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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN SOMALIA

FINAL REPORT

Nº IA/2023-17

11 October 2023

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Country Office in Somalia (the Office) starting on 7 October 2021. The audit aimed to assess the adequacy and effectiveness of governance, risk management, and controls relating to the following areas:

(a) Office Governance - office management, organizational structure and staffing, risk management;

(b) Programme Management - programme planning and implementation, Implementing Partner management, supply chain management, management of non-core funding; and

(c) Operations Management - Human resources management, procurement, financial management, general administration, information and communication technology, and security.

2. Activities covered by the audit corresponded to: (a) the third year of the third Country Programme 2018 – 2020, approved by the Executive Board in its second regular session of 2017, with indicative resources of USD 44.7 million; and (b) the first and second quarters of the first year of the fourth Country Programme 2021 – 2025, approved by the Executive Board in its first regular session of 2021, with indicative resources of USD 203.5 million.

3. Expenses covered by the audit amounted to USD 38.9 million,[1] executed by 48 Implementing Partners and one United Nations organization (USD 26.8 million) and by UNFPA (USD 12.1 million), funded from core resources of USD 5.8 million and non-core resources of USD 33.1 million.

4. The OAIS audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the operations and internal control processes in place.

Overall audit rating

5. OAIS issued an overall audit rating for the Office of **"Partially Satisfactory with Some Improvement Needed"**[2], 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 audited entity/area should be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

6. This rating is mainly due to: (a) Delays in completion of UNFPA mandatory training by Office personnel; (b) Protection from Sexual Exploitation and Abuse self-assessments not timely completed by Implementing Partners; (c) Implementing Partner agreements not timely filed by the Office in a timely manner; (d) Significant weaknesses in the financial monitoring of Implementing Partners; (e) Ineffective Office oversight over Implementing Partner activities; and (f) Poor warehouse storage conditions.

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

[1] Source: Atlas general ledger.

[2] See complete set of definitions in Annex 1.

Audit ratings by key audit area	
Office Governance	***Satisfactory***
Office management	*Satisfactory*
Organizational structure and staffing	*Some improvement needed*
Risk management	*Satisfactory*
Programme Management	***Major improvement needed***
Programme planning and implementation	*Satisfactory*
Implementing Partner management	*Unsatisfactory*
Supply chain management	*Some improvement needed*
Management of non-core funding	*Satisfactory*
Operations Management	***Some improvement needed***
Human resources management	*Satisfactory*
Procurement	*Some improvement needed*
Financial management	*Satisfactory*
General administration	*Some improvement needed*
Information and communication technology	*Not applicable*
Security	*Satisfactory*

Good practices

8. The audit identified the following practices, which enhanced governance and strengthened internal control and risk management:

(a) The outcomes and outputs in the Country Programme Document (2021 – 2025) were clearly linked to those in the UNFPA Strategic Plan and the United Nations System Development Cooperation Framework (2021-2025);

(b) The Office established long-term agreements with suppliers of frequently purchased goods and services, which helped ensure reliable sourcing of supplies and best value for money; and

(c) Given the complex emergency and humanitarian environment in which it operates, the Office proactively sought to have time-bound fast track procedures approved and activated for greater delegation of authority and flexibility in procuring goods and services.

Key recommendations Total = **9**, high priority = **5**

9. For high priority recommendations, prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (i.e., where failure to act could result in critical or major consequences for the organization). All high priority recommendations are presented below:

Operational

10. The Office needs to strengthen its financial monitoring of Implementing Partners through: (a) closer monitoring of Implementing Partners' compliance with reporting requirements; (b) instituting supervisory controls to ensure that Office personnel comply with applicable policy requirements with regard to Implementing Partner reimbursement claims; and (c) putting in place a rigorous Office follow-up process to ensure that micro-assessment, spot-check and audit recommendations are implemented by Implementing Partners in a timely manner, as planned.

11. Build the capacity of Implementing Partners by putting in place appropriate internal controls to mitigate inherent risks in the systems they use to maintain accounting records, including the use of passwords to restrict access to spreadsheet-based systems, version controls, use of indelible ink to serialize payment vouchers, and stamping or cancelling transaction supporting documents upon payment.

12. Further, enhance the depth and scope of HACT assurance activities by performing extra audit procedures, in addition to those included in the HACT Audit Terms of Reference, in audits of Implementing

Partners in countries with high fraud risks and provide an update to OAIS on steps taken, including their current status of implementation, by the Office to enhance the controls that failed in the wake of a fraud scheme that was highlighted by a forensic audit conducted by the Office of the Auditor General of Somalia at an Implementing Partner and a HACT audit of the same Implementing Partner. The HACT IP audit covered USD 2.9 million, representing expenditures incurred in 2019 of USD 2.3 million, as well as a reimbursement claim submitted by the IP in the first quarter of 2020 in the amount of USD 0.6 million. The HACT auditors identified financial findings relating to ineligible expenditures totaling USD 0.9 million (31 per cent of the total amount tested).

13. Finally, strengthen review and supervisory controls to ensure systematic documentation, completeness, and accuracy of vehicle management records; and enforce compliance with applicable policy requirements.

Implementation status of previous OAIS audit recommendations

14. The Office was last audited in June 2017. All 17 recommendations arising from the audit were fully implemented and closed as of November 2018.

Management comments and action plan

15. The Representative accepted all recommendations in the report and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Acknowledgement

16. The OAIS team would like to thank the Management and personnel of the Office, the Arab States Regional Office, and the different Headquarter units for their cooperation and assistance throughout the audit.

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Moncef Ghrib

Director

Office of Audit and Investigation Services

I. AUDIT BACKGROUND

1. The UNFPA Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Country Office in Somalia (hereafter referred to as the Office) from 26 October to 16 November 2021. An initial Management response was received on 18 May 2022. An updated draft report was sent to the Office on 22 September 2023 and a final Management response received on 9 October 2023. The audit aimed to assess the adequacy and effectiveness of governance, risk management and controls (GRC) relating to the following areas:

(a) Office Governance - office management, organizational structure and staffing, risk management;
(b) Programme Management - programme planning and implementation, Implementing Partner (IP) management, supply chain management, management of non-core funding; and
(c) Operations Management - Human resources management, procurement, financial management, general administration, information and communication technology, and security.

2. The area of information and communication technology was excluded from the audit scope due to low assessed risk.

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

(a) Effectiveness and efficiency of Office operations;
(b) Conformity of expenses with the purposes for which funds were appropriated;
(c) Safeguarding of assets entrusted to the Office;
(d) The level of compliance with applicable legislative mandates, rules, regulations, policies, and procedures; and
(e) Reliability of the Office's financial and operational reporting.

4. As of 2014, Somalia had an estimated population of 12.5 million, with approximately 78 per cent of the population below the age of 30. Somalia suffers from fragmented and weak governance and institutional systems. The country continues to experience protracted conflict and natural disasters such as recurrent drought, floods, cyclones and, recently, a massive locust infestation that affected the fragile food security system. A fragile health system and access constraints brought about by security concerns contribute to poor reproductive and maternal health outcomes, especially among the most vulnerable. As of 2020, over 5.2 million people needed humanitarian assistance and nearly 3.0 million people required immediate access to emergency health and hygiene services. The number of internally displaced persons was estimated at 2.6 million. Moreover, the emergence of the COVID-19 pandemic deeply affected Somalia's economic situation.[3]

5. The maternal mortality ratio in Somalia declined from 732 per 100,000 live births in 2015 to 692 per 100,000 live births in 2020. However, despite the progress made, the ratio remains among the highest in the world. Access to skilled birth attendance or facility-based births decreased from 36 per cent in 2011 to 32 per cent in 2020. The lifetime risk of a 15-year-old woman dying from maternal causes in Somalia is 1 in 20. Obstetric fistula is widespread, and evidence points to early marriage, early pregnancy and childbirth, lack of access to Emergency Obstetric and Newborn Care, and female genital mutilation as contributing factors.[4] The HIV prevalence rate is low at 0.1 per cent.[5]

6. The audit covered activities of the Office from 1 January 2020 to 30 June 2021, which corresponded to: (a) the third year of the third Country Programme 2018 – 2020, approved by the Executive Board in its second regular session of 2017, with indicative resources of USD 44.7 million; and (b) the first and second

[3] UNFPA Country Programme Document for Somalia (2021-2025)

[4] UNFPA Country Programme Document (2021-2025).

[5] The World Bank.

quarters of the first year of the fourth Country Programme 2021 – 2025, approved by the Executive Board in its first regular session of 2021, with indicative resources of USD 203.5 million.

7. Expenses covered by the audit amounted to USD 38.9 million,[6] executed by 48 IPs and one United Nations organization (USD 26.8 million) and by UNFPA (USD 12.1 million), funded from core resources of USD 5.8 million and non-core resources of USD 33.1 million.

8. Approximately 69 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Gender Equality and Empowerment of Women component accounted for 13 per cent of the expenses incurred, the Adolescents and Youth component accounted for 9 per cent, and the Population Dynamics component for 4 per cent. Costs such as those related to core staff posts and office operational expenses funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 5 per cent of expenses.[7]

9. The main UNFPA Office in Somalia is in the capital city of Mogadishu, with two sub-offices in the cities of Garowe and Hargeisa and one decentralized office in Baidoa. The Office also maintains a service unit (the Nairobi Service Unit) in Nairobi, Kenya, to provide back-office support to its programme delivery and operational activities in Somalia. In 2020, some procurement, travel, and human resource management activities were conducted from the Nairobi Service Unit. 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, two Assistant Representatives, and an International Operations Manager – all based in Mogadishu.

[6] Source: Atlas general ledger.

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

II. AUDIT RESULTS

A. OFFICE GOVERNANCE	SATISFACTORY

A.1 – OFFICE MANAGEMENT	SATISFACTORY

1. Audit procedures performed in this area included a review of the: (a) Office planning process in 2020 and 2021; (b) relevance of the 2021 annual management plan and the implementation level of activities in 2020; (c) alignment of the 2021 performance plans of key personnel to Office priorities; (d) accuracy of the Office's 2020 annual report data; and (e) level of familiarization of Office personnel with UNFPA policies and procedures.

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

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING	SOME IMPROVEMENT NEEDED

3. The following audit finding was noted.

Issue 1 <u>Delay in completion of UNFPA mandatory training by Office personnel</u>

4. At the time of the audit field mission, completion rates for mandatory UNFPA training courses ranged from 13 per cent in some courses to 100 per cent in others. Some staff members and contract personnel did not complete one or more of the following mandatory training courses: (a) Ethics and Integrity at UNFPA; (b) Prevention of Sexual Exploitation and Abuse (PSEA); (c) Fraud and Corruption Awareness and Prevention; (d) Information Security Awareness; and (e) Working Together Harmoniously.

5. Although the Office assigned a focal point to track the completion of mandatory training and tasked each supervisor to assess the completion status of their direct reports as part of the individual performance assessments, it was evident that the controls needed strengthening, as the recorded course completion rates remained low.

6. Following discussion of the issue with Office Management during the audit field mission, immediate remedial action was taken to ensure completion of most missing courses. Due to the action taken, average completion rates increased to 88 per cent. In addition, the completion of UNFPA mandatory courses was immediately introduced as a routine agenda item in periodic management meetings. As a result of the effort, no recommendation is provided.

A.3 – RISK MANAGEMENT	SATISFACTORY

7. Audit work performed in this area included the review of the latest strategic and fraud risk assessments completed by the Office, the process followed for identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risk.

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

B. PROGRAMME MANAGEMENT	MAJOR IMPROVEMENT NEEDED

9. The following practice in programme management were in line with established policies and procedures:

   (a) The outcomes and outputs in the Country Programme Document (2021 – 2025) were clearly linked to those in the UNFPA Strategic Plan and the United Nations System Development Cooperation Framework (UNSDCF) 2021 – 2025, which is aligned to the country's national priorities.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION	SATISFACTORY

10. During the period under review, the Office implemented activities related to six outputs of the third Country Programme 2018 – 2020 and fourth Country Programme 2021 – 2025, at a total cost of USD 36.9 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 82 per cent in 2020 and 62 per cent mid-year as of 30 June 2021, measured based on annual budgets allocated in Atlas. Programme implementation activities were funded from core resources of USD 3.8 million and non-core resources of USD 33.1 million and related mainly to the programmatic areas of sexual and reproductive health, gender equality, adolescent and youth, and population dynamics.

11. Activities were implemented by the Office with related expenses of USD 10.1 million (27 per cent of programme implementation expenses in the period under review) and financial implementation rates of 68 per cent in 2020 and 40 per cent as of 30 June 2021. A large portion of the expenses incurred in relation to UNFPA-implemented activities corresponded to personnel costs, procurement of programme supplies, and facility rentals.

12. Activities were also implemented by 48 IPs engaged by the Office and one United Nations (UN) organization, with related expenses of USD 26.8 million (72 per cent of programme implementation expenses in the period under review) and financial implementation rates of 91 per cent in 2020 and 75 per cent as of 30 June 2021. Section B.2 of the report provides further details on IP-implemented activities.

13. Audit work performed in this area focused on two outputs with aggregate expenses of USD 28.4 million during the period under review (77 per cent of programme implementation expenses) and included: (a) a review of the 2020 and 2021 workplans related to the two outputs; (b) an assessment of processes followed to prepare, cost and approve the workplans, and to monitor their implementation by the Office and various IPs; and (c) a review of monitoring reports and other evidence of programme implementation, along with visits to: (i) three locations where programme activities were implemented; and (ii) five IP offices; one located in Mogadishu, two in Hargeisa, and two in Garowe.

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

B.2 – IMPLEMENTING PARTNER MANAGEMENT	UNSATISFACTORY

15. The following audit findings were noted in this area.

Issue 2 PSEA self-assessments not timely completed by Implementing Partners

16. Of the Office's 48 IPs, 32 met the criteria set out in relevant guidance issued in July 2020 to conduct a capacity self-assessment on PSEA. At the time of the audit field mission, only 11 of the 32 IPs (34 per cent) had conducted the self-assessment.

17. According to Office Management, the low completion rate was caused by a temporary assignment of the PSEA focal person to another UNFPA Country Office. Following discussion of the issue with Office Management, the Office took immediate steps, which included the appointment of a backup focal person, to remediate the situation. As a result, a 100 per cent completion rate for PSEA self-assessments was registered shortly after the audit field mission. Therefore, no recommendation is provided.

Issue 3 IP agreements not filed in a timely manner

18. Two out of 12 IP agreements tested (17 per cent) were uploaded into the relevant corporate system or database more than 6 months after they were signed, long after the corresponding IP workplans were

signed and funds transferred. Applicable policy[8] requires uploading of IP agreements into the system before signing workplans with and advancing funds to IPs.

Root Cause	*Guidance: inadequate supervision at the Office level (several competing priorities that led to a lapse in oversight over this area).*
Impact	*The delay in uploading IP agreements to the relevant system or database increases the risk of document loss and prevents other UNFPA business units from accessing the agreements in a timely manner.*
Category	*Compliance.*

Recommendation 1	**Priority: Medium**
Raise the awareness of Office staff concerning the need to timely upload Implementing Partner agreements in the relevant system or database before signing workplans with and advancing funds to Implementing Partners.	
Manager Responsible for Implementation: *Representative.*	
Management action plan: The Office accepts the recommendation. We have planned learning afternoons for staff, dedicated to ensuring that they understand the need to timely upload IP agreements in the relevant system/database before signing work plans with and advancing funds to IPs. Regular controls to ensure compliance will be formalized. The Office has taken steps to ensure that all IPs are registered in the United Nations Partner Portal and IP agreements uploaded. **Estimated completion date:** *January 2024.*	

Issue 4 Significant weaknesses in the financial monitoring of Implementing Partners

Late submission and review of FACE forms

19. Of 44 Funding Authorization and Certificate of Expenditure (FACE) forms tested, 8 (18 per cent) were submitted by IPs after the required deadlines. The observed delays ranged from 16 to 105 days. Office Management attributed the delays mainly to a lack of capacity (skills) on the part of IP personnel in preparing and managing FACE forms in GPS.

Late or non-submission of reimbursement authorization requests

20. The review of 17 FACE forms for IPs that reported expenses using a reimbursement cash transfer modality revealed 3 (18 per cent) reimbursement request forms that were approved on an "*ex-post-facto*" basis, and 14 (82 per cent) instances where IPs did not submit any reimbursement request forms. In all the cases noted, the reimbursed expenses exceeded the policy threshold of USD 100,000, which mandates the submission of reimbursement authorization requests by IPs and written authorization by the Office prior to incurring any programme implementation expenses. The reimbursed expenses not supported by approved reimbursement request forms ranged between USD 117,290 and USD 479,404. Office Management explained that it was aware of the policy requirement but did not apply it consistently.

[8] Policy and Procedures for Selection, Registration and Assessment of Implementing Partners.

Weak financial controls at IPs

21. Site visits to five IPs in Mogadishu, Garowe, and Hargeisa revealed the following weaknesses in internal control:

(a) Two IPs, one in Garowe and the other in Hargeisa, maintained spreadsheet-based accounting records without putting in place basic controls such as restricted access or version controls to mitigate risks inherent in the use of spreadsheets. Spreadsheets are typically vulnerable to human errors arising from lack of version control, manually entering data incorrectly, copy and paste errors, entry over-writes, and deletion or loss of data without leaving an audit trail.

(b) The IP in Hargeisa (mentioned above) had the following significant internal control weaknesses: (i) Payment vouchers were serialized using an erasable pencil. Three of the vouchers reviewed, totaling USD 129,870, had clearly visible alterations to the voucher numbers; (ii) Of 154 transaction supporting documents reviewed, 124 (81 per cent) were not cancelled or stamped as 'PAID' upon payment, increasing the risk that they could be re-presented for payment. In cases where supporting documents were stamped 'PAID', the fields to be manually completed in the stamp to identify the activity reference number, the activity budget line, and the payment date were left blank; and (iii) One voucher in the amount of USD 129,494 had two 'PAID' stamps on it for the same payment – one for UNICEF and the other for UNFPA, increasing the risk of double dipping or overpayment. The audit team hereby acknowledges that spot-checks undertaken by the Office and a joint financial audit with another UN organization had identified these and similar issues, indicating a robust HACT assurance process.

22. HACT[9] micro-assessment reports prepared in 2016 and 2017 for the IPs discussed in paragraph 21 identified similar issues to those noted above, with the IPs having committed to take remedial action by the end of 2017. However, there was no evidence that the Office followed up to ensure implementation of the proposed remedial actions, as similar issues were noted in spot-checks undertaken in subsequent periods. Specifically, after being informed of the spot-checks referenced in paragraph 21 (b) above, the Office assigned staff to follow up on the implementation of prior spot-check recommendations within the specified timelines. At the time of the audit field mission, the spot-check recommendations were yet to be implemented, indicating the need for more a more robust Office follow-up process.

Root Cause *Guidance: inadequate supervision at the Office level (inadequate monitoring of IP reporting).*

Impact *Delays in the submission of FACE forms may affect the timeliness of fund disbursements, implementation of activities, and the Office's monitoring activities.*

Without proper authorization of reimbursements, the Office may not have sufficient financial resources to settle obligations resulting from the need to reimburse programme implementation expenses incurred by IPs.

Funds provided to IPs may not be used for the intended purposes, adversely impacting the achievement of intended programme results, and increasing the risk of financial loss to UNFPA.

Category *Operational.*

Recommendation 2	**Priority: High**
Strengthen the financial monitoring processes of Implementing Partners through: (a) closer monitoring of Implementing Partners' compliance with reporting requirements; (b) instituting supervisory controls to ensure that Office personnel comply with applicable policy requirements with regard to Implementing Partner reimbursement claims; and (c) putting in place a rigorous Office follow-up process to ensure that micro-assessment, spot-check and audit recommendations are implemented by Implementing Partners as planned, and in a timely manner.	

[9] Harmonized Approach to Cash Transfers

<u>Manager Responsible for Implementation:</u> *Representative.*
Management action plan: The Office accepts the recommendation. The Office held a training in July 2022 for its programme and finance staff who are IP focal points to ensure that their capacity to review work and reporting by IPs, as well as compliance with UNFPA expectations, is enhanced. At the end of each quarter, the focal points submit requests to the Deputy Representative and the International Operations Manager, who are supported by the Monitoring and Evaluation Specialist and a Programme Associate, to review IP reports and ensure compliance with reporting requirements. **Estimated completion date:** January 2024.

Recommendation 3	**Priority: High**
Build the capacity of Implementing Partners to put in place appropriate internal controls to mitigate inherent risks in the systems they use to maintain accounting records, including the use of passwords to restrict access to spreadsheet-based systems, version controls, use of indelible ink to serialize payment vouchers, and stamping or cancelling transaction supporting documents upon payment.	
<u>Manager Responsible for Implementation:</u> *Representative.*	
Management action plan: The Office accepts the recommendation. Commencing July 2022, the Office holds regular training sessions for IPs at which internal control is a key topic. Following the sessions, spot-checks are used to check on implementation of the controls discussed at the training. **Estimated completion date:** January 2024.	

Issue 5 <u>Ineffective Office oversight over Implementing Partner activities</u>

23. Based on a request from the Office of the Attorney General of the Federal Republic of Somalia, the Office of the Auditor General of Somalia (OAGS) conducted a forensic audit into suspected fraud at a Government IP engaged by the Office. The scope of the forensic audit focused on payments totaling USD 6.1 million made by the IP to 151 vendors in 2017, 2018, and 2019, funded by UNFPA, another UN organization, and an international NGO. Of the 151 vendors, OAGS selected, for testing, a sample of 17 from which the IP purchased goods and services amounting to USD 1.1 million over the three-year period.

24. OAGS issued a forensic audit report on 31 May 2020, which highlighted that, of the USD 1.1 million tested, USD 0.5 million (43 per cent) was unaccounted for – mainly relating to non-receipt or partial receipt, by vendors, of funds reported by the IP as having been used to make payments for goods and services. The report highlighted an elaborate fraud scheme involving collusion amongst key IP officials and those of two other government agencies (not UNFPA IPs). As part of the forensic audit, the Somalia police seized pre-printed invoice books, receipts, goods delivery notes, and stamps for suspect companies and individuals used to commit irregular financial practices that led to the loss of public funds. The OAGS forensic report was made available to UNFPA Arab States Regional Office, the Quality Management Unit of the Division for Management Services, and Investigation Branch of OAIS on 13 November 2020.

25. Following receipt of the OAGS forensic audit report, the Office, in consultation with the UNFPA Quality Management Unit and OAIS Investigation Branch, initiated discussions with the concerned IP to restart an audit covering the 2019 HACT assurance cycle, which was interrupted by the Covid-19 pandemic in March 2020 - albeit with modified terms of reference to address the fraud risk highlighted by the OAGS forensic audit. Following protracted discussions and delays, the special audit, conducted by an international audit firm and covering the period 1 January to 31 December 2019, resumed. A report was issued to the Office and the Quality Management Unit of the Division for Management Services on 10 June 2022, with an adverse audit opinion, which OAIS considered in finalizing this audit report.

26. The HACT IP audit covered USD 2.9 million, representing expenditures incurred in 2019 of USD 2.3 million, as well as a reimbursement claim by the IP in the first quarter of 2020 in the amount of USD 0.6 million. The auditors identified financial findings totaling USD 0.9 million (31 per cent of total amount tested), as detailed in Table 1 below. The financial findings related to ineligible expenditures included in FACE forms.

Table 1 - Financial findings identified by the HACT IP audit

No.	Title	Ineligible Amount (US$)
1	No supporting documentation	236,883
2	Insufficient supporting documentation	50,953
3	Other-supplier confirmations transactions not authenticated	135,507
4	Insufficient evidence of goods/services received and utilized for project activities - midwife institutes	181,139
5	No evidence of goods delivered - De-Martino Hospital	121,793
6	Insufficient supporting documentation - workshops	111,983
7	Insufficient supporting documents – payroll	20,700
8	No proof of goods/services received - sub-IPs	24,660
	Total	**883,618**

27. Office Management indicated that the amount of USD 883,618 in financial findings was reduced through non-payment, by the Office, of a reimbursement claim of USD 600,318 that was due to the IP for the first quarter of 2022. Hence, the overall potential loss was reduced from the USD 883,618 initially questioned by the auditors to USD 283,300, which was the subject of a letter written by the Office to the concerned IP in June 2022 to request a refund.

28. A review of IP audits and spot-checks of the concerned IP in the same period covered by the OAGS forensic audit and the 2019 HACT IP audit (i.e., covering 2017, 2018, and 2019), either resulted in unmodified audit opinions or did not reveal any significant financial findings.

29. In this audit's view, discrepancies between the conclusions reached by the two special audits (i.e., OAGS forensic audits and the 2019 HACT IP audit) and the regular HACT IP audits and spot checks undertaken – essentially covering the same time periods and expenditures – are as a result of differences in the depth and scope of the exercises. In particular, the existing terms of reference for IP audits essentially limit the depth and scope of testing, as auditors are expected to only determine whether transactions are adequately supported by appropriate documentation, and whether goods and services procured are received and used to implement activities in line with work plans or programme documents, with focus on the review of documents. The HACT audit terms of reference do not, for instance, require auditors to confirm the authenticity of transactions directly with vendors – an essential audit procedure in a high fraud risk context such as that in which the Office operates. The quality of financial spot-checks (and Office Management oversight over them) undertaken by the Office could also be enhanced by employing professional skepticism when fraud red flags are identified and performing additional research on suppliers and payments.

Root Cause	*Guidance: Lack of or inadequate guidance or supervision at the Country Office level.* *Guidelines: Inadequate risk management processes (ineffective internal controls).*
Impact	*The effectiveness of HACT assurance activities in identifying potential financial findings (i.e., ineligible and unsupported expenses) may be negatively impacted, increasing the risk of financial loss to UNFPA.*
Category	*Operational.*

Recommendation 4	**Priority: High**
To complement steps already included in the spot checks guidance and in the HACT Audit Terms of Reference, in countries like Somalia, where fraud risks are highest, enhance the depth and scope of HACT assurance activities, such as spot checks and audits, to include additional risk-based audit procedures, such as the verification of transactions with third parties like vendors and other partners.	

Manager Responsible for Implementation: *Director, Division for Management Services.*

Management action plan:

UNFPA's IP risk model and subsequent HACT procedures have been recently enhanced to take into consideration operating context risk, which adjusts the IP micro-assessment risk upwards. This focuses assurance on higher risk operations and enhances the scope of HACT assurance activities in high-risk contexts.

In addition, the UNFPA Quality Management Unit works with Country Offices that face high fraud risk to enhance the depth of HACT assurance by implementing extended procedures in audits, special audits, and verifications that are suited to detect fraudulent behaviour. These procedures include additional tests for high-risk transactions. These are applied on a case-by-case basis and often coordinated with OAIS. Further, the Quality Management Unit is discussing suitable models for UNFPA Country Office risk and assurance teams or units and possible use of Third Party Monitoring.

Estimated completion date: March 2024.

Recommendation 5	**Priority: High**
Conduct a comprehensive assessment of the current risk management practices at the Office and of internal controls put in place; and identify areas of weaknesses revealed by the forensic and HACT IP audits and implement remediation measures and procedures to ensure that robust enterprise risk management (ERM) and internal control procedures are put in place.	

Manager Responsible for Implementation: *Representative, in consultation with the Director, Division for Management Services.*

Management action plan:

With support from the ERM Coordinator and following the recent issuance of a new ERM policy and related guidance by Headquarters, the Office has put in place several mechanisms to ensure that IP management follows the laid down internal control and HACT procedures. These mechanisms include the following:

(a) Working with IPs that have been micro-assessed by third-party firms contracted under the Global long-term agreement or by other UN Agencies to ensure that the IPs have the required financial and management capacities and to determine overall IP risk ratings, which, in combination with INFORM (Index for Risk Management) risk ratings, determine the assurance activities to be undertaken.

(b) The Office has adopted a practice of having spot-checks conducted by third party service providers (mostly auditors) on a yearly basis, as well as HACT audits and follow-ups conducted by UNFPA staff to ensure that capacity-building efforts impact IPs and that all audit and spot-check recommendations issued in relation to internal control and financial findings are acted on. The Office will engage with third party providers of audit and spot-checks services to analyse previous instances of fraud and to assess current fraud risks to make sure that relevant HACT procedures are planned and conducted to provide reasonable assurance that fraud instances are promptly detected.

(c) The Office has established standard operating procedures and instituted strong oversight of financial ceilings, allocations, and budgets to guide and facilitate its IP management process. Whenever a deviation is identified, prompt corrective action is taken. These initiatives are overseen jointly by the Heads of Programme and Operations.

(d) The Office regularly consults with the Quality Management Unit on any areas that require specific clarification. The Office is also an active member of the Risk Management, Accountability and Quality Assurance (RMAQA) Working Group of the Integrated Office of the UN Resident Coordinator for Somalia and the HACT Sub-working group, where IP management issues are discussed among the participating agencies.

(e) The office has adopted the use of cash transfer disbursement checklists for all fund transfers to IPs, ensuring that disbursements are processed in line with signed IP agreements, annual work plans, and itemized cost estimates.

In the same context, the Office has created a rotational process to have several programme focal points work with different IPs. This enhances accountability and quality of work and provides a solid foundation to mitigate any arising risks in a timely and appropriate manner.

Although the Office has put in place the above measures to mitigate risks associated with IP management, Office Management will continue to undertake more rigorous risk assessments and follow-up activities by integrating the training of staff on IP Management in staff development plans (starting 2024) and provide refresher training on UNFPA requirements for all IPs to ensure that they keep abreast of processes and procedure.

Estimated completion date: January 2024

B.3 – SUPPLY CHAIN MANAGEMENT — SOME IMPROVEMENT NEEDED

30. The following audit finding was noted.

Issue 6 <u>Poor warehouse storage conditions</u>

31. A site visit to the central warehouse in the capital city Mogadishu identified several gaps that require remedial action. Issues noted included: (a) The warehouse facility lacked adequate storage capacity, as it was at full holding capacity; (b) The facility lacked adequate space and appropriate equipment for cold chain storage (e.g., the warehouse used temporary storage means such as ice pack coolers); (c) Warehouse storage sections and shelves were not labelled or numbered to allow easy identification of commodity locations; (d) Inadequate safety and security measures as the facility lacked alarm systems and video surveillance equipment to safeguard against theft and other potential exposures to physical commodity losses; and (e) Inadequate fire detection and extinguishment mechanisms such as fire and smoke detectors and water sprinklers.

32. The visit did not identify any cases of missing or expired commodities. Office Management explained that the Government IP that managed the warehouse was building a new central medical warehouse, which will be highly modernized with adequate storage space.

Root Cause *Guidance: inadequate supervision at the Office level (inadequate monitoring of warehouse storage conditions).*

Impact	*There is an increased risk of inventory losses due to inadequate space, lack of appropriate equipment, and poor safety and physical security measures.*
Category	*Operational.*

Recommendation 6	**Priority: Medium**
Undertake immediate steps to improve commodity storage conditions in the existing warehouse and, in collaboration with relevant stakeholders like the Government and other development partners, and leveraging on the new warehouse under construction, support the Government to improve warehouse storage conditions and capacity, proper identification and labelling of commodities, and enhancement of safety and physical security arrangements at the warehouse.	
Manager Responsible for Implementation: *Representative.*	
Management action plan: The Office accepts the recommendation. The Office, in collaboration with the Government, has taken steps to improve the warehouse beyond the actions already taken. The Government of Somalia now has a new central medical warehouse in Mogadishu, which is highly modernized with adequate storage space to meet the needs for commodity storage and quality conditions. **Estimated completion date:** March 2024.	

B.4 – MANAGEMENT OF NON-CORE FUNDING — SATISFACTORY

33. Programme implementation expenses funded from non-core resources amounted to USD 33.1 million (90 per cent of total programme expenses) in the period under review. Of this amount: (a) approximately USD 27.1 million corresponded to the Multi-Partner Trust Fund (MPTF) funding provided by several donors to finance activities related to reducing maternal, neonatal, and child mortalities and improving quality of life through improved access to essential health services of acceptable quality and through the prevention and control of communicable and non-communicable diseases; (b) USD 1.4 million came from one donor to finance the implementation of actions on "Accelerated Socio Economic Empowerment of Youth"; and (c) USD 1.3 million from one donor for activities related to strengthening sexual and reproductive health and rights through midwives in Somalia.

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

35. Other than the issues noted in the fraud case, which the representatives acknowledged were pending resolution owing to the then ongoing special HACT audit (see Issue 6 of this report), no other reportable matters were identified based on the audit work performed in this area.

C. OPERATIONS MANAGEMENT — SOME IMPROVEMENT NEEDED

36. The following practices in operations management were in line with established policies and procedures:

(a) The Office established long-term agreements with suppliers of frequently purchased goods and services to help ensure reliable sourcing of supplies and best value for money; and

(b) The Office proactively sought to have time-bound fast track procedures approved and activated for greater delegation of authority and flexibility to Office Management in procuring goods and services given the complex emergency and humanitarian environment in which it operates. These procedures facilitated rapid and timely responses to programmatic and operational needs.

C.1 – HUMAN RESOURCES MANAGEMENT	SATISFACTORY

37. The Office incurred staff payroll costs amounting to USD 5.3 million during the period under review. In addition, the Office made use of contract personnel and engaged seven individuals under service contracts and another 13 under individual consultancy contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 1.8 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).

38. Work performed in this area included an analytical review of payroll and contract personnel costs and testing of a sample of five service contracts and five individual consultancies awarded by the Office at a cost of USD 0.4 million (22 per cent of total contract costs incurred in the period) for linkage to the corresponding workplans, compliance with applicable policies and procedures, and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures also included testing of the recruitment process for two staff members hired locally during the period under review.

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

C.2 – PROCUREMENT	SOME IMPROVEMENT NEEDED

40. The following audit finding was noted.

Issue 7 Improve compliance with procurement policies and procedures on contracting

41. Of 50 local purchase transactions tested, 6 with a total value of USD 48,321 (6 per cent of total sample value of USD 842,836) involved goods and services procured without binding contracts. For five of the purchase transactions with exceptions, the corresponding purchase orders were the binding contracts in accordance with applicable policy. However, the purchase orders were not signed by suppliers, as required by the same policy – making them non-binding. For one of the purchase transactions in the amount of USD 13,492, the purchase order was incorrectly considered to be a binding contract since the amount involved exceeded the policy-specified threshold of USD 10,000 for use of purchase orders as contracts.

42. Further, purchase orders for another 6 of the 50 local purchase transactions tested (12 per cent), with a total value of USD 64,665 (8 per cent of total sample of USD 842,836), were raised, approved, and issued on an "*ex-post-facto*" basis, after receipt of the goods and services procured. "*Ex-post-facto*" approval and issuance of purchase orders significantly diminishes their main benefit as contracting tools, as they typically define the goods and services to be procured and specify the correct quantities, unit prices, and delivery terms. Office Management attributed the situation to a need to hasten the purchase of the goods and services for urgent delivery.

Root Cause	*Guidance: inadequate supervision at the Office level (unplanned procurement of goods and services for urgent delivery that was executed in a hurried manner resulting in unintentional ex-post facto issuance of purchase orders).*
Impact	*There is an increased risk of legal liability for UNFPA in the event of disputes over goods and services ordered and received.* *It may be difficult to match the quality, quantities, prices, and delivery terms of goods received to those ordered, as not all these specifications are included in purchase orders (when used in lieu of contracts) – making it difficult for the Office to have appropriate recourse in the event of a dispute.*

Category *Compliance.*

Recommendation 7	Priority: Medium
Review the affected transactions highlighted in the audit observation and make the necessary corrections to ensure that appropriate documentation is undertaken and raise the awareness of relevant staff on the need to timely plan procurement activities and to formally contract with suppliers, including through the proper use of purchase orders, before taking delivery of goods and services; and implement supervisory controls to ensure compliance with UNFPA procurement policies and procedures.	
Manager Responsible for Implementation: *Representative.*	
Management action plan: The Office accepts the recommendation. A workshop on procurement, for all staff engaged in procurement activities, was held in June 2022. A tracking system was also introduced to improve process tracking. In addition, staff involved in procurement have completed the Procurement Level 2 course and the Office currently has a Procurement Associate on board who has completed the Procurement Level 1 course and plans to undertake level 2 before the year-end. The Office's standard operating procedures for procurement have been revised and shared with all staff. **Estimated completion date:** January 2024.	

C.3 – FINANCIAL MANAGEMENT	SATISFACTORY

43. Work performed in this area included a review of: (a) the authorization and proper processing of financial transactions; and (b) the coding of transactions to the correct projects, activities, general ledger accounts, and IP and fund codes.

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

C.4 – GENERAL ADMINISTRATION	SOME IMPROVEMENT NEEDED

Travel management

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

Vehicles management

Issue 8 Strengthen the vehicle management process

46. Review of vehicle management records relating to three vehicles operated by the Nairobi Service Unit revealed the following issues:

(a) One vehicle purchased in 2006 was not in use at the time of the audit field mission because its registration with the host Government remained incomplete. According to Office Management, use of the vehicle was discontinued in 2017. At the time of the audit field mission, the Office was awaiting instructions from two UN organizations that were involved in the vehicle's procurement and importation on how to finalize the registration process. Given that the vehicle's age exceeds the applicable policy threshold of 5 years, it may qualify for disposal and/or replacement.

(b) Vehicle daily log (VDL) sheets for the other two operational vehicles were generally incomplete, and missing information on vehicle plate numbers. Out of 146 VDL sheets reviewed, 137 did not indicate the specific vehicles they related to. This, together with the fact that the VDL sheets were neither paginated nor serialized, made the review of the sheets a difficult and time-consuming exercise during the audit.

(c) The review of a sample of VDL sheets also revealed several instances of unrecorded and reverse mileage (mileage reported on a VDL sheet that is lower than a vehicle's previously reported mileage). One vehicle had unrecorded mileage of 889 kms and reverse mileage of 10,085 kms from the sample of VDL sheets reviewed and the other vehicle had 181 kms of unrecorded mileage and 146 kms of reverse mileage.

(d) Several significant errors in vehicle mileage recordings were noted. These errors, relating to one of the operational vehicles, ranged from differences of 1,000 to 67,000 kms in recording mileage. A physical inspection of the concerned vehicle's odometer revealed a reading of 112,528 kms on the day whereas the corresponding recorded mileage was 122,528. While it is acknowledged that some of the errors may have originated from human error and were, in some instances, corrected after several days and vehicle trips, these errors indicate a significant lapse in supervisory controls.

(e) Nine instances were noted between May 2017 and January 2019 where one of the vehicle's fuel refilling details were not recorded in the corresponding VDL sheets. Given the circumstances, the audit relied on third party vendor statements to compute fuel consumption and efficiency rates, making it a tedious and time-consuming exercise.

(f) Monthly vehicle history records, which typically record the number of liters of fuel filled in a vehicle, were incomplete in 2018. For one vehicle, 6 out of 12 records had incomplete data entries. The other vehicle had 2 out of 12 records with incomplete entries. The incomplete data entries contributed to the tedious and time-consuming analyses referred to in (e) above.

(g) Policy prescribed supervisory controls over vehicle management records were not operational during the period under review, with the required daily and monthly reviews and signoffs not evident from the records reviewed.

Root Cause	*Guidance: inadequate supervision at the Office level (lapses in supervisory controls, particularly with respect to the review and approval of vehicle management records).* *Human error: unintentional mistakes committed by staff entrusted to perform assigned functions (possible transcription and transposition errors in recording mileage).*
Impact	*There is increased risk of unauthorized use of Office vehicles and/or fuel pilferage.*
Category	*Operational.*

Recommendation 8	*Priority: High*
Strengthen review and supervisory controls to ensure the systematic documentation, completeness, and accuracy of vehicle management records, enforce compliance with applicable policy requirements, and have the errors noted by the audit corrected and reviewed by Office Management.	
<u>Manager Responsible for Implementation:</u> *Representative.*	
Management action plan: The Office accepts the recommendation. A system of daily review by the drivers' supervisor, who signs vehicle daily logs each day, has been implemented. The daily log is also reviewed and signed weekly by an Operations Analyst based in Nairobi. The system is set and continues to be monitored and recorded. **Estimated completion date:** January 2024.	

Recommendation 9	*Priority: Medium*
Liaise with the host country Government and the relevant United Nations organizations to complete the registration of the unutilized vehicle and consider, as appropriate, its disposal and/or replacement in accordance with applicable policy.	
Manager Responsible for Implementation: *Representative.*	
Management action plan: The Office accepts the recommendation. The Office, with the support of the United Nations Office at Nairobi (UNON), has successfully taken action to dispose of the vehicle. The estimated completion date indicated below is to allow OAIS to verify the action during the recommendation follow-up phase of the audit. **Estimated completion date:** January 2024.	

Facilities management

47. Facilities management expenses incurred by the Office amounted to USD 1.1 million, mainly in relation to the offices in Mogadishu, Garowe, and Hargeisa. Audit work performed in this area included the review of rental agreements and their approval through the Facilities and Administrative Services Branch and testing of ten transactions amounting to USD 267,135 (25 per cent of total facilities expenses) for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) cost allocation; and (b) the authorization, calculation, and payment to vendors.

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

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY — NOT APPLICABLE

49. This area was assessed as presenting a low audit risk during the engagement-level risk assessment at the audit planning phase and therefore was not included in the scope of the audit.

C.6 – SECURITY — SATISFACTORY

50. Work performed in this area focused on inquiries of the UNFPA Office of the Security Coordinator and the local United Nations Department of Safety and Security (UNDSS) office about their relations with the Office, including Office Management's level of participation and engagement in the Security Management Team.

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

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,[10] 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.

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

Intentional: intentional overriding of internal controls.

[10] 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

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
ERM	Enterprise Risk Management
FACE	Funding Authorization and Certificate of Expenditure
GPS	Global Programming System
HACT	Harmonized Approach to Cash Transfers
IP	Implementing Partner
Km	Kilometres
MPTF	Multi Donor Trust Fund
PSEA	Prevention of Sexual Exploitation and Abuse
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars
VDL	Vehicle Daily Log