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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN NEPAL

FINAL REPORT

N° NPL-101

31 October 2014

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Nepal (the Office) starting on 3 March 2014. The audit covered the period from 1 January to 31 December 2013. Programme delivery and operations activities executed in previous years and in 2014 were covered by the audit, as appropriate.

Background

2. The activities covered by the audit corresponded to the first year of the seventh Country Programme 2013-2017 approved by the Executive Board in 2012, with indicative resources of USD 30.5 million. Total expenses covered by the audit amounted to USD 4.5 million, allocated to 10 projects executed by 30 implementing partners (USD 1.7 million) and by UNFPA (USD 2.8 million), funded from core resources of USD 4.3 million and non-core resources of USD 0.2 million[1].

3. Approximately 31 per cent of expenses related to the Reproductive Health component which focused on strengthening the capacity of health institutions and service providers to plan, implement and monitor high-quality comprehensive sexual and reproductive health services and increase women and youth access to high quality sexual and reproductive services. The Gender component accounted for 22 per cent of expenses and focused on strengthening national and sub-national health system capacity within a coordinated multi-sector response to sexual and gender-based violence and on engaging communities in preventing early marriage and other practices that discriminate against and harm young women. The Population and Development component accounted for 25 per cent of expenses, with a focus on strengthening the capacity of relevant government ministries at national and sub-national levels to address population dynamics and their linkages to policies, programmes and budgets. Costs funded from the Institutional Budget and programme coordination and assistance costs, which are not allocated to any of the above thematic areas, accounted for the remaining 22 per cent of expenses[1].

Methodology and scope

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

5. 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

6. The audit indicates that, for the period covered, the risk management performance of the Office was '**Unsatisfactory**', which means that the governance, risk management and internal controls, processes were either not established or functioning well. The issues were such that the achievement of the objectives of the Office could be seriously compromised. Ratings by key audit area are summarized in the following page.

[1] Source: COGNOS project monitoring reports for the year ended 31 December 2013

Audit ratings by key audit area		
Office Governance		**Partially satisfactory**
Office management		*Satisfactory*
Organizational structure and staffing		*Partially satisfactory*
Risk management		*Unsatisfactory*
Programme Management		**Unsatisfactory**
Programme planning and implementation		*Partially satisfactory*
National execution		*Unsatisfactory*
Inventory management		*Satisfactory*
Management of non-core funding		*Satisfactory*
Operations Management		**Satisfactory**
Human resources management		*Partially satisfactory*
Procurement		*Satisfactory*
Financial management		*Satisfactory*
General administration		*Satisfactory*
Information and communications technology		*Satisfactory*
Security management		*Satisfactory*

Key findings and recommendations

7. The audit identified a number of good practices implemented by the Office as well as areas that require management attention, some of a strategic nature, and some related to operational, compliance and reporting matters. Overall, the audit report includes seven high priority and one medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the eight recommendations, four are of strategic nature; three are operational; and one related to compliance.

Good practices

8. The audit identified several good practices adopted by the Office. In the area of governance, office management plan outputs, indicators and activities, as well as staff and partner responsibilities, were clearly defined. Individual performance plans were aligned to office priorities and mechanisms for the follow-up of office activities in place.

9. The Office developed tools, including a monitoring and evaluation group work plan, a master annual work plan and a technical support plan, to (i) track the status of key planning, monitoring and reporting activities; (ii) more effectively oversee programme activities and resources; and (iii) identify and manage technical support requirements. In addition, the Office implemented "di-Monitoring', a third-party web-based data management application, to enhance the tracking of programme milestones and targets. These practices could be considered for replication to other offices.

10. In the operations management area, the Office developed tools for registering and tracking documents and service contracts and for facilitating the review of travel expenses claims. A comprehensive procurement plan was developed, clearly linked to the master annual work plan, reflecting the goods and services required to complete planned work under each programme area.

Strategic level

11. The Office's organizational structure and staffing should be revised to ensure its alignment to the requirements of the new Country Programme 2013-2017. Job descriptions should also be reviewed to reflect current programme needs and functions.

12. The Office management should maintain close oversight of future programme implementation efforts and reassess (i) the Office's capacity to mitigate the impact of the delays in finalizing key programme documents and in programme implementation in 2013 and 2014, and (ii) the contractual and operational arrangements with central government implementing partners with the aim of simplifying fund transfers and reporting mechanisms, as well as improving implementation. The Country Programme Action Plan and its Results and Resources Framework should be revisited, if necessary.

13. In addition, the Office should complete and document a detailed fraud and operational risk assessment, as the basis for a more effective management of the risks that could impact its programme and operations.

Operational level

14. Strengthening of monitoring activities, through a clearer and more comprehensive monitoring plan and calendar, including financial monitoring requirements, requires immediate management attention. In particular, the nature, frequency and extent of financial monitoring of implementing partners should be significantly enhanced and their capacity more rigorously assessed and documented.

Compliance level

15. Contract personnel should be engaged after a competitive recruitment process.

Management response

16. We agree with many of the comments and recommendations included in the report.

17. We will bring to the attention of the Asia-Pacific Regional Office and various Headquarter units the Office's needs as a priority country operating in a highly volatile and complex environment. More guidance and issuance of policies and procedures that are relevant and field-oriented would contribute to improving compliance and enable the Office to operate more effectively while maximizing its potential.

18. Regarding the issue of delays in implementation and the recommendation to reassess the Office's ability to deliver the programme within the remaining programming cycle, we feel confident that this will happen given all the efforts made to date to further strengthen our Monitoring and Evaluation system, set clear milestones, and agree on clear targets by the end of the programme. We have also completed the Monitoring and Evaluation alignment with the new Strategic Plan in February 2014 and our efforts were considered as a good practice to be shared with other countries in the Asia-Pacific Region. The human resources alignment was completed and new job descriptions prepared, currently awaiting approval. Low implementation by government partners in 2013 is partially attributable to the November 2013 elections which led to a freeze of many activities already planned.

19. The Office is already implementing many of the recommendations made and has taken a number of corrective actions, as explained in more detail in the responses to the different recommendations included in the report.

20. The OAIS team would like to thank the Management and staff of the Office and of the Asia and Pacific Regional 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 to 31 December 2013. Programme delivery and operations activities executed in previous years and in 2014 were covered by the audit, as appropriate.

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

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

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

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.

5. The engagement was conducted by a team of OAIS audit specialists supported by staff from an audit firm based in Nepal, starting on 3 March 2014; a field mission took place from 5 to 23 May 2014. Preliminary audit findings and recommendations were discussed with the Office's Management at an exit meeting held on 23 May 2014. Comments and clarifications subsequently provided by Management until 30 August 2014 were reflected in a draft report submitted to the Office's Management on 5 September 2014, and a final Management response received on 23 October 2014.

II. BACKGROUND

6. Nepal had a population estimated at 26.6 million in 2011[2], with an annual growth rate estimated at 1.4 per cent and a national poverty incidence of 25 per cent[2]. The total fertility rate declined from 3.1 children per woman in 2006 to 2.6 children per woman in 2011[2], while contraceptive prevalence rate for modern methods stagnated at 43.2 per cent[2]. Maternal mortality decreased from 281[3] per 100,000 live births in 2006 to 229[2] deaths in 2011. Skilled attendants are present at 36 per cent of births, and 58 per cent of mothers receive antenatal care[2]. However, there is a need to address maternal morbidity more effectively. Adolescents and youth account for 33 per cent of the total population. The overall literacy rate amongst this group is 92 per cent but the rate is noticeably lower for females aged 20 – 24 years compared to younger girls and also compared to boys[4]. The proportion of school drop-outs among females is 22 per cent, with marriage alone accounting for 35 per cent of the drop outs[4]. The leading cause of death among women of reproductive age is suicide; violence is a significant factor in many of the suicides[2]. The HIV epidemic is stabilizing, with a prevalence rate of 0.33 per cent in 2010[2].

7. The activities covered by the audit corresponded to the first year of the seventh Country Programme 2013-2017, approved by the Executive Board in 2012, with indicative resources of USD 30.5 million. Total expenses covered by the audit amounted to USD 4.5 million, allocated to 10 projects executed by 30 implementing partners (USD 1.7 million) and by UNFPA (USD 2.8 million), funded from core resources of USD 4.3 million and non-core resources of USD 0.2 million[5].

8. Approximately 31 per cent of expenses related to the Reproductive Health component, which focused on strengthening the capacity of health institutions and service providers to plan, implement and monitor high-quality comprehensive sexual and reproductive health services and increase women and youth access to high quality sexual and reproductive services. The Gender component accounted for 22 per cent of expenses and focused on strengthening national and sub-national health system capacity within a coordinated multi-sector response to sexual and gender-based violence and engaging communities in preventing early marriage and other practices that discriminate against and harm young women. The Population and Development component accounted for 25 per cent of expenses, with a focus on strengthening the capacity of relevant government ministries at national and sub-national levels to address population dynamics and their linkages to policies, programmes and budgets. Costs funded from the Institutional Budget and programme coordination and assistance costs, which are not allocated to any of the above thematic areas, accounted for the remaining 22 per cent of expenses.

9. The main UNFPA office is located in the city of Kathmandu, with three regional sub-offices located in the cities of Danghadi, Dang and Janakpur. During the period under review, the Office was managed by an Officer-in-Charge, after the previous Representative rotated to another UNFPA Office in November 2012, and, as from 28 February 2013, by a new Representative. They were assisted by a Deputy Representative (on maternity leave from 12 November 2012 to 1 March 2013) and an International Operations Manager (this position was vacant at the time of the field audit mission).

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[2] Source: Country Programme Document for Nepal (2013-2017)
[3] Source: Nepal Demographic Health Survey (NDHS) 2006
[4] Source: Nepal Adolescents and Youth Survey 2010/2011
[5] Source: COGNOS project monitoring reports for the year ended 31 December 2013

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE — PARTIALLY SATISFACTORY

Good practices identified

10. The audit identified the following good practices in the area of governance, which were in line with established policies and procedures:

a) Office Management Plan (OMP) outputs, indicators and activities and staff and partner responsibilities were clearly defined;

b) Continuous coordination and monitoring mechanisms for the follow-up of Office activities were in place. In particular, regular staff meetings were held; and

c) Individual performance plans were aligned to OMP outputs and activities.

11. In addition, the Office developed a "*Monitoring and Evaluation Group Work Plan and Budget Calendar*" tool to plan and track key planning, monitoring and reporting activities, enhancing management's ability to oversee key programme and operations management processes. This practice could be considered for replication to other offices.

A.1 – OFFICE MANAGEMENT — SATISFACTORY

12. Audit procedures performed in this area included the review of (i) the Office's planning process; (ii) the relevance and level of implementation of the 2013 OMP; (iii) the alignment of the performance plans of key personnel to the Office's priorities; (iv) the effectiveness of management's oversight of programme delivery and operational activities; (v) the accuracy of the 2013 Office's annual report; and (vi) the level of familiarization of the Office's personnel with UNFPA's policies and procedures.

13. No reportable issues were identified based on the work performed in this area.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING — PARTIALLY SATISFACTORY

14. UNFPA's main office in Nepal is located in the city of Kathmandu. At the time of the field audit mission, the Kathmandu Office had a total of 34 posts, including 3 international posts (Representative, Deputy Representative and International Operations Manager), 25 national posts, and 6 posts covered by service contract (SC) holders. In addition, there were two United Nations trainees and one International United Nations Volunteer.

15. The previous Representative rotated to another UNFPA Office in November 2012. Following the rotation, the Office was managed by an Officer-in-Charge until the arrival of the new Representative on 28 February 2013. The Deputy Representative was away on maternity leave from 12 November 2012 until 7 March 2013. The International Operations Manager post remained vacant from 1 February 2014 throughout the completion of field audit work, after the incumbent was appointed to a position at headquarters.

16. Programme implementation in 18 priority districts was supported by three regional sub-offices, located in the cities of Danghadi, Dang and Janakpur, with four national staff members and two SC holders at each office, and 17 district officers engaged under the SC modality, all of them based at District Development Committee (DDCs) premises. One SC position (Gender and Social Inclusion Officer) was vacant in the Dang sub-office at the time of field audit work completion.

17. Audit work performed in this area included a review of (i) the alignment of the organizational structure and staffing arrangements in place with the requirements for the delivery of the Office's programme and operational activities; (ii) the use of proper contractual modalities; (iii) the effectiveness of the performance assessment process, and (iv) the relevance and sufficiency of staff development activities conducted during the period under review.

The Office's structure and staffing alignment to the new Country Programme need to be reassessed

18. No comprehensive review of the Office's organizational structure was undertaken at the time of formulating the new Country Programme 2013 – 2017; the last review was undertaken in early 2009 and a new structure approved in 2010, while extending the previous Country Programme 2008-2010 through 2012.

19. The Country Programme 2013 – 2017 approved by the Executive Board reflects estimated resources of USD 30.5 million, compared to estimated resources of USD 40.4 million and actual expenses of USD 31.8 million for the previous programme. While the programme size is similar, there was a significant change in programme focus. The new Country Programme 2013-2017 concentrates primarily on advocacy, resource leveraging, knowledge management, capacity development, system strengthening, national ownership and awareness raising, shifting its focus from post-conflict to development, with significantly less service delivery than in the previous programme period.

20. The current Office structure relies heavily on SCs to carry out core programmatic functions, primarily at the regional and district level; SCs represent almost 45 per cent of total personnel. This issue was also raised by the United Nations Board of Auditors' audit of the Office conducted in 2012. The Office took corrective actions, during 2012 and 2013, including the conversion of three SC positions to fixed term posts. However, the Office continued to engage a large number of SCs. Thirteen employees have been engaged through the SC modality for an average of four years, with another five for as long as seven years. Based on interviews conducted during the audit, the use of this contracting modality seems to have created job security concerns on the part of the affected employees and barriers to an effective management of relationships with district officials. In addition, the Office management indicated its concern that the situation could cause a higher personnel turnover, as three district officers and two technical officers resigned as from October 2013 and several other SC holders were known to be looking for better job opportunities.

21. The audit noted that there is no evidence that job descriptions developed at the time of the 2009 review of the organizational structure were submitted to UNFPA headquarters for review and/or post classification, as appropriate. Although many of these job descriptions are quite detailed, they do not necessarily correspond to the functions currently performed by the Office's personnel.

22. The audit also noted that the Office had already drawn up terms of reference for a human resources alignment review to be conducted in 2014.

IMPACT	*The organizational structure and staffing may not be aligned with programme delivery requirements.*
ROOT CAUSE	*Guidance - Inadequate guidance at the Office, Regional Office and Headquarters level.*
CATEGORY	*Strategic.*

RECOMMENDATION 1	***PRIORITY: HIGH***

Review and align, as appropriate, the Office's structure, staffing levels, skills-set, job descriptions and contractual modalities, to the needs of the Country Programme 2013-2017.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *01/09/2014*

Initial adjustments to the staffing were already carried out during 2012 and 2013. The company that was hired to complete the human resources alignment exercise concluded its work at the end of August 2014 (the office could have started earlier but was advised by the Asia-Pacific Regional Office and the Division of Human Resources at Headquarters to wait for the recommendations and observations of the internal audit). The relevant recommendations have been submitted to the Asia-Pacific Regional Office for endorsement and submission to senior management at Headquarters. The report addresses the issues highlighted in Recommendation 1, including proposed revisions to the majority of job descriptions. While the human resources review also attempted to reduce the number of service contract holders, it verified that employees based in Government premises should be hired under the service contract modality. In order to make a decision on service contract holders, the Office believes that further guidance is required on when to engage personnel under this modality.

A.3 – RISK MANAGEMENT — UNSATISFACTORY

23. Audit work performed in this area consisted of the review of the last fraud and operational risk assessment, the process followed for identifying risks, and the actions undertaken to mitigate them. Work performed also included a follow-up on the status of implementation of recommendations raised by the UN Board of Auditors in its 2012 audit of the Office. Based on the audit work performed, the following issue was identified.

The fraud and operational risk assessment has to be updated as soon as possible

24. An operational risk assessment was last completed in 2011. No documentation was provided to the audit as regards the completion of a fraud risk assessment.

25. The Office carried out a number of risk management activities including a security assessment, a programme risk assessment, and a contingency plan (developed in 2012 and updated both in 2013 and 2014), which are noteworthy initiatives. In addition, the Representative and other staff members regularly participate in development groups at which fiduciary risks and implementing partner financial management capacity are discussed with appropriate development sector and government stakeholders. While undoubtedly relevant, these activities are not a substitute for a sound and comprehensive risk management process, which entails (i) identifying the potential risks to which the Office may be exposed and could jeopardize the achievement of expected results; (ii) assessing the potential likelihood and impact of these risks; (iii) selecting appropriate risk management options; (iv) designing and implementing cost-effective controls; and (v) implementing measures to prevent the recurrence of events[6].

26. Gaps noted in the Office's risk assessment process are partially attributable to unclear risk management guidelines. The matter is the subject of ongoing discussions with senior management and improvements are expected with the implementation of the Enterprise Risk Management process.

IMPACT	*Risks potentially impacting the Office's programme and operations may not be identified and managed in an effective manner.*
ROOT CAUSE	*Guidance – inadequate supervision at Office level.*
CATEGORY	*Strategic.*

[6] UNFPA Fraud Policy, Section V.3 - Manager Responsibilities

RECOMMENDATION 2	***PRIORITY: HIGH***

Complete and document an annual fraud and operational risk assessment, based on a systematic process to identify, assess, prioritize and log risks, and revise existing controls, as appropriate, to ensure they effectively address the risks identified.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/01/2015*

While the office has carried out a number of risk assessment activities, we agree that we don't yet have a comprehensive fraud and operational risk assessment and will prioritize completion of this. However, the Office would require guidance on the relevant elements for inclusion and the process to be followed for such an assessment from the concerned Headquarter units. Such guidance should also be included in the relevant policies and procedures.

B. PROGRAMME MANAGEMENT — UNSATISFACTORY

Good practices identified

27. The audit noted the following good practices adopted by the Office in the area of programme management, all of which could be considered for replication by other offices:

a) The Office developed a "*Master Annual Work Plan*" tool consolidating annual work plans (AWPs) for the different Country Programme Action Plan areas. This tool includes all planned activities and resources allocated at central and district level and allows a more effective management oversight of programme activities and resources;

b) The Office developed a programme management tool, known as a "*Technical Support Plan (TSP)"* outlining the technical support requirements of district and regional sub-offices and the main office, along with the related timelines and responsibilities. It is prepared on an annual basis and reviewed/updated quarterly. Implementation of the TSP is monitored through the OMP; and

c) The Office completed the implementation of '*di-Monitoring*'[7] to monitor and report on CP 2013-2017 results. The system is designed to track the level of achievement of programme targets and milestones and to maintain all monitoring reports and data in a single repository. Per the correspondence provided to the audit, this application is expected to be implemented by the United Nations Country Team in Nepal at the end of 2014.

B.1 - PROGRAMME PLANNING AND IMPLEMENTATION — PARTIALLY SATISFACTORY

28. In 2013, the Office started the execution of its new Country Programme 2013-2017, approved by the Executive Board in its September 2012 session. During the period under review, the Office implemented activities related to eight outputs at a total cost of USD 3.7 million, inclusive of Programme Coordination and Assistance (PCA) costs, with an overall financial implementation rate of 84 per cent (measured based on budgets allocated in Atlas).

29. The implementation was managed through 39 different annual work plans (AWPs). Activities were implemented directly by UNFPA, with related expenses of USD 2.0 million (54 per cent of total programme implementation expenses) and a financial implementation rate of 94 per cent, and by 30 implementing partners (IPs), composed of (i) six central government entities, (ii) 20 DDCs and (iii) four

[7] "di Monitoring" is a web-based data management application intended to facilitate the tracking of development plans; it is based on DevInfo, a database system developed to assist countries in monitoring achievement of the Millennium Development Goals (MDGs) and endorsed by the United Nations Development Group (UNDG).

non-governmental organizations, with aggregated related expenses of USD 1.7 million (46 percent of total programme implementation expenses) and a financial implementation rate of 71 per cent. In turn, some of the government IPs executed UNFPA-funded programme activities through other government units and contractees that they engaged for that purpose.

30. Audit work performed in this area focused on four projects with aggregate expenses of USD 2.3 million (62 per cent of total programme implementation expenses) and included (i) the review of a sample of three of the largest AWPs related to the projects selected; (ii) the assessment of the process followed to prepare, cost and approve the AWPs and monitor their implementation; and (iii) the review of standard progress reports, AWP progress reports, monitoring reports and other evidence of programme implementation, including site visits to two districts. Work also included a review of the process followed for developing and quality-assuring the new Country Programme 2013-2017 documents and the closure of interventions under the previous Country Programme.

Close management oversight of programme implementation should be maintained to ensure that planned results can be achieved within the remaining programme cycle period

31. The audit noted (i) procedural gaps and delays in the finalization of key documents for the new programme cycle 2013-2017, as well as (ii) a low implementation of programme activities planned for 2013 and the first quarter of 2014. Both issues are discussed in more details below.

Key documents for the country programme cycle 2013-2017

32. The audit noted that the Country Programme 2013-2017 was approved by the Executive Board in its second annual session in September 2012. However, the corresponding Country Programme Action Plan was only finalized and signed with the Government five months later, in February 2013. This represents a departure from UNFPA's programme management policies which require that the Country Programme Action Plan be signed within one month of the Executive Board Country Programme approval. The delay was partially attributable to the absence of the Representative and Deputy Representative, as explained in section A.2 of this report, as well as to other factors beyond the control of the Office.

33. Further, the audit noted that the Country Programme Action Plan Results and Resources Framework did not outline the indicative resources required to achieve planned results broken down per year, as required by UNFPA policy[8]. The audit noted that this gap was subsequently remediated when the Office developed annual resource estimates in February 2014, at the time of starting the alignment of the Country Programme 2013-2017 to the UNFPA Strategic Plan 2014-2018.

Implementation of programme activities

34. Following the Country Programme Action Plan approval, the Office prioritized the development of AWPs with DDCs and central government IPs, covering activities to be implemented in the period 16 July 2013 to 15 July 2014, which is aligned to the Government's fiscal year, at an aggregate AWP budget of USD 3.1 million. The AWPs were signed in July 2013, after conducting capacity assessments and signing letters of understanding with each IP.

35. The audit noted that programme execution by both types of government IPs took place primarily as from the fourth quarter of 2013, with expenses amounting to USD 2.3 million and an aggregate financial implementation rate of 60 per cent (measured based on budgets allocated in Atlas for the period July 2013 - July 2014).

[8] The Results and Resources Framework should reflect the country programme results (outputs) for which UNFPA will be accountable during the country programme cycle together with the indicative resources allocated to achieve each result, per year.

36. Financial implementation rates for activities implemented by DDCs averaged 92 per cent in the period July 2013 to July 2014, representing expenses amounting to USD 1.9 million. The audit noted a lower financial implementation rate for activities implemented through central level government IPs, as shown in table 1 below.

Table 1: Central government IPs implementation rates

CP Outcome [9]	July-December 2013			January-June 2014		
	Budget USD	Expenses USD	Implementation rate (%)	Budget USD	Expenses USD	Implementation rate (%)
1	264,466	44,622	16.87%	342,601	33,788	9.86%
2	50,088	7,086	14.15%	146,346	18,866	12.89%
3	266,344	145,805	54.74%	454,498	127,847	28.13%
Total	**580,898**	**197,513**	**34.00 %**	**943,445**	**180,501**	**19.13%**

37. The low implementation rates for Outcome 1 are partially attributable to (i) changes in key IP officers and a freeze in implementation in the period preceding the November 2013 general elections (ii) the process used by the responsible IP to transfer funds to implementing units at central and district level, which delayed the receipt of funds; (iii) IP procedural barriers, limiting the ability to reprogram funds between budget lines and/or implementing units; and (iv) the inability to provide additional funding to some IPs given unresolved outstanding cash advances[10] from previous periods. The implementation delays resulted in a large Operating Fund Account balance for advances older than six months amounting to USD 148,794 as at 31 March 2014.

38. Low implementation rates for Outcomes 2 and 3 were mainly the result of changes in key IP officers and a freeze in implementation in the period preceding the November 2013 general elections. Through a review of documentation relating to other donor programmes, the audit noted that they too experienced similar challenges during the period under review, like high key IP staff turnover, delays in budget release and execution by the concerned authorities (according to the Office management, the Ministry of Finance reported an overall implementation rate of grants of 49 per cent in the fiscal year 2013/2014).

39. Due to the need to coordinate with the Government and prioritize implementation by government IPs in line with their fiscal year (July-July), letters of understanding and AWPs with four non-governmental IPs could only be signed in October 2013 after completing a competitive selection process and capacity assessment. Two more non-governmental IPs were engaged in 2014. The audit noted that execution by non-governmental IPs started from the fourth quarter of 2013 onwards, with expenses amounting to USD 0.3 million incurred as at 30 June 2014.

40. The audit was unable to develop a view as to the impact, if any, created by the implementation delays noted and the Office's ability to reach the expected programme results within the remaining four years of the programme cycle.

[9] Outcome 1 – Improved access to sexual and reproductive health services and sexuality education for young people, including adolescents;
Outcome 2 – Gender equality and reproductive rights advanced particularly through advocacy and implementation of laws and policy;
Outcome 3 – Population dynamics and their linkages with the needs of young people, sexual and reproductive health/family planning, gender equality and poverty reduction addressed in national and sectorial development plans and strategies.

[10] In accordance with UNFPA's Operating Fund Account policy, IPs are restricted from receiving direct cash transfers if they have un-cleared Operating Fund Account balances older than three months.

IMPACT	*Expected programme results may not be achieved.*
ROOT CAUSE	*Guidance – Inadequate supervision at the Regional and Country Office level.*
CATEGORY	*Strategic.*

RECOMMENDATION 3 ***PRIORITY: HIGH***

Maintain close management oversight of programme implementation progress and reassess the Office's ability to mitigate the impact of the delays in finalizing key programme documents and in programme implementation in 2013 and 2014, revisiting and adjusting, if necessary, the Country Programme Action Plan and its Results and Resources Framework.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/12/2014*

We have revisited and adjusted the results framework and implemented systems to manage oversight of quality program implementation. We are therefore confident that, with the robust Monitoring and Evaluation Framework put in place, which includes annual targets, key program strategies, performance measures, and monitoring plans and systems for analysis of program achievements, the expected results will be achieved in spite of the delays in year one of the CPAP.

RECOMMENDATION 4 ***PRIORITY: HIGH***

Reassess current contractual and operational arrangements, particularly for central government IPs, with the aim of simplifying fund transfer and reporting flows, as well as facilitating monitoring.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/07/2015*

The Office attempted to reduce the number of work plans for implementing district-level activities through central level to enable inclusion of these funds in government audit systems. However as this did not prove to be an efficient modality, we have now reverted to channelling funds through district-level IPs for district funds and to central level IPs for nationally-implemented activities. The Office has also followed a competitive process to select alternative partners whenever possible.

Programme implementation expenses should be allocated to the outputs to which they correspond

41. During 2012, the Office used a PCA project code to record programme implementation expenses incurred by DDCs, amounting to USD 1.1 million. A second PCA project code was used to record programme support costs incurred by UNFPA (personnel, operations and travel) amounting to USD 1.6 million. Based on the supporting documents provided to the audit, programme support costs were expected to be reversed to their respective output codes at the end of the year. The review disclosed that this did not take place, which led to a significant overstatement of actual PCA expenses and a corresponding understatement of expenses incurred to achieve the different Country Programme outputs.

42. The Office corrected the issue in 2013 as expenses were generally charged to the correct output codes. No recommendation is therefore provided.

B.2 – NATIONAL EXECUTION	UNSATISFACTORY

43. NEX expenses amounted to USD 1.7 million (46 per cent of total programme implementation expenses) in the period under review, with a financial implementation rate of 71 per cent. Expenses incurred by IPs corresponded primarily to Daily Subsistence Allowances (DSA) for training and meetings (USD 0.7 million, or 41 per cent of total NEX expenses), procurement of training services (USD 0.3 million, or 18 per cent of total NEX expenses), and purchases of office supplies (USD 0.1 million, or 6 per cent of total NEX expenses).

44. IP capacity assessments were completed at the beginning of the new Country Programme cycle, using the UNFPA Implementing Partner Capacity Assessment Tool (IPCAT). NEX audits completed in 2013 covered expenses of USD 2.1 million (79 per cent of 2012 NEX expenses); all of the audit opinions were unqualified. A single NEX audit was performed in 2014 covering expenses of USD 55,040 (3 per cent of total NEX expenses in 2013). Operating Fund Account balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.15 million in 2013 and amounted to USD 0.4 million as at 31 December 2013.

45. Audit work performed in this area included the review of (i) the IP selection and capacity assessment processes; (ii) the existence of appropriate Letters of Understanding signed with the IPs; (iii) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by the IPs through the use of FACE (Funding Authorization and Certificate of Expenditure) forms; (iv) the controls implemented over the Operating Fund Account, used to record and control funds advanced to the IPs; and (v) the process followed to monitor IP activities, for a sample of five IPs (one central government entity, two DDCs and two non-governmental organizations) engaged by the Office, reporting aggregate programme implementation expenses of USD 0.3 million (approximately 18 per cent of total NEX expenses) in the period under review.

46. To obtain evidence for a more effective assessment of the effectiveness of the Office's IP management activities, the audit also included the review of the NEX audit report mentioned in paragraph 45 of this report, as well as site visits to the five IPs mentioned in paragraph 46 above, with the objective of developing an appropriate understanding of (i) their overall control environment as pertains to UNFPA-funded programme activities; (ii) the controls over financial transactions for significant expense categories; and (iii) the process followed for the preparation and authorization of the FACE forms and AWP progress reports submitted to UNFPA. The site visits also included the review of the safeguarding and use for intended purposes of assets provided to IPs and of evidence of implementation of selected programme activities, as well as inquiries of the IPs about their work experience with UNFPA, the support received, monitoring undertaken, the quality and frequency of communication and the barriers and other factors potentially impacting the effectiveness of programme implementation.

47. Based on the work performed, the audit noted several matters that need urgent management attention.

Implementing partner capacity should be more rigorously assessed

48. The issues impacting the execution of programme activities discussed in section B.1 of this report, as well as the nature and relevance of the financial management issues identified through the visits to implementing partners discussed later in this section of the report, showed that the IP capacity assessment process was not effective, depriving the Office of relevant information for (i) selecting the most appropriate cash transfer modalities; (ii) identifying and executing relevant capacity building activities; and (iii) implementing a more effective IP monitoring process, commensurate with the extent and relevance of the capacity gaps identified.

49. The audit noted the following problems affecting the assessments performed:

a) It is unclear whether the assessments covered relevant capacities of IP implementing units and contractees holding programme implementation responsibilities, as well as the related cash transfer and reporting mechanisms;

b) The rationale underlying risk scores assigned to IPCAT assessment attributes was not clearly documented;

c) Information relevant for the understanding of the IP processes and capacity areas assessed, including flowcharts and copies or summaries of IP policies and procedures related to the areas assessed, was not included in the assessments' deliverables;

d) While the assessments completed identified a number of capacity gaps, they did not specify the required capacity building activities and/or the related UNFPA commitments, as required by the IPCAT; and

e) Capacity building budgets were built into the 2013/2014 AWPs for each IP, however without specifying which activities to undertake and their link to the gaps identified in the assessments. At the time of the field audit mission (May 2014), the audit noted that some capacity building activities have been undertaken or planned.

IMPACT	*The effectiveness and efficiency of programme implementation may be impacted by IP capacity gaps.*
ROOT CAUSE	*Guidance – Lack of supervision at Office level.*
CATEGORY	*Operational.*

RECOMMENDATION 5	***PRIORITY: HIGH***

Revisit the IP capacity assessments conducted at the beginning of the new country programme cycle to (i) cover the capabilities of all entities involved in programme implementation; (ii) provide relevant information and documentation of key IP processes and controls; (iii) clearly document the rationale underlying risk scores assigned and their implications as regards the IP management and monitoring processes; and (iv) clearly identify capacity gaps and required capacity building activities.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/03/2015*

The Office hired an independent chartered accountants firm to carry out a detailed assessment of each IP. The results had to be presented in the IPCAT format as per the guidance from the Programme Division, which does not lend itself to capture a sufficient level of details and enable a proper review and follow-up on IP assessment and capacity building. Given the level of findings provided by the firm, we believe that the assessments have been done carefully. We will, therefore, request the firm to resubmit the findings in a format that would allow better identification of IP gaps, risks and required capacity-building. We would also like to request that the IPCAT be revisited and that instead of having both the IPCAT and the HACT micro assessment, there should be only one.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

The audit acknowledges the comments provided by the Office regarding the IPCAT and the need for harmonization of the IPCAT and the Harmonised Approach to Cash Transfers (HACT) micro assessments, which has been brought to senior management's attention. The audit also noted that the recent HACT assessments of IPs undertaken with other UN Agencies, the results of which were provided to OAIS by the Office after the field audit mission, revealed a large number of issues consistent with the audit's findings and not identified in the IPCAT assessments performed by the Office.

Monitoring of implementing partner activities needs to be significantly enhanced

50. Programmatic monitoring at district level, regardless of the implementing entity, was conducted based on a detailed monitoring plan directly linked to AWP activities. Implementation of the monitoring plan was, in turn, supported by an AWP monitoring tracking tool that clearly indicated monitoring findings and recommendations, responsibilities for follow-up and the corresponding deadlines, as well as key follow-up actions taken to address the recommendations.

51. The audit noted, however, that no centralized AWP monitoring plan or calendar was in place for central government IPs. Programme managers did conduct monitoring activities but these were *ad-hoc* in nature and no formalized process to log and track monitoring findings in a timely manner was in place. The audit noted that, in most cases, programme managers conducted progress meetings with IPs as a way to monitor AWP implementation progress. To provide an overview of monitoring activities undertaken, the results of these meetings were collated into an "*AWP Monitoring Performed by CO Outcome Team 2013*" tool developed by the Office; however, this took only place at year-end, thereby diminishing the tool's usefulness to detect and address issues in a timely manner.

52. The audit further noted that there was insufficient financial monitoring of IPs, both at central and district level. Financial monitoring activities were not incorporated in monitoring plans and no tool or checklist developed to aid in this aspect. The lack of financial monitoring created a significant risk for the Office, as expenses incurred in 2013 by individual IPs fell below the policy threshold over which NEX audits are required. This resulted in only one out of 30 IPs engaged being audited, thereby increasing the need to rely on the financial monitoring process to provide assurance that funds provided to IPs were properly managed.

53. The high risk level to which the Office is exposed was corroborated during IP visits conducted by the audit team and the nature of their findings, as outlined below.

Monitoring of central government implementing partners' activities

54. The audit noted that cash transfer and expense reporting procedures in place at a department of one of the ministries created significant challenges for the accurate reporting of expenses incurred and their monitoring by the Office. The department implemented UNFPA-funded activities through five of its divisions, incurring NEX expenses of USD 64,000 in the period July-December 2013, compared to an approved AWP budget of USD 1.1 million for the period July 2013 – June 2014.

a) One of the divisions of the department implemented activities funded by UNFPA through district-level branches; the division retained overall responsibility for coordination and oversight over the branches. Funds provided by UNFPA to the department were transferred through the government's central treasury system directly to the branches; branches submitted expense reports directly to the department, without providing copies to the division, although the latter retained the responsibility for preparing FACE forms aggregating expenses incurred by the branches and for submitting the forms to the department for further consolidation and reporting to UNFPA. The information reflected in the FACE forms was gathered by phone, without any mechanism instituted to validate its accuracy or to reconcile it with the information directly reported by the branches to the department;

b) At a second division of the department, accounting for UNFPA funds was commingled with that of funds from other sources. Accounting vouchers included both expenses related to UNFPA-funded programme activities as well as expenses related to other programmes implemented by that division. This resulted in a weak audit trail, making it difficult to identify those expenses solely related to UNFPA-programme activities;

c) The audit also noted that amounts that the division reported in FACE forms corresponded exactly to the budgeted funds transferred by the department, rather than to actual expenses. For example, in one instance, NPR 619,800 (USD 6,400) was advanced and reported as an expense, whilst actual expenses were NPR 559,155 (USD 5,700) based on the supporting documents submitted by the focal person responsible for these activities. The audit was unable to review actual expense documents relating to other advances and expenses reported by the division as these were not made available to the audit team;

d) The audit noted that a third division maintained proper books of accounts and supporting documents for expenses incurred to implement UNFPA programme activities; and

e) The last two divisions did not report any expenses in 2013 and were therefore not visited.

Monitoring of District Development Committees' activities

55. The Office provided funding directly to 18 DDCs involved in the implementation of UNFPA programme activities, with led to aggregate expenses amounting to UDS 1.2 million in 2013. The audit conducted site visits at two of the DDCs, which reported aggregate expenses of USD 145,840 in 2013, as well as at some of entities engaged by the DDCs for the delivery of UNFPA-funded activities (implementing entities). The visits revealed several issues indicative of significant financial management capacity gaps and a lack of financial monitoring by the Office, as detailed below:

a) Appropriate documentation was not available to support expenses reported to UNFPA:

i. Signatures on attendance list for a training session selected for review were different from those on the list used to support allowances paid to participants. In another case, the attendance list had been signed by the participants, but the payment list did not bear any signature. Further, at both districts visited, participant lists did not include contact details, thus preventing the audit from confirming participation in said events and actual payment of the allowances reported;

ii. Expenses were not systematically supported by tax invoices[11] at both districts visited, although obtaining such invoices is required for purchases above NPR 5,000 (USD 50);

iii. The Chief Officer of an implementing entity received DSA payments, in the amount of USD 677, for 73 days in the period May-December 2013 for monitoring UNFPA-funded activities. The concerned officer, who prepared and approved all travel orders and expense claims, including his own, did not explain the need for such an extended monitoring period considering the value of the UNFPA-funded activities (USD 18,790 in 2013) and did not make available any reports supporting the monitoring activities for review by the audit team;

b) Advances were reported as expenses at the time they were paid instead of when the expenses were actually incurred:

i. FACE forms submitted to UNFPA by one of the DDCs reported as expenses the amount of budgeted funds transferred by the DDC to its implementing entities, instead of the actual expenses incurred by such entities. This exception was noted for a sample of four activities to be implemented at a budget of NPR 3,257,825 (USD 34,000). No invoices or other appropriate documents were provided to the audit to support the expenses actually incurred;

ii. Advances amounting to NPR 2,891,925 (USD 30,000) provided by the implementing entities to their officers responsible for activity implementation had not been accounted for at the time of the audit site visit (May 2014);

[11] I.e., invoices meeting the requirements of the value-added-tax law and related regulations set by the Nepal Inland Revenue Department (tax invoices provide an increased level of assurance that the transactions reported are genuine).

c) Adequate accounting records and vouchers were not maintained by the DDCs or their implementing entities:

   i. Vouchers prepared to support expenses at one of the DDCs did not show expenses according to the AWP budget lines, but only at aggregate level. Although a form had been designed by the Office to help in preparing appropriate expense analysis, the DDC did not put it into use;

   ii. Books of accounts were not maintained by two implementing entities. Only vouchers were available on file, making it more difficult to reconcile expenses to supporting documents;

d) Funds transferred by the DDCs to their implementing entities were not appropriately safeguarded in authorized bank accounts. The audit noted that funds provided for the implementation of two programme activities selected for testing were withdrawn from the respective bank accounts in their entirety and used to issue cash advances to the focal points responsible for implementation. The audit also noted that advances paid were lower than amounts withdrawn, with NPR 260,000 (USD 2,700) remaining in the custody of the accounts officer instead of being kept at the bank; and

e) Finally, the audit noted, at both districts visited, the existence of motor vehicles (ambulances), motor cycles and scooters that had formally been transferred to the IPs more than five years ago, but still bore diplomatic registration plates.

IMPACT	*Programme implementation issues may not be timely identified and remediated, impacting the ability to achieve intended programme results.*
ROOT CAUSE	*Guidance – Inadequate supervision at Office level.*
CATEGORY	*Operational.*

RECOMMENDATION 6 ***PRIORITY: HIGH***

Design and implement a monitoring plan and calendar covering programmatic as well as financial monitoring requirements at central and district level, developing as necessary appropriate tools and checklists.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/04/2015*

We will develop a plan that will cover programmatic and financial monitoring requirements based on the results of the capacity assessment of the IPs. Tools and checklists will also be developed as appropriate. However, more guidance is needed from relevant units to ensure financial monitoring is standardized across offices and comprehensive. The Office has already developed a monitoring calendar for each outcome for all IPs and is developing individual monitoring plans with every IP.

IMPACT	*Funds may not be used for the intended purposes or misappropriated.*
ROOT CAUSE	*Guidance – Lack of supervision at Office level.*
CATEGORY	*Operational.*

RECOMMENDATION 7	***PRIORITY: HIGH***

Perform regular IP financial monitoring visits and spot-checks, based on the approved monitoring plan and calendar, with a frequency and scope appropriate to provide management with sufficient assurance about the proper use of funds by IPs.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/12/2015*

We are committed to carry out financial monitoring visits and spot-checks as per the monitoring plan referred to above. It should be noted that the Human Resource alignment submitted for approval includes specific requests for upgrades/additional staff to carry out these specific functions.

B.3 – INVENTORY MANAGEMENT	**SATISFACTORY**

56. During the period under review, activity in this area was limited to the supply of medical kits for emergency response prepositioning, which were stored at a warehouse managed by an IP.

57. Nepal is one of 46 focus countries earmarked to receive funds from the Global Programme to Enhance Reproductive Health Commodity Security (GPRHCS) under the new UNFPA Family Planning Strategy 2014-2017. In this regard, USD 1.0 million were allocated for capacity building and a further USD 2.3 million for the supply of reproductive health commodities in 2014.

58. Audit work performed in this area included the assessment of the process followed for identifying the capacity development activities to be undertaken and the commodities to be procured with GPRHCS funding in 2014 and the testing, for the inventory acquired in 2013, of the downstream logistics processes including: (i) customs clearance; (ii) receiving and inspection; (iii) handover of the kits to the IP; and (iv) and warehousing arrangements in place at the IP to which the kits were handed over. No reportable issues were identified based on the work performed.

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

59. Programme implementation expenses funded from non-core resources amounted to USD 0.2 million, representing five per cent of programme implementation expenses during the period under review.

60. Being the first year of the new Country Programme 2013-2017, the Office prioritized programme development and strategy formulation over extensive fundraising. However, significant environmental scanning of key development partners was undertaken throughout 2013. The non-core resource mobilization target of the Country Programme 2013-2017 amounts to USD 7.5 million. Of this amount, a total of USD 4.5 million is expected to be contributed by the GPRHCS (as mentioned in Section B.3 above). The remaining non-core funds are expected to be mobilized from development partners and other UN Agencies and trust funds.

61. Audit work performed in this area included testing for compliance with donor agreements requirements, including expense eligibility and reporting, as well as assessing the Office's resource mobilization strategy and plan to meet its non-core funding goal under the Country Programme 2013-2017. No reportable issues were identified based on the audit work performed.

C. OPERATIONS MANAGEMENT — SATISFACTORY

Good practices identified

62. The audit noted the following good practices in the area of operations management, which could be considered for replication by other offices:

a) The Office developed a system for registering and tracking documents which identifies the location of individual documents at any point in time, thereby minimizing the risk of loss or misfiling;

b) The Office developed a tool for tracking SCs. The contracts are systematically recorded to ensure timely commitment of funds in the Atlas system. Details recorded include contractual start and end dates, requisition numbers, purchase order numbers, purpose of the contract, and contract amounts;

c) The Office modified the standard travel expense claim form, with built-in supervisory review requirements, to include information on any direct payments or facilities provided by the Office to travellers, for appropriate tracking and adjustment of expense claims submitted by same; and

d) The Office's procurement plan is directly linked to the Office's "Master Annual Work Plan", and reflects all goods and services that require contracting to deliver programme activities under each programme area. The tool enables Office management to monitor whether the various milestones of the procurement process are achieved within the specified timeframes. It also facilitates coordination between the programme and operations teams as regards procurement.

C.1 - HUMAN RESOURCES MANAGEMENT — PARTIALLY SATISFACTORY

63. During the period under review, the Office incurred payroll expenses amounting to USD 1.2 million (the payroll is managed by the United Nations Development Programme - UNDP). In addition, the Office made extensive use of contract personnel and engaged 48 individuals under the SC and Special Service Agreement (SSA) modalities, for management activities and programme delivery, incurring related expenses in the amount of USD 0.5 million.

64. Audit work performed in this area included the analytical review of payroll and contract personnel expenses, a walkthrough of the payroll reconciliation controls at UNDP, and the testing of a sample of 11 SCs and SSAs awarded by the Office at a cost of USD 0.1 million, for linkage to the corresponding AWPs and compliance with policies and procedures and operating effectiveness of controls in the areas of (i) recruitment; (ii) contract award; (iii) contract management; and (iv) calculation and authorization of compensation and benefits. Audit procedures applied also included a review of the Office's leave management process and compliance with mandatory staff training requirements.

65. No reportable issues were identified based on the audit work performed in this area, with the exception of the following one.

The recruitment of personnel under Special Service agreements should follow a competitive process

66. The audit noted that three out of six SSAs tested were not awarded based on a competitive selection process. The SSAs were awarded without advertising the positions and the process followed in identifying the candidates was not documented. The other three SSAs tested were advertised in national newspapers. The audit also noted that during the period under review, the Office did not maintain a roster of consultants as recommended by policy. However, a list of consultants was maintained, from which the Office recruited consultants in several other instances.

IMPACT	*The Office may not engage the best qualified professionals.*
ROOT CAUSE	*Guidance – Lack of supervision at Office level.*
CATEGORY	*Compliance.*

RECOMMENDATION 8 **PRIORITY: MEDIUM**

Develop a roster of consultants with the competencies required for the delivery of the new country programme 2013-2017. When engaging contract personnel outside of the roster, follow competitive recruitment procedures, as required by UNFPA policy.

RESPONSIBLE MANAGER: *Representative, Nepal* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/06/2015*

We are working on a consultants' roster for selected competencies and also piggy-backing on rosters from other UN agencies. There have been several instances where the consultancies were advertised and we will continue to ensure that this will be done more systematically and consistently.

C.2 - PROCUREMENT **SATISFACTORY**

67. During the period under review, the Office locally procured goods and services at a cost of USD 0.7 million, issuing a total of 1,083 purchase orders. The most significant categories of goods and services procured corresponded to research studies, assessments, training services and baseline surveys for the different programme areas. In addition, the Office procured medical kits and motor vehicles through UNFPA's Procurement Services Branch, based in Copenhagen, Denmark, at a cost of USD 0.3 million.

68. Audit work performed in this area included the review of a sample of 25 local purchases made at a cost of USD 0.2 million (29 per cent of total local procurement) for linkage to the corresponding AWPs, compliance with the UNFPA procurement principles[12] and policies and procedures, and operating effectiveness of controls in the areas of (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving, as well as the review of the procurement planning process and management as regards common services shared with other United Nations organizations.

69. No reportable issues were identified based on the audit work performed in this area, with the exception of the following one.

Approval should be obtained for contracts in excess of USD 50,000

70. In 2010, the Office awarded a contract for health training services at a cost of NPR 2.1 million (roughly USD 28,000). Six amendments were subsequently made to the scope of the contract, in response to unforeseeable changes in programme needs, increasing its value to NPR 7.1 million (roughly USD 95,000), without rebidding. Delivery of all services took place in 2012, with the last instalment payment made on 29 June 2012.

71. The Office did not seek approval when the amount of the contract exceeded the USD 50,000 procurement policy threshold, neither from the Local Contract Review Committee, nor alternatively, from the Chief of the Procurement Services Branch in the event that the Local Contract Review Committee (or the procurement review committee of any other United Nations organization operating in Nepal) could not review the contract.

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

72. The audit noted that no single vendor was issued purchase orders or payments in excess of the USD 50,000 threshold in 2013 and 2014. The audit also noted that the Office submitted a request to the Contracts Review Committee for approval a contract with a value in excess of USD 100,000 in 2014, complying with UNFPA's policy regarding approval of contract award decision. No recommendation is therefore provided as regards this matter.

C.3 - FINANCIAL MANAGEMENT	SATISFACTORY

73. During the period under review, the Office processed 1,895 financial transactions, including 1,607 accounts payable vouchers, used to process payments, and 198 accounts payable journal vouchers, used primarily to process adjustments and record expenses reported by IPs.

74. Work performed in this area included the review of (i) the financial management capacity of the Office; (ii) the authorization and proper processing of the financial transactions; (iii) the coding of the transactions to the correct project, activity, general ledger account, IP and fund codes; (iv) the operating effectiveness of controls over the accounts payable and payments process; (v) the value-added tax control arrangements in place; (vi) the budget management process; and (vii) the effectiveness of the financial management accountability process. No reportable issues were identified based on the audit work performed.

C.4 - GENERAL ADMINISTRATION	SATISFACTORY

75. Work performed in this area focused on travel and asset management.

76. Travel expenses incurred by the Office during the period under review amounted to USD 0.2 million. A significant portion of the expenses (USD 0.16 million) corresponded to DSA for training and meetings. Audit work performed in this area consisted in the testing of a sample of 42 travel-related transactions amounting to USD 48,660 (29 per cent of total travel expenses) for appropriateness of business purpose and compliance with policies and procedures and operating effectiveness of the controls over (i) the procurement of travel services; and (ii) the authorization, calculation and payment of DSA. The audit also assessed the processes followed for the award of LTAs with travel agencies and to enforce compliance with security clearance requirements. No reportable issues were identified based on the work performed.

77. The office procured fixed assets for its own use and for delivery to IPs at a cost of USD 0.2 million in 2012 and 2013. The most significant categories of fixed assets procured by the Office were motor vehicles and computer equipment. Audit work performed in this area included the review of a sample of assets procured for use by the Office in 2012 and 2013, at a cost of USD 0.18 million (72 per cent of the value of fixed assets procured) for appropriateness of business purpose and compliance with the asset management policies and procedures. No reportable issues were identified based on the work performed.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY	SATISFACTORY

78. Work performed in this area was limited to testing for compliance with the annual Atlas access rights review, which was completed in a timely manner, and the review of Atlas profiles assigned at the Office for appropriateness and segregation of duties. No reportable issues were identified based on the work performed.

C.6 – SECURITY MANAGEMENT	SATISFACTORY

79. Work performed in this area was limited to inquiries of security officers, at headquarters and in Nepal, regarding coordination with the United Nations Department of Safety and Security (UNDSS) at country level, the Office's representation at Security Management Team meetings, arrangements in place for prompt communication of security matters to Office staff, and the level of compliance with mandatory security courses. No reportable issues were identified based on this work.

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

Atlas	UNFPA's ERP (Enterprise Resource Planning) system
AWP	Annual Work Plan
Cognos	UNFPA's Management Reporting System
DEX	Direct Execution
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditure
GPRHCS	Global Programme to Enhance Reproductive Health Commodity Security
IP	Implementing Partner
LOU	Letter of Understanding
LCRC	Local Contracts Review Committee
NEX	National Execution
NPR	Nepalese Rupee
OAIS	Office of Audit and Investigation Services
OIC	Officer-in-Charge
OMP	Office Management Plan
PAD	Performance Appraisal and Development
PCA	Programme Coordination and Assistance
PSB	Procurement Services Branch
SC	Service Contract
SSA	Special Service Agreement
TSP	Technical Support Plan
UN BoA	United Nations Board of Auditors
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNFPA	United Nations Population Fund
USD	United States Dollars