UNFPA (delays originating from waiting for input from other stakeholders).*
IMPACT	*The perceived inability to timely report on the use of funds may dimmish the Office's ability to mobilize/receive additional resources, and adversely impact on programme delivery.* *Exposure to financial and reputational loss is increased*
CATEGORY	*Compliance*

RECOMMENDATION 7	PRIORITY: MEDIUM

Leveraging on measures already taken by the Office, collaborate with other relevant stakeholders on jointly implemented projects to develop an inter-agency communication timetable to enable timely reporting to donors.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2024*

For each jointly implemented project, the Office will recall and review the existing inter-agency communication timetable to enable timely reporting to donors. For this year - 2023, all of the six required reports were submitted on time.

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[13] UNFPA corporate tool for monitoring and tracking donor reporting.

C. OPERATIONS MANAGEMENT	PARTIALLY SATISFACTORY WITH SOME IMPROVEMENT NEEDED

C.1 – HUMAN RESOURCES MANAGEMENT	Satisfactory

37.   Work performed in this area included an analytical review of payroll and contract personnel costs, a walk-through of the payroll reconciliation controls with UNDP, and the testing of a sample of service contracts and individual consultancies awarded by the Office for linkage to the corresponding workplans, compliance with applicable policies and procedures, and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for vacant posts during the audit period and a review of the Office's leave management process and benefits. Based on the work performed in this area, the audit did not identify any reportable matters.

C.2 – PROCUREMENT	Partially Satisfactory with Some Improvement Needed

Gaps in the Office's procurement management practices

38.   Audit review of 67 procurement transactions processed by the Office, noted deviations from UNFPA procurement policies and procedures. The most notable of these exceptions pertained to the following:

a)   The Office did not use the mandatory Request for Quotation (RFQ) template for procurement transactions valued at USD 5,000 and above, as per the applicable policy. Instead, the Office used a one-page RFQ template that did not include important information about the purchase terms such as the evaluation and award criteria, payment terms, fraud and corruption provisions, and related disclaimers;

b)   Standard Receipt and Inspection Reports were not utilized for the receipt of non-programme goods. Rather, goods received were acknowledged on the supplier delivery notes that were subsequently filed as evidence of receipt. Consequently, there was no documentary evidence that the quality and quantity of the goods received had been checked against those required, and whether any actions were taken in cases of non-compliance; and

c)   In the bid solicitation and evaluation process, there was one case in which the specifications of the procured goods were changed during the evaluation process, without notifying the original bidders. In three other cases, it was noted that the lead time allowed in solicitations for the submission of bids was between two and five days which was less than the minimum period required by the applicable policy. In addition, in all three cases, some quotations were accepted by the Office after the end of the announced bidding period.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level (lack of due diligence in complying with procurement policies and procedures).*
IMPACT	*The effectiveness and efficiency of the procurement process, its transparency and fairness, as well as the ability to obtain value-for-money, may be impaired.*
CATEGORY	*Compliance*

RECOMMENDATION 8	*PRIORITY: MEDIUM*

Raise the awareness of relevant staff and implement controls to ensure the utilization of appropriate document templates and compliance with UNFPA procurement policies and procedures, including those related to the lead times for bid solicitations, as a means of ensuring fairness, integrity, transparency and achieving best value for money; and monitor compliance therewith.

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

MANAGEMENT ACTION PLAN: DUE DATE: *January 2024*

The Office accepts the observations and recommendations documented by the audit. The Office is of the view that in order to raise awareness and enhance staff's understanding of procurement management it will develop a specific in-house standard operating procedure (SOP) related to the end-to-end procurement processes. These processes will include the use of right templates (note-the Office has already started using the right RFQ templates). In addition, this SOP will include those steps related to the lead times for bid solicitations. Furthermore, the completion of receiving and inspection processes will be periodically reviewed, and compliance adhered to. Evidence of this compliance will be logged and also reviewed by supervisors. An in-house refresher activity to relevant staff on the procurement policies and procedures will also be undertaken to ensure that staff are conversant with the applicable policies and procedures.

The CO will leverage the capacity development plan published by SCMU to build capacity for staff.

C.3 – FINANCIAL MANAGEMENT	Partially Satisfactory with Some Improvement Needed

Errors in the recording of financial transactions

39.   Out of 67 financial transactions tested amounting to USD 130,265, there were nine (13 per cent) instances of misclassification of expenses, in the amount of USD 26,663. The errors primarily occurred in the area of storage costs.

ROOT CAUSE	*Guidance: Inadequate supervision at the Office level (lack of training for data entry personnel)*
IMPACT	*There is an increased risk of inaccurate financial reporting by UNFPA.*
CATEGORY	*Reporting*

RECOMMENDATION 9	*PRIORITY: MEDIUM*

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

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

MANAGEMENT ACTION PLAN: DUE DATE: *November 2023*

The Office accepts the observation and the recommendation. The Office will ensure training is provided to the relevant staff to better understand the recording of financial transactions. Support will be sought from ESARO as well as HQ where required. Periodic reviews (spot-checks, checklists) will be undertaken by supervisors to ensure the right use of accounting codes.

C.4 – GENERAL ADMINISTRATION	Satisfactory

Individual items making up compound assets are not uniquely identified and recorded in the asset register

40.   Audit noted that laptops, monitors and docking stations were treated as a single compound asset[14] - laptop docking stations. As a result, the individual items were not uniquely identified and recorded in the Assets register for ease of identification and tracking. Whereas laptop docking stations have three unique identifiable components with

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[14] Compound asset refers to several items used together as a single asset i.e., a laptop, a docking station, monitor, keyboards and mouse.

unique serial numbers (i.e. laptop, monitor and connector), only the laptop serial number is tracked in the asset register.

41.   The Office Management explained that accounting for all three items together better reflects the nature of the purchased items, as they are procured and acquired on a basis of being used as a single system. In addition, Management noted that combining the individual items into a single unit is more appropriate for the purpose of determining whether the asset meets the definition of fixed asset according to the applicable UNFPA policy[15], which, inter alia, requires that the acquisition cost be greater or equal to USD 1,000.00 per unit. Moreover, the individual items comprising the compound asset, could not be recorded as separate line items due to the technical limitations of Atlas.

42.   The audit reviewed the applicable policy and discussed the issue with the Facilities and Administrative Services Branch (FASB) and noted that: (a) the UNFPA Policy and Procedures for Fixed Asset Management do not include clear guidance of how compound assets are accounted for and maintained in asset registers; and (b) technical limitations of Atlas, that did not allow for proper recording of compound assets, were acknowledged and discussed during the process of transition to the new UNFPA ERP system, Quantum.

ROOT CAUSE	*Guidelines: Inadequate corporate policies or procedures (No explicit provisions or guidance for accounting for compound assets in the UNFPA Policy and Procedures for Fixed Asset Management).*
	Resources: Insufficient resources (technology) to carry out an activity (limited functionality of the UNFPA ERP system).
IMPACT	*Failure to track and monitor individual assets due to inadequate information being maintained in the assets register.*
CATEGORY	*Operational*

RECOMMENDATION 10	PRIORITY: MEDIUM

Leverage the implementation of the new ERP system to augment the UNFPA Policy and Procedures for Fixed Asset Management to include specific guidance on accounting and/or registering compound assets.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative with support from Director, Division of Management Services*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2024*

After consulting FASB, the Office agrees to augment the current fixed asset management policies and procedures to better clarify how to treat compound assets.

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY	Satisfactory

43.   This area was assessed as presenting a low audit risk. Work performed was, therefore, limited to testing for compliance with Atlas access rights and a walk-through of the Office backup policy, disaster recovery plan and business continuity plan. Based on the work performed in this area, the audit did not identify any reportable matters.

C.6 – STAFF SAFETY AND SECURITY	Satisfactory

44.   Work performed in this area included (a) the review of the most recent United Nations Minimum Operating Security Standards (MOSS) and United Nations Minimum Operating Residential Security Standards (MORSS) 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

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[15] UNFPA Policy And Procedures for Fixed Asset Management, page 3

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 focal person. Based on the work performed in this area, the audit did not identify any reportable matters.

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,[16] are explained below:

▪ **Satisfactory**		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.
▪ **Partially satisfactory with 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.
▪ **Partially satisfactory with 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.
▪ **Unsatisfactory**		The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.
		The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.

B.   CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

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

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

Guidance: inadequate or lack of supervision by supervisors

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

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

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

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[16] 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

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.

C.   PRIORITIES OF AGREED MANAGEMENT ACTIONS

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

- ▪ **High**   Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).

- ▪ **Medium**   Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).

- ▪ **Low**   Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D.   CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

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

- ▪ **Strategic**   High level goals, aligned with and supporting the entity's mission

- ▪ **Operational** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage

- ▪ **Reporting**   Reliability of reporting, including fulfilling accountability obligations

- ▪ **Compliance** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

GLOSSARY

Acronym	Description
Atlas	UNFPA's Enterprise Resource Planning system utilized in the audited period
CO	Country Office
DHR	Division of Human Resources
eLMIS	electronic Logistic Management Information Systems
ERP	Enterprise Resource Planning
FASB	Facilities and Administrative Services Branch
GII	Gender Inequality Index
GPS	Global Programming System
HDI	Human Development Index
IP	Implementing Partner
IOM	International Operations Manager
LMA	Last Mile Assurance
LTA	Long Term Agreement
NGO	Non-Governmental Organization
OAIS	Office of Audit and Investigation Services
PSEA	Prevention of Sexual Exploitation and Abuse
Quantum	UNFPA's Enterprise Resource Planning system
SCMU	Supply Chain Management Unit
SDP	Service Delivery Point
SIS	Strategic Information System
UNFPA	United Nations Population Fund
USD	United States Dollars