



DIVISION FOR OVERSIGHT SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN LEBANON

FINAL REPORT
N° LBN-101

8 February 2013

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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the UNFPA Country Office (the Office) in Lebanon from 10 September to 14 December 2012. The audit covered the period from 1 January 2010 to 31 December 2011. Expenditures related to programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances.

Background

2. Lebanon is currently in its third Country Programme 2010-2014, approved by the Executive Board in 2009, with a total resource allocation of USD 10.0 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 3.6 million, allocated to 14 projects executed by six implementing partners (USD 1.0 million) and by UNFPA (USD 2.6 million). Approximately 30 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health among adolescents and young people. Gender and advocacy activities, focused primarily on the prevention of gender-based violence, accounted for approximately 35 per cent of the expenditures. Population and development activities and management and programme coordination and assistance costs accounted for the remaining 10 per cent and 26 per cent of the expenditures, respectively. As from the end of 2011, humanitarian response activities were carried out to address the needs of refugees fleeing to North Lebanon.

Methodology and scope

3. The audit was conducted in accordance with the *International Professional Framework 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 internal controls, governance and risk management processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

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

Audit rating

5. The audit indicates that, for the period covered, the risk management performance of the Office was **'Satisfactory'**, which means that internal controls, governance and risk management processes were adequately established and functioning well. Ratings by key audit area are summarized in the following page:

Audit ratings by key audit area		
Office Governance		Satisfactory
<i>Organizational structure</i>		<i>Satisfactory</i>
<i>Staffing</i>		<i>Satisfactory</i>
Programme Management		Partially Satisfactory
<i>Programme planning, implementation and monitoring</i>		<i>Partially Satisfactory</i>
<i>National execution (NEX)</i>		<i>Satisfactory</i>
<i>Inventory management</i>		<i>Satisfactory</i>
<i>Management of non-core funding</i>		<i>Partially Satisfactory</i>
Operations Management		Satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Partially Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Safety and security</i>		<i>Not assessed</i>

Key findings and recommendations

6. The audit identified several good practices implemented by the Office, particularly in the areas of implementing partner management and operations support, including detailed and well-organized training for implementing partners, efficient procurement procedures to obtain competitive conditions, comprehensive and well documented procurement and contracting files, and effective tracking of fixed assets.
7. The audit did not identify any issues assessed as high priority.
8. The audit revealed, however, a number of opportunities for improving the management of programme and operations activities and controls. There is a need to enhance annual work plans to facilitate project planning, implementation and monitoring. The process for assessing the Office’s ability to implement projects funded from non-core resources within the timelines specified in the funding agreements should also be improved. In the area of financial management, increased attention is required to ensure that the Value Added Tax is properly accounted for with regards to expenditures incurred by the Office and reported by tax-exempt implementing partners. The audit report includes six recommendations designed to help the Office to improve its operations and controls, all of them assessed as medium priority.

Management response

9. Management agrees with the outcome of the audit and the recommendations included therein and will take action to implement them.
10. The DOS team would like to thank the management and staff of the Office and of the different Headquarter units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2010 to 31 December 2011. Expenditures related to programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances. The objective of the audit, conducted in accordance with the *International Professional Framework for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the internal controls, governance, and risk management processes implemented for UNFPA's operations in Lebanon.
2. The audit included such tests, as considered necessary in the circumstances, to obtain reasonable assurance with regards to:
 - a) The conformity of expenditures with the purposes for which funds were appropriated;
 - b) The safeguarding of assets entrusted to the Office;
 - c) The level of compliance with applicable rules, regulations, policies and procedures; and
 - d) The reliability of the Office's financial and operational reporting.
3. The scope of the audit included the review of the Office's governance; programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.
4. The engagement was conducted by a team of DOS internal audit staff and external consultants, starting on 10 September 2012; a field mission took place from 8 to 24 October 2012. During the third week of this mission the audit team could not access the Office's premises due to security concerns. A scheduled visit to an implementing partner (IP) had to be cancelled and alternative audit procedures were carried out. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 24 October 2012. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 19 December 2012, and a final management response received on 6 February 2013.

II. BACKGROUND

5. Lebanon is a middle-income country, with a population estimated at 3.76 million in 2008¹. The percentage of poor households dropped from 30.9 per cent in 1998 to 24.6 per cent in 2004. Nevertheless, social and economic disparities exist². Approximately 37 per cent of the population is below age 20, while 7.4 per cent of the population is 65 or older. Nearly 24 per cent of women aged 35-39 have never been married, the highest percentage in the Arab region³. The maternal mortality ratio stands at 25 deaths per 100,000 live births⁴, compared to 38 deaths per 100,000 births in 2000. Contraceptive prevalence rate is estimated at 58 per cent⁵.

6. Lebanon is currently in its third Country Programme (CP) 2010-2014, approved by the Executive Board in 2009, with a total resource allocation of USD 10 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 3.6 million, allocated to 14 projects executed by six implementing partners (USD 1.0 million) and by UNFPA (USD 2.6 million). Approximately 30 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health among adolescents and young people. Gender and advocacy activities, focused primarily on the prevention of gender-based violence, accounted for approximately 35 per cent of the expenditures. Population and development activities and management and programme coordination and assistance (PCA) costs accounted for the remaining 10 per cent and 26 per cent of the expenditures, respectively. As from the end of 2011, humanitarian response activities were carried out to address the needs of refugees fleeing to North Lebanon.

7. The Office is located in the city of Beirut. During the period under review and at the time of the audit, the Office was managed by an Assistant Representative. In accordance with the UNDP-UNFPA Agreement of 1996, the UNDP Representative has been acting as the UNFPA Representative. From January 2008 to January 2012, the then UNFPA Representative in Egypt acted as the Country Director for Lebanon, providing assistance with the implementation of UNFPA activities, with emphasis on programming, monitoring, evaluation and advisory aspects. Since January 2012, the Regional Office (RO) Director has taken over that role⁶.

¹ National Survey of Households Living Conditions, 2007.

² Information obtained from the Country Programme Document.

³ Information obtained from the Country Programme Document.

⁴ Trends in Maternal Mortality 1990 to 2008 – WHO, UNICEF, UNFPA and the World Bank – May 2011.

⁵ Pan Arab Project for Family Health, Lebanon, 2004.

⁶ After the departure of the RO Director in October 2012, the Country Director role was carried out by the Deputy Regional Director who served as Officer in Charge of the region.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SATISFACTORY

8. During the period under review, the Office was managed by a competent and stable team, which followed adequate processes for planning, managing and supervising the Office's programme and operations.

A.1 - ORGANIZATIONAL STRUCTURE

SATISFACTORY

9. The work performed in this area involved the review of the adequacy of the organizational structure arrangement in place, as described in paragraph 8 above, i.e. the UNDP Representative acted as UNFPA Representative, the Regional Office Director acted as Country Director, and day-to-day management was undertaken by the Assistant Representative.

10. Although the organizational structure is aligned to the needs of CP delivery and operations management, the audit work identified a discrepancy between the high-level involvement of the UNDP Representative in representational and advocacy activities, and the day-to-day responsibilities assigned to his role as per the 1996 UNDP-UNFPA agreement, and actually fulfilled by the Assistant Representative. No recommendation is made to that effect as this arrangement was not detrimental to the achievements of results of the Office.

A.2 - STAFFING

SATISFACTORY

11. No reportable issues were identified based on the audit work performed in this area, which involved the review of the number and capacity of staff vis-à-vis the needs of CP delivery and operations management.

B. PROGRAMME MANAGEMENT

PARTIALLY SATISFACTORY

Good practices identified

12. Implementing partners were formally trained by the Office in 2012 on areas impacted by weaknesses identified during IP micro-assessments and NEX audits. The audit reviewed the training package and assessed it as relevant, well designed and very detailed. In particular, a comprehensive list of findings identified by micro-assessments and NEX audits was presented and lessons learned identified⁷. Good and pro-active collaboration with IPs was also recognized in the mid-term review (MTR) on the 2010-2011 programme implementation completed in September 2012.

B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING

PARTIALLY SATISFACTORY

13. During the period under review, the Office implemented 12 projects at a cost of approximately USD 2.8 million, inclusive of PCA costs. The audit included testing of programme planning, implementation and monitoring activities for four of these projects, with aggregated expenditures of USD 1.2 million. No reportable issues were identified based on the audit work

⁷ This action was undertaken before the issuance of the "Working with UNFPA" manual for implementing partners in January 2013.

performed in this area, except for the following one.

AWP not used as an effective project planning, implementation and monitoring tool

14. The annual work-plan (AWP) for one of the four projects selected for audit testing, with expenditures of USD 427,000 in the period under review (15 per cent of total programme expenditures and 36 per cent of expenditures tested), was not detailed enough; hence, it could not be actively used as a project planning and monitoring tool. Project planning and monitoring were performed primarily through field monitoring visits by the project manager as well as the project's Steering and Technical Committees, and were documented, however, in an unstructured format, mostly through minutes of the Committees' meetings. Linkage of activities in the AWP with the minutes was difficult and not always possible.

IMPACT AWP does not constitute a valid planning and monitoring tool.
 ROOT CAUSE Guidance (Lack of or inadequate guidance or supervision at Country Office level).
 CATEGORY Operational.

RECOMMENDATION 1 **PRIORITY: MEDIUM**

Set-up AWP in a sufficiently structured and detailed manner to enable a more effective project implementation and monitoring.

RESPONSIBLE MANAGER: Assistant Representative STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: 31 March 2013

All AWP will be developed as planning and monitoring tools. Management wishes to emphasize that the issue affected only one (eight per cent) of the AWP managed by the Office.

B.2 - NATIONAL EXECUTION (NEX) **SATISFACTORY**

15. The Office has maintained adequate controls over cash advances provided to IPs. NEX audit opinions were unqualified in both 2010 and 2011. Atlas Operating Fund Account (OFA) balances were regularly reconciled to FACE forms and IPs were trained on their preparation. No reportable issues were identified based on the audit work performed in this area.

B.3 - INVENTORY MANAGEMENT **SATISFACTORY**

16. Purchases of sexual and reproductive health (SRH) commodities, including SRH kits procured for humanitarian response activities, amounted to USD 154,000 in the period from 1 January 2011 to 31 August 2012. No purchases took place in 2010. Audit procedures performed included the testing of purchases amounting to USD 91,000 (59 per cent of the total procured), the review and reconciliation of the distribution plans, inspection of documentary evidence of distribution of the commodities, and a visit to the warehouse used to store undistributed SRH kits. No reportable issues were identified based on the audit work performed in this area, except for the following one.

Delays in obtaining receipt and inspection forms for commodities provided to IPs

17. The audit noted that receipt and inspection forms for commodities worth USD 47,399 delivered to the Ministry of Public Health (MoPH) in October 2011 were signed and provided by the MoPH in February 2012, over four months after the commodities were delivered. Although the audit was provided with correspondence between the Office and the IP on the transaction to which this recommendation refers, no formal confirmation of receipt and inspection was provided at the time of delivery. However, the audit was able to gather evidence directly from the IP that goods were received and entered in the IP inventory system at the time of delivery.

IMPACT Lack of timely evidence of the receipt by the IP of the goods supplied. Inability to make vendor claims for quality defects or shortages.
 ROOT CAUSE Guidance (inadequate supervision – Country Office).
 CATEGORY Compliance.

RECOMMENDATION 2 **PRIORITY: MEDIUM**

Obtain inspection and receiving reports for any goods supplied to IPs at the time goods are received and inspected at the IP premises.

RESPONSIBLE MANAGER: Assistant Representative STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: 31 March 2013

Management wishes to emphasize that confirmation of receipt and inspection of the commodities, even if in an informal way, was obtained. Management will ensure that formal confirmation is timely received in the future. A new procedure was set up by the Office and shared with the shipping/clearing agent for implementation to that purpose.

B.4 - MANAGEMENT OF NON-CORE FUNDING **PARTIALLY SATISFACTORY**

Delays in the implementation of non-core funded projects

18. The Office received funding in December 2007 in the amount of EUR 700,000, for the implementation of a large project in the area of Gender. The Office did not undertake a comprehensive assessment of external challenges and internal execution capabilities required to deliver the project before the agreement was finalized, nor before requesting extensions. Ultimately, the Office was not able to implement the project by December 2009, i.e. within the initially agreed period of 24 months.

19. As a result of the implementation delays, the Office had to request four extensions, to July 2010, December 2011, December 2012 and July 2013, respectively. Despite the extensions, as of the audit field mission date, the project had executed activities for USD 492,000, or 48 per cent of the funding received. A donor representative in Lebanon interviewed in the course of the audit did not raise any significant concerns about the work performed by UNFPA to date and the level of information received from the Office.

IMPACT Implementation delays. Potential donor dissatisfaction.
 ROOT CAUSE Guidance (inadequate guidance or supervision at Country Office level).

CATEGORY Operational.

RECOMMENDATION 3

PRIORITY: MEDIUM

Perform a thorough assessment of internal and IP capacities required to deliver projects results vis-à-vis the foreseeable internal and external challenges in accordance with donor expectations prior to entering into any non-core funding agreement or at the time extensions are requested, while ensuring that appropriate timelines and other terms and conditions are reflected in the corresponding agreement.

RESPONSIBLE MANAGER: Assistant Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: upon entering into new agreements or requesting extensions

Management will perform a more thorough assessment of internal and external challenges and capabilities for new and ongoing non-core funded projects.

C. OPERATIONS MANAGEMENT

SATISFACTORY

Good practices identified

20. The Office signed Long Term Agreements (LTAs) with three different vendors for the supply of dignity kits, a component of its response to the North Lebanon refugee crisis. Secondary bidding was performed for all purchases made under the LTAs to obtain better value for money. The Regional Office and the Procurement Service Branch recommended other countries in the Arab States region and other regions to take advantage of the terms agreed under the Lebanon LTAs. In addition, the Office implemented a locally developed effective tracking system for fixed assets providing information by location and custodian.

C.1 - HUMAN RESOURCES MANAGEMENT

SATISFACTORY

21. No reportable issues were identified based on the audit work performed in this area, which included a walkthrough of the payroll process, which is managed by UNDP; the analytical review of payroll expenditures, which amounted to USD 545,000 and USD 565,000 in 2010 and 2011 respectively; the analytical review of Service Contracts (SCs) and Special Service Agreements (SSAs) expenditures, which amounted to USD 301,000 and USD 261,000 in 2010 and 2011 respectively; and the testing of a sample of SCs and SSAs representing approximately 17 per cent of the costs incurred for these types of contract for the period under review.

C.2 - PROCUREMENT

SATISFACTORY

22. The Office locally procured goods and services in the amount of USD 940,000 during the period under review. No reportable issues were identified from the testing of a sample of purchases amounting to USD 263,000 (28 per cent of the amount of procurement) for compliance with applicable policies and procedures, receipt of the goods and services provided, linkage to the activities planned in the related AWP and proper authorization and payment to the vendors.

C.3 - FINANCIAL MANAGEMENT

PARTIALLY SATISFACTORY

23. The audit work performed in this area included the analysis of the proper recording in Atlas of transactions selected for procurement testing and an analytical review of expenditures by General Ledger account. No reportable issues were identified other than that related to the management of Value Added Tax (VAT) presented below.

Applicability of VAT to purchases of goods and services made by IPs

24. During the period under review, programme implementation expenditures amounting to USD 516,000 reported by an IP included reimbursable VAT charges. The Office accepted and booked as expenditures the VAT charges. It was not possible to quantify the aggregate amount of such charges in the course of the audit. A VAT reimbursement of USD 17,000 obtained by the IP was passed through to the Office in December 2012 and recorded as miscellaneous income.

25. In addition, the Office could not provide documentary proof of the VAT status of IPs considered as non-exempt, for which total programme implementation expenditures amounted to USD 407,000 for the period under review.

26. Similarly, the Office booked as expenditure, reimbursable VAT paid on goods and services procured for direct implementation activities, and charged it to the related project and fund codes instead of a receivable. The amount of expensed VAT charges that should have been recorded as a receivable could not be quantified in the course of the audit. Further, as some of the projects in question were funded from non-core resources, the charges constitute ineligible expenditures.

IMPACT Cost savings opportunities may not be realized. Charging of ineligible expenditures to non-core resource funds.
 ROOT CAUSE Guidelines (inadequate planning).
 CATEGORY Operational.

RECOMMENDATION 4

PRIORITY: MEDIUM

Reject VAT charges included in project implementation expenditures reported by VAT-exempt IPs, and follow up on reimbursements of previously accepted VAT charges. Assess the VAT tax situation of IPs considered as non-exempt and assist them to obtain an exemption, as and if appropriate.

RESPONSIBLE MANAGER: Assistant Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

- a) Management will review expenditures reported by VAT-exempt IPs to assess if reimbursable VAT was charged and will request reimbursement accordingly.
- b) An action has already been taken by the Office, whereby documentary proof was requested from IPs to confirm their VAT exemption status.
- c) The Office will perform an assessment against its expenditures to verify the financial impact and define the appropriate mitigation actions accordingly.

RECOMMENDATION 5

PRIORITY: MEDIUM

Account for reimbursable VAT paid on goods and services procured for Office management and direct programme implementation activities in accordance with the guidance provided by the Finance Branch. Quantify the amount of reimbursable VAT previously charged to non-core funded projects and communicate to the donors to determine whether a refund would be required by them.

RESPONSIBLE MANAGER: Assistant Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

Management will:

- a) Book VAT charges based on the guidance provided by the Finance Branch.*
- b) Quantify the reimbursable VAT charged to non-core funded projects and liaise with the Finance Branch and the Resource Mobilization Branch in order to take appropriate action with the donors.*

C.4 - GENERAL ADMINISTRATION

SATISFACTORY

27. No reportable issues were identified based on the audit procedures performed in this area, which included the analytical review of expenditures incurred, walk-throughs of the asset and travel management processes, testing of rental costs which amounted to approximately USD 155,000 during the period under review, and testing of travel costs amounting to approximately USD 10,000 (25 per cent of travel costs incurred during the period under review).

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY

SATISFACTORY

28. IT support services are provided by UNDP. Work performed in this area was limited to the review of Atlas access rights.

Atlas access rights not certified by Management

29. The Office did not complete the annual Atlas access rights review. However, the audit obtained sufficient assurance that access rights assigned to personnel were adequate vis-à-vis their duties and that there were no significant conflicts regarding segregation of duties.

IMPACT Access rights granted may not be in line with job related needs.

ROOT CAUSE Guidance (inadequate supervision – Country Office).

CATEGORY Compliance.

RECOMMENDATION 6

PRIORITY: MEDIUM

Complete the annual Atlas access rights certification by the established deadline.

RESPONSIBLE MANAGER: Assistant Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

Atlas access rights will be certified by senior management

ANNEX 1

Definition of Audit Terms

A. AUDIT RATINGS

Effective 1 January 2010, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP use revised harmonized audit rating definitions, as described below:

- **Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** - Internal controls, governance and risk management processes were either not established or functioning well. The issues were such that the achievement of the objectives of the audited entity could be seriously compromised.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines:** absence of written procedures to guide staff in performing their functions:
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate Regional and/or Country Office policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - Lack of or insufficient resources: financial, human, or technical resources
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional:** intentional overriding of internal controls.
- **Other:** Factors beyond the control of UNFPA.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities 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 recommendations, 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

AWP	Annual Work Plan
CP	Country Programme
DOS	Division for Oversight Services
FACE	Funding Authorization and Certificate of Expenditures
IP	Implementing Partner
LTA	Long Term Agreement
MoPH	Ministry of Public Health
MTR	Mid-Term Review
NEX	National Execution
OFA	Operating Fund Account
PCA	Programme Coordination and Assistance
RO	Regional Office
SC	Service Contract
SRH	Sexual and Reproductive Health
SSA	Special Service Agreement
UNDP	United Nations Development Programme
USD	United States Dollars
VAT	Value Added Tax