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DIVISION FOR OVERSIGHT SERVICES

AUDIT OF THE UNFPA COUNTRY OFFICE IN TUNISIA

FINAL REPORT
N° TUN 101

07 May 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 Tunisia from 14 October 2012 to 31 January 2013. The audit covered the period from 1 January 2011 to 5 November 2012. Expenditures related to programme delivery and operations activities executed in 2010 were covered by the audit as considered appropriate in the circumstances.

Background

2. The activities covered by the audit correspond to Tunisia's eighth Country Programme 2007-2011, approved by the Executive Board in 2006 and extended for two one-year periods in 2011 and 2012, with a resource allocation of USD 5.0 million for the original five year cycle. Total expenditures in the period covered by the audit amounted to USD 1.8 million, allocated to nine projects executed by implementing partners (USD 0.2 million) and by UNFPA (USD 1.6 million)**.** Approximately 56 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health among adolescents and young people. As from the end of 2011, humanitarian response activities were carried out to provide reproductive health services to refugees fleeing into South Tunisia. Gender and advocacy activities, focused primarily on enhancing the representation of women and their active participation at all levels, accounted for approximately 20 per cent of the expenditures. Management and programme coordination and assistance costs accounted for the remaining 24 per cent of expenditures.

Methodology and scope

3. The audit was conducted in accordance with the *International Professional Framework for the Professional Practice of Internal Auditing,* which requires that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal controls 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 **'Partially Satisfactory'**, which means that governance, risk management and internal control processes were adequately established and functioning well. However, several issues were identified that may negatively affect the achievement of the objectives of the Office. Ratings by key audit area are summarized in the following page:

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

Key findings and recommendations

6. The Office is managed by a stable team with strong technical capabilities which allowed it to play a proactive advisory and support role within the region. During 2012, the Office temporarily seconded part of its own human resources to provide assistance to the Algeria, Libya and Lebanon Country Offices in different programme and operational areas. In addition, the Office facilitated the organization of several regional workshops in Tunisia.

7. The audit identified a significant issue in the area of non-core funding management, related to the need to more clearly agree and document project objectives, milestones and activities at project inception, comply with donor reporting requirements and better manage programme delivery and donor relationship to minimize risks that could potentially diminish the Office's capacity to mobilize resources in the future. In addition, the audit identified the need to improve the assessment of implementing partner capacity as a basis to select implementation modalities and align internal office capacity. Five high priority recommendations are provided in the audit report in connection with these issues.

8. The audit also revealed a number of opportunities for improving operations management activities and controls. There is a need to improve compliance with consultant selection and contract award procedures and a potential to increase efficiency through the award of long-term agreements for the procurement of recurrent services. Additional supervisory controls are required to ensure proper allocation of project costs. In addition, controls over advance payments to vendors and over value-added tax charged by implementing partners should be enhanced. To address these issues, the audit report includes seven recommendations, assessed as medium priority.

Management response

9. Overall, the Office agrees with the findings and recommendations included in the report. Actions are already underway or planned to implement the recommendations formulated.

10. The DOS team would like to thank the management and staff of the Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2011 to 5 November 2012. Expenditures related to programme delivery and operations activities executed in 2010 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 governance, risk management and internal controls processes implemented for UNFPA's operations in Tunisia.

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 staff from DOS internal audit and an external audit firm, starting on 14 October 2012; a field mission took place from 19 to 30 November 2012. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 30 November 2012 and through the end of February 2013. Comments and clarifications provided by management were reflected, as appropriate, in a draft report submitted to the Office's management on 6 March 2013. A final management response was received on 6 May 2013.

II. BACKGROUND

5. Tunisia is a middle-income country, with a population estimated at 10.8 million[1] and a per capita gross domestic product (GDP) of USD 4,297[2]. Unemployment reached 17.1 per cent in the third quarter of 2012[3] and affects over 25 per cent of young people aged 15-29[4]. The country has made significant progress in reducing poverty and enhancing reproductive health. The maternal mortality ratio stands at 56 deaths per 100,000 live births in 2010, compared to 84 deaths per 100,000 births in 2000[5]. The poverty headcount ratio at national poverty line (as a percentage of the population) fell from 32.4 per cent in 2000 to 15.5 per cent in 2010[6].

6. The activities covered by the audit correspond to Tunisia's eighth Country Programme (CP) 2007-2011, approved by the Executive Board in 2006 and extended for two one-year periods in 2011 and 2012, with a resource allocation of USD 5.0 million for the original five year cycle. The extension was granted following the 2011 political developments, in order to provide time to assess and revise programme priorities and enable a better preparation of the new CP.

7. Total expenditures in the period covered by the audit amounted to USD 1.8 million, allocated to nine projects executed by five implementing partners (IPs) (USD 0.2 million) and UNFPA (USD 1.6 million). Approximately 56 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health (SRH) among adolescents and young people. As from the end of 2011, humanitarian response activities were carried out to provide reproductive health services to refugees fleeing into South Tunisia. Gender and advocacy activities, focused primarily on enhancing the representation of women and their active participation at all levels accounted for approximately 20 per cent of the expenditures. Management and programme coordination and assistance (PCA) costs accounted for the remaining 24 per cent of expenditures.

8. The Office is located in the city of Tunis. 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 acted as the UNFPA Representative. The Regional Office (RO) Deputy Director acted as Country Director during the period under review and at the time of the audit, providing assistance with the implementation of UNFPA activities, with emphasis on programming, monitoring, evaluation and advisory aspects.

[1] 2012 - National Institute of Statistics – Tunisia.
[2] 2011 - World Bank indicators.
[3] National Institute of Statistics – Tunisia.
[4] Information obtained from the Country Programme documents.
[5] Trends in Maternal Mortality: 1990-2010-WHO, UNICEF, UNFPA and the World Bank estimates-2012.
[6] World Bank indicators.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE	SATISFACTORY

9. 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.

Good practices identified

10. The Office played a proactive role within the region, deploying its expertise and strong technical and operational capabilities to support other Country Offices and the Regional Office. During 2012 the Office temporarily assigned part of its human resources to provide assistance to the Algeria, Libya and Lebanon Country Offices in the areas of strategic programme design and management; guidance on thematic areas of the UNFPA mandate; humanitarian emergency field activities; and usage of Atlas. In addition, the Office facilitated the organization of several regional workshops in Tunisia.

A.1 - ORGANIZATIONAL STRUCTURE	SATISFACTORY

11. 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 RO Director acted as Country Director, and day-to-day management was undertaken by the Assistant Representative.

12. Although the organizational structure is aligned to the needs of CP delivery and operations management, the audit 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, which are actually fulfilled by the Assistant Representative. No recommendation is made in this regard as this arrangement was not detrimental to the achievement of the results of the Office.

A.2 – STAFFING	SATISFACTORY

13. Work performed in this area included the review of the number and capabilities of staff vis-à-vis the needs of CP delivery and operations. The audit noted that the high workload created by the increased level of direct execution (DEX) of programme activities following the 2011 political developments, after which the Office worked with several new partners and changing institutions, is not sustainable over the long term. This issue is raised separately in paragraph 17 infra. Should there be a need to continue to resort to DEX in the medium term, the Office's staffing arrangements may need to be reconsidered.

B. PROGRAMME MANAGEMENT	PARTIALLY SATISFACTORY

14. During the period under review, the Office implemented eight projects at a cost of USD 1,246,000[7], inclusive of PCA expenditures, primarily through the DEX modality, as a strategy to mitigate the impact arising from the political developments that took place in 2011. In 2012, programme implementation activities were consolidated into a unique SRH programme outcome and project, with actual expenditures of USD 365,000[8].

B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING	SATISFACTORY

15. Programme planning and implementation activities were covered through (i) the testing of related financial transactions amounting to USD 752,000 (approximately 60 per cent of total programme implementation expenditures) and their linkage to the corresponding annual work plans (AWPs), and (ii) the review of annual work plans (AWPs), monitoring reports and other evidence of programme planning, budgeting, implementation and monitoring activities for the SRH project implemented in 2012, with a budget of USD 687,000 and actual expenditures of USD 365,000[9]. No medium or high priority reportable observations were identified by the audit.

B.2 - NATIONAL EXECUTION	PARTIALLY SATISFACTORY

16. National execution (NEX) amounted to USD 69,000 and USD 85,000 in 2010 and 2011, respectively. None of the five IPs engaged by the Office were selected for a NEX audit in either year as the expenditures incurred by the IPs fell under the selection threshold defined by the Headquarters' NEX Unit (one IP with expenditures of USD 140,000 in 2009 was audited in that year and received a qualified opinion). Seven new implementing partners were engaged by the Office in 2012 to implement programme activities budgeted at USD 287,000. The audit included the review of cash advances paid to the IPs versus the budgeted amount and the expected timing of activities included in the corresponding AWPs; expenditures reported by the IPs; actions taken to address the observations raised in the 2009 qualified NEX audit report; and a visit to the premises of one of the IPs, including inquiries of the IP's management and review of documentary evidence for a sample of activities performed.

New IPs engaged in 2012 were not properly assessed and activities implemented not recorded as NEX

17. Capacity assessments were not performed for any of the seven new IPs engaged in 2012. None of them were registered in the Implementing Partner Information Management System (IPIMS). The Office's management indicated that, due to the changing environment faced, it was not possible to assess and register the IPs in time for the 2012 programme implementation cycle. As a risk mitigation strategy, the Office directly executed most of the procurement of goods and services required to implement the programme activities assigned to the seven IPs. In addition, the Office's staff was extensively involved in the planning and implementation of those activities. Expenditures incurred under the AWPs signed with the seven IPs were recorded as DEX instead of NEX.

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[7] Inclusive of expenditures recorded as at 5 November 2012.
[8] As at 5 November 2012.
[9] As at 5 November 2012.

18. Without a documented assessment of the IPs' capacity, the Office lacked a baseline to identify necessary capacity building activities, assess IPs' progress and gauge the feasibility of different future funding modalities. The DEX modality used in 2012, while appropriate from a risk management perspective, resulted in a significant workload for the Office's programme and operations staff. It may have contributed to the 39 per cent implementation rate (as at 5 November 2012) of activities assigned to IPs, compared to a target of 72 per cent at the end of the third quarter of 2012.

IMPACT	Lack of assurance about activities executed by the IPs. Excessive workload imposed on Office's staff. Possible delays in programme implementation.
ROOT CAUSE	Guidelines (inadequate planning).
CATEGORY	Compliance.

RECOMMENDATION 1 ***PRIORITY: HIGH***

Complete IP capacity assessments; register them in IPIMS before the next programming cycle starts and, from 2013 onward, record related programme implementation expenditures as NEX.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS***:*** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 June 2013*

IP assessments are already engaged in 2013, as planned. All new IPS were registered in IPIMS and the NEX modality is used for them in 2013.

RECOMMENDATION 2 ***PRIORITY: HIGH***

Assess the Office's current capacity and align it, as appropriate, to programme delivery requirements, should it not be possible to increase the level of NEX in 2014 due to IP capacity gaps.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS***:*** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 December 2013*

The Office is already engaged in consultations with the Regional Office and Human Resources Division to assess the Office's current capacity and align it.

B.3 - INVENTORY MANAGEMENT **SATISFACTORY**

19. Purchases of SRH commodities, including SRH and dignity kits procured for humanitarian response activities amounted to USD 89,000 in the period under review. No purchases took place in 2010. Audit procedures performed included the testing of purchases amounting to USD 80,000 (90 per cent of the total procured) for compliance with relevant procurement procedures, receipt and inspection, distribution to the IPs where applicable, and link to the relevant AWP activities they referred to. No reportable issues were identified based on the audit work performed in this area.

B.4 - MANAGEMENT OF NON-CORE FUNDING	UNSATISFACTORY

Management of non-core funding and related donor relations needs improvement

20. The Office received a EUR 300,000 (USD 450,000) contribution from a donor to implement, during the period October 2009 to September 2011, a project aimed at improving the living conditions of rural women. The project did not progress beyond the preliminary phase, partially due to the January 2011 events affecting Tunisia, and a limited number of project activities were implemented at a cost of USD 34,000. A request for project extension was submitted to the donor in December 2011, after the fund had expired.

21. The audit noted that no formal agreement had been signed with the donor and that the project was initiated on the basis of an initial concept note outlining the project's objectives, activities and implementing modalities. Although the audit was able to examine evidence that the donor had been kept regularly informed regarding the activities and status of the project as well as the challenges faced in implementing it, the donor representative in Tunis, interviewed in the course of the audit, expressed substantial disagreement with the project's approach and activities planned.

22. On 22 February 2012, the donor requested the submission of a final project report as well as a new action plan detailing activities to be undertaken and a revised budget for the extension period. These documents have not provided to the donor up to the audit mission date.

23. The Office indicated that it had kept the donor regularly informed about project progress and the significant implementation constraints faced. A final project report, although provided to the audit team, was not available in the Donor Agreement Report Tracking System (DARTS) and its precise issuance date in 2012 could not be established. The donor representative stated to the audit team that the report had not been received at the donor's office in Tunis. The Office also asked the donor for a meeting to discuss a new strategy for the project. This meeting did not take place. The donor's representative indicated that the extension was very unlikely to be granted.

IMPACT	Expected programme results were not achieved. The ability to mobilize resources in the future may be impaired due to donor relationship issues.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Strategic and Compliance.

RECOMMENDATION 3	***PRIORITY: HIGH***

Engage the donor to resolve, no later than 30 June 2013, all outstanding issues related to the project (as submission of a project report and any other required documentation).

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 June 2013*

CO will ensure follow up to return all outstanding issues.

RECOMMENDATION 4	***PRIORITY: HIGH***

Prior to entering into any new funding agreements or at the time extensions are requested, perform a thorough assessment of the most significant risks to be managed and the incremental Office and IP capacity necessary to deliver expected results, and ensure that appropriate timeline and resource requirements are reflected in the agreements and programme design documents.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 June 2013*

The Office will conduct risk assessments of IP capacities to deliver results on time before any new funding agreements and within the frame of monitoring. This is already done in the context of the UNDP agreement.

RECOMMENDATION 5	***PRIORITY: HIGH***

Ensure that, for any new non-core funded projects, formal agreements are signed and project objectives, planned activities, milestones, and monitoring and reporting requirements are clearly documented before initiating any programme implementation activity.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 June 2013*

The Office will ensure that formal agreements are signed before receiving any new non-core funding and that the process of monitoring is documented.

C. OPERATIONS MANAGEMENT	**SATISFACTORY**

C.1 - HUMAN RESOURCES MANAGEMENT	**PARTIALLY SATISFACTORY**

24. Work performed in this area consisted primarily in the analytical review of payroll expenditures (the payroll is managed by UNDP) amounting to USD 377,000 in the period under review and the testing, for compliance with the applicable recruitment and compensation policies and procedures and linkage to AWPs, of a sample of 15 Service Contracts (SCs) and Special Service Agreements (SSAs) engaged from 1 January 2011 to 28 October 2012 totaling USD 204,000 (73 per cent of the related expenditures in the same period of USD 278,000).

There is limited evidence that consultant recruitment was undertaken in accordance with applicable procedures

25. The audit noted that consultant recruitment files did not systematically include the following documentation: (i) evidence of advertising of posts for a reasonable period of time; (ii) verification of academic, work and personal references for the selected candidates; (iii) records of telephone or face-to-face interviews with candidates; (iv) statements of good health or medical certifications for SSAs; (v) evidence that SSA renewals were based on documented performance assessments.

IMPACT	The best candidates may not be selected.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Compliance.

RECOMMENDATION 6	**PRIORITY: MEDIUM**

Implement a checklist and supervisory controls to facilitate and enforce compliance with consultant selection and award procedures.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS*: Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Immediately*

The Office has already developed and is using a checklist and supervisory controls for consultant selection.

Staff members did not complete all mandatory trainings

26. The audit noted that staff members did not complete one or more of the mandatory training courses. In one case, the courses were completed in the course of the audit field mission after the corresponding certificates were requested from the concerned staff member.

IMPACT	Internal capability may not be sufficiently developed, affecting the quality and results of programme delivery and operations.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Compliance.

RECOMMENDATION 7	**PRIORITY: MEDIUM**

Ensure that all staff members complete any outstanding mandatory training courses by 30 June 2013.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS*: Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 December 2013*

All staff members will complete the mandatory training courses.

C.2 – PROCUREMENT	**SATISFACTORY**

27. During the period under review[10], the Office locally procured goods and services, other than SRH commodities and dignity kits (refer to section B.3 of this report), in the amount of USD 980,000. The work performed in this area included the testing of a sample of purchases amounting to USD 441,000 (45 per cent of total procurement) for compliance with applicable policies and procedures, receipt of the goods and services provided, linkage to the activities planned in the related AWPs and proper authorization and payments to the vendors. No reportable issues were noted, except for the following one:

[10] Based on expenditures recorded as at 28 October 2012.

The use of Long Term Agreements could be further developed

28. While a Long Term Agreement (LTA) has been awarded for travel services taking advantage of synergies with UNDP, LTAs were not awarded for other services utilized by the Office on a regular basis, such as printing, communications and hotel accommodation.

IMPACT	Higher risk of not obtaining consistent quality and purchasing conditions. Increased workload required to award purchases for recurrent goods and services.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Operational.

RECOMMENDATION 8	***PRIORITY: MEDIUM***

Award, ideally at UN inter-agency level, LTAs for services procured on a regular basis, such as printing and publications, audiovisual productions and hotel accommodations.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 December 2013*

The Office is advocating for LTAs at UN level. If no result is achieved, UNFPA will negotiate and award its own LTAs.

Vendors' invoices were not regularly obtained for payments made under contracts

29. The audit noted that the Office follows the practice of making contract payments without consistently requiring vendors to provide UNFPA with invoices beforehand. Normal practice demands that suppliers' invoices be received before payments are processed, even when the contract specifies a payment timetable. Furthermore, businesses are usually required to obtain invoices for tax reasons and failure to do so may be in breach of local legislation. It should be noted that the audit did not raise any concerns about the validity of the payments made without the support of invoices.

IMPACT	Risk of non-compliance with local legislation. Payments not properly supported.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Compliance.

RECOMMENDATION 9	***PRIORITY: MEDIUM***

Implement supervisory controls to enforce the requirement to obtain vendor invoices before authorizing and processing contract payments.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Immediately*

The Office has already implemented this recommendation in the period after completion of the field audit visit.

C.3 - FINANCIAL MANAGEMENT	PARTIALLY SATISFACTORY

30. Work performed in this area included the review of the accuracy, authorization and proper processing of journal entries (JEs), accounts payable vouchers (APVs) and accounts payable journal vouchers (APJVs), as well as the coding of transactions to the correct account and fund codes.

Advance payments to vendors were recorded as expenditures at the time they were paid

31. The audit noted that advance payments were made to eight different suppliers in 2011 and 2012 for a total of USD 46,000, before the corresponding goods were received or services rendered. The justification for such advance payments was neither documented in writing by the authorizing officer, nor was it included in the contract or in the purchase order. Further, the advances were recorded as expenditure at the time they were paid, instead of as prepayments (as required by UNFPA's accounting policies), thereby overstating implementation rates.

IMPACT	Implementation rates may be overstated. Limited ability to track the actual receipt of prepaid goods and services.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Reporting.

RECOMMENDATION 10	***PRIORITY: MEDIUM***

Minimize the use of advance payments to vendors; when used, document the justification in the related contract or purchase order, and record advances in the prepayment accounts.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Immediately*

The Office is already implementing this recommendation. The Office has reduced the use of advances payments for contracts and purchase orders.

Costs were not consistently allocated to projects

32. Relocation costs amounting to USD 76,000 incurred when the Office moved to new premises in 2012 were charged in their entirety to programme costs, instead of management costs. The relocation costs were funded from an additional programme budget allocation authorized by the Regional Office. As a result, programme implementation costs were distorted by charging expenditures not directly linked to the achievement of the corresponding programme outcomes.

33. Programme staff salary costs amounting to USD 375,000 incurred in 2010 and 2011 were charged to the PCA code instead of the project codes established for the different programme components implemented, thereby distorting the cost of delivering those components while at the same time overstating PCA costs.

IMPACT	Programme implementation costs are distorted.
ROOT CAUSE	Guidance (inadequate supervision at the Country Office level).
CATEGORY	Compliance.

34. No recommendation is provided with regards to this issue as the relocation costs are not recurring in nature and programme salary costs were correctly coded in 2012.

The value-added tax status of IPs could not be verified

35. The Office could not provide documentary proof of the Value-Added Tax (VAT) status of IPs considered as non VAT-exempt, for which corresponding programme implementation expenditures amounted to USD 154,000 in the period 2011-2012.

36. The audit could not determine whether any VAT was included in expenditures reported by and reimbursed to the IPs. Existing NEX guidelines require that IPs do not charge UNFPA for VAT unless they can demonstrate, to UNFPA's satisfaction, that they are unable to recover the tax.

37. During the course of 2012, the Office started an exchange of correspondence with IPs to initiate the process of obtaining their VAT exemption from the tax authorities.

IMPACT	Cost savings opportunities, which would increase funds available for programming, may not be realized.
ROOT CAUSE	Guidance (inadequate planning).
CATEGORY	Compliance.

RECOMMENDATION 11	***PRIORITY: MEDIUM***

Request all IPs to apply for a VAT exemption by the end of 2013, and implement FACE form review procedures designed to ensure that VAT charges are not reimbursed unless the IPs can demonstrate to UNFPA's satisfaction that they are unable to recover the tax.

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 December 2013*

The Office is already engaged in the implementation of this recommendation with IPs using the NEX modality. One IP has already obtained approval from Government to not charge VAT; the other IPs are in the process of getting the approval.

C.4 - GENERAL ADMINISTRATION	**SATISFACTORY**

38. Work in this area was focused on travel expenditures and on the asset management process, with a combined total of travel expenditures and fixed asset acquisitions of USD 112,000 and USD 149,000 in 2011 and 2012[11], respectively. A sample of travel and DSA payments totaling USD 26,000 (24 per cent of total travel costs incurred) was tested for appropriateness of business purpose, authorization, proper calculation and recording and linkage to AWP activities. Work performed on the asset management process included the review of asset purchases aggregating USD 95,000 (64 per cent of the value of fixed assets procured), focusing on compliance with the applicable asset management policies and procedures. No reportable issues were identified.

[11] Based on expenditures recorded as at 28 October 2012.

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY	SATISFACTORY

39. Work in this area was limited to the review of compliance with the review of the annual Atlas access rights review.

Atlas access rights were not certified by Management

40. The Office did not complete the 2012 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 segregation of duties conflicts.

IMPACT	Access rights granted may not be in line with job related needs. Segregation of duties conflicts may arise and not be timely detected.
ROOT CAUSE	Guidance (inadequate supervision – Country Office).
CATEGORY	Compliance.

RECOMMENDATION 12	***PRIORITY: MEDIUM***

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

RESPONSIBLE MANAGER: *Assistant Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30 June 2013*

Atlas access right will be reviewed.

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

APJV	Accounts Payable Journal Voucher
APV	Accounts Payable Voucher
Atlas	UNFPA's ERP (Enterprise Resource Planning) system
AWP	Annual Work Plan
CO	Country Office
CP	Country Programme
DARTS	Donor Agreement Report Tracking System
DEX	Direct Execution
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
GDP	Gross Domestic Product
IP	Implementing Partner
IPIMS	Implementing Partner Information Management System
JE	Journal Entry
LTA	Long Term Agreement
MoU	Memorandum of Understanding
NEX	National Execution
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