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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT
OF THE UNFPA COUNTRY OFFICE
IN NIGERIA**

**FINAL REPORT
N° NGA 101**

15 December 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 Nigeria (the Office) from 10 March to 24 October 2014. The audit covered the period from 1 January to 31 December 2013. Programme delivery and operations activities executed in previous years and subsequent to 31 December 2013 were covered by the audit, as appropriate.

Background

2. The activities covered by the audit correspond to the sixth Country Programme 2009-2012 approved by the Executive Board in 2008, with indicative resources of USD 64.2 million. The programme was extended for one year (2013) in 2012 in order to allow the alignment of the United Nations Development Assistance Framework III to the 2nd National Implementation Plan 2014-2017.

3. The audit covered expenses incurred in the period 1 January to 31 December 2013 amounting to USD 23.8 million, allocated to nine projects executed by 37 implementing partners (USD 6.1 million) and by UNFPA (USD 17.7 million), funded by core resources of USD 9.0 million and non-core resources of USD 14.8 million¹. In addition, the audit covered expenses incurred in 2012 amounting to USD 9.0 million.

4. Approximately 77 per cent of the expenses incurred in 2013 covered by the audit correspond to the Reproductive Health component, which focused on increased maternal health services, strengthened national and non-governmental organizations institutional capacity, and improved gender-responsive and equitable HIV prevention services for women and youth. The Population and Development component accounted for 17 per cent of expenses, with a focus on enhancing national capacity to produce, utilize and disseminate high-quality statistical data on population dynamics, youth, gender equality and reproductive health. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 6 per cent of expenses¹. Expenses incurred in 2012 covered by the audit corresponded to the supply of reproductive health commodities and equipment.

Methodology and scope

5. The audit was conducted in accordance with the *International Standards 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 control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

6. 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

7. The audit indicates that, for the period covered, the risk management performance of the Office was '**Unsatisfactory**', which means that 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
<i>Office management</i>		<i>Partially satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Partially satisfactory</i>
Programme Management		Unsatisfactory
<i>Programme planning and implementation</i>		<i>Unsatisfactory</i>
<i>National execution</i>		<i>Unsatisfactory</i>
<i>Inventory management</i>		<i>Unsatisfactory</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
Operations Management		Partially satisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Unsatisfactory</i>
<i>Financial management</i>		<i>Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Partially Satisfactory</i>
<i>Security management</i>		<i>Satisfactory</i>

Key findings and recommendations

8. 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 others related to operational, compliance and reporting. Overall, the audit report includes 12 high priority and 7 medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 19 recommendations, 3 are of strategic nature; 14 are operational; and 2 related to compliance.

Good practices

9. The audit identified several good practices implemented by the Office. In the governance area, these included a high on-time compliance with performance planning and appraisal activities and a good alignment of staff performance plans to the Office priorities. In the programme management area, the Office supported “Delivering-as-One” in Nigeria in an effective manner, and implemented a consultative and timely process for the development of workplans. In the area of Operations management, banks services were used to support the payment of daily subsistence allowances, and independent asset verification was performed to validate the accuracy of the fixed asset records.

Strategic

10. At the strategic level, there is a need to further enhance management oversight of programmatic and operational activities. Also, the fraud risk assessment should be enhanced to identify the controls that mitigate risks associated with material transaction types.

Operational

11. Workplans should consistently include output indicators, baselines and targets and be reconciled to the Atlas programme management module information. The implementing partner management process should be enhanced to ensure that implementing partner capacity is assessed prior to engaging them and that appropriate capacity development activities are consistently built into workplans and monitored for implementation. The monitoring process should be enhanced to provide appropriate assurance that UNFPA funds had been utilized in line with the approved workplans, with particular focus on higher risk and financially significant activities and transactions. Clearing of inventory should be

expedited and review-resupply meetings held according to plan to contribute to a reduction in commodity stock-outs.

Compliance

12. The Office should enhance controls to enforce compliance with the guidelines applicable to the recruitment of contract personnel. It should also significantly enhance managerial oversight of procurement activities to ensure the achievement of the UNFPA procurement principles of value-for-money, integrity and effective competition.

Management response

13. The UNFPA Country Office in Nigeria welcomes the findings of this Management Audit. The Audit exercise holistically reviewed and systematically analyzed the performance of the office in key areas including Office Governance, Program and Operations Management. Very importantly, Management appreciates the key findings, Good practices, and the set of clear and forward-looking recommendations proposed by the Auditors.

14. The OASIS team would like to thank the management and staff of the Office, the Western and Central Africa Regional Office and 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 2013 to 31 December 2013. Programme delivery and operations activities executed in previous years and subsequent to 31 December 2013 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 Nigeria.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of the Office' programme delivery and 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, regulations, rules, 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 OAI audit specialists supported by staff from an external audit firm based in Nigeria, starting on 10 March 2014; a field mission took place from 28 April to 16 May 2014. Preliminary findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 16 May 2014. Comments and clarifications provided by management at and subsequently to the exit meeting were reflected in a draft report submitted to the Office on 28 October 2014, and a final management response received on 09 December 2014.

II. BACKGROUND

6. Nigeria, officially the Federal Republic of Nigeria, is a federal constitutional republic comprising of 36 states and its Federal Capital Territory, Abuja. Nigeria's population was estimated at 171 million in 2013, with an annual growth rate of 3.2 per cent. The total fertility rate is at 5.7 children per woman. Contraceptive prevalence rate for modern methods is low, at 14.1 per cent, and the unmet need for family planning is estimated at 19 per cent. The maternal mortality ratio remained high, at 560 maternal deaths per 100,000 live births in 2013, compared to 610 in 2010². Only 45 per cent of women make the recommended four or more antenatal visits during pregnancy and just 39 per cent of deliveries are attended by a skilled health worker. The national HIV prevalence rate is 4.1 per cent³.

7. The activities covered by the audit correspond to the sixth Country Programme 2009-2012, approved by the Executive Board in 2008, with indicative resources of USD 64.2 million. The programme was extended for one year (2013) in 2012 in order to allow the alignment of the United Nations Development Assistance Framework III to the second National Implementation Plan 2014-2017.

8. The audit covered expenses incurred in the period 1 January to 31 December 2013 amounting to USD 23.8 million, allocated to nine projects executed by 37 implementing partners (USD 6.1 million) and by UNFPA (USD 17.7 million), funded by core resources of USD 9.0 million and non-core resources of USD 14.8 million¹. In addition, the audit covered expenses incurred in 2012 amounting to USD 9.0 million.

9. Approximately 77 per cent of the expenses incurred in 2013 covered by the audit correspond to the Reproductive Health component, which focused on increased maternal health services, strengthened national and non-governmental organizations institutional capacity, and improved gender-responsive and equitable HIV prevention services for women and youth. The Population and Development component accounted for 17 per cent of expenses, with a focus on enhancing national capacity to produce, utilize and disseminate high-quality statistical data on population dynamics, youth, gender equality and reproductive health. Management and programme coordination and assistance costs accounted for the remaining 6 per cent of expenses¹. Expenses incurred in 2012 covered by the audit corresponded to the supply of reproductive health commodities and equipment.

10. The main UNFPA office is located in the city of Abuja, with three decentralized offices located in the cities of Kaduna, Cross River and Lagos. During the period under review and at the time of the field mission, the Office was managed by a Representative, assisted by a Deputy Representative, an International Operations Manager and an Assistant Representative.

² <http://data.worldbank.org/indicator/SH.STA.MMRT>.

³ Source: Country Programme Documents for Nigeria (2009-2012 and 2014-2017).

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

1. The audit identified the following good practices in the area of office governance, which were in line with established policies and procedures:
 - a) High on-time completion rate of key performance appraisal and development process activities;
 - b) Good alignment of staff performance plans to the priorities defined in the office management plan (OMP);
 - c) At one of sub-offices, development of detailed staff workplans to operationalize the activities reflected in the staff performance plans; and
 - d) At the same sub-office, development of quarterly reports, based on the staff workplans, to inform the head of the sub-office about the status of implementation of the activities and to facilitate the preparation of the sub-office reports to the Abuja Office.

A.1 – OFFICE MANAGEMENT

PARTIALLY SATISFACTORY

2. 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 oversight over programme delivery and operational activities, including those performed by the decentralized offices; (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.

Strengthen the management oversight process

3. The audit noted that weekly Senior Management Team (SMT)⁴ meetings, a key tool for management oversight over programme and operational activities, did not take place as planned during the period under review. Based on enquiries of management team members and of the review of meeting agendas and minutes, the audit noted that only one SMT meeting took place during the period from July 2013 to April 2014.

4. The limited number of management meetings was attributed to the workload originating from the high number of activities managed, that took priority over management meetings. According to the Office management, although the meetings did not take place as frequently as intended, there were continuous consultations with management when decisions were required. As from May 2014, the Office modified the process to include monthly SMT meetings and weekly bilateral SMT members meetings with the Representative.

IMPACT	<i>Reduced management oversight of programme implementation and operational activities.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level).</i>
CATEGORY	<i>Strategic.</i>

⁴ The SMT is made up by the Representative, Deputy Representative, Assistant Representative, International Operations Manager, Maternal Health Advisor and the heads of the sub-offices.

RECOMMENDATION 1

PRIORITY: HIGH

Develop a management oversight plan (e.g. outlining frequency of interactions, planned dates, standing agenda items, expected outcomes and necessary activities).

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2014

The Office already agreed on a schedule of meetings that have been entered into a master calendar. The purpose of each meeting and what is to be achieved by each will be documented the next of each of the meetings. The first set of meetings took place in June 2014 and is ongoing.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING

SATISFACTORY

5. The UNFPA main office in Nigeria is located in the city of Abuja. Programme delivery is supported through three decentralized offices located in the cities of Kaduna, Cross River and Lagos, established to enable a more effective response to the needs of the states supported by the programme. The audit noted, based on interviews with the Office management and the heads of the decentralized offices, that there is a clear understanding of the roles and responsibilities of the decentralized offices although no written terms of reference had been developed at the time of the field audit mission.

6. At the time of the field audit mission, the Office had a total of 64 approved posts, including 5 international posts (Representative, Deputy Representative, International Operations Manager and two technical advisers) and 38 national posts at the Abuja Office, as well as 2 international posts and 19 national posts across the decentralized offices.

7. A staff re-profiling review, conducted in October 2012 by the Division of Human Resources to align the Office staffing to the needs of the new country programme 2014-2017, resulted in the abolishment of four existing posts and the creation of 11 new ones, including those of maternal health technical specialist, reproductive health commodity security specialist, maternal health programme analyst, communication analyst, adolescent sexual reproductive health, programme analyst (two posts), as well as five support posts at the general staff level. Seventy-three percent of the new posts were filled between August 2013 and April 2014. Two posts were in the recruitment stage at the time of the field audit mission, while the reproductive health commodity security post was in the process of being converted to two posts with focus on family planning, for better alignment with the new country programme needs.

A.3 RISK MANAGEMENT

PARTIALLY SATISFACTORY

8. Audit work performed in this area consisted of the review of the last fraud and operational risk assessments completed by the Office, the process followed for identifying and assessing 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.

Enhance the fraud risk assessment to cover risks and controls related to high value transaction

9. The fraud risk assessment is prepared and updated in October of each year, documenting risk areas, potential fraud risks, control in place, as well as the related inherent, control and residual risk ratings.

10. The most current assessment available covered fraud risks related to the potential misuse by implementing partners (IPs) of programme funds and the mitigating controls relied upon by management, which correspond primarily to spot checks and other financial assurance activities and monitoring and evaluation activities, the effectiveness of which was impacted by the issues discussed in section B.2 of this report.

11. The audit noted, however, that the assessment did not identify control activities that mitigate fraud risks associated with high value transactions such as those related to inventory and supply chain management, renovation of medical facilities, and payment of daily subsistence allowances to training participants, which accounted for a large part of programme implementation expenses incurred during the year.

12. The audit acknowledges that the gaps noted in the Office’s fraud risk assessment process are partially attributed to unclear corporate risk management guidelines and process. This matter has been the subject of ongoing discussion with senior management at headquarters and a resolution is expected upon full implementation of the enterprise risk management process.

IMPACT	<i>Inability to properly mitigate fraud risks related to significant expenditure categories.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at office level) and guidelines (unclear corporate risk management policies and procedures).</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 2

PRIORITY: HIGH

Update the fraud risk assessment to reflect the controls relied upon by management to mitigate fraud risks related to material financial transactions executed by the Office and its implementing partners, as well as to highlight a more robust assessment of the operating effectiveness of such controls.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office will update the existing fraud risk assessment to reflect the controls and action plans to mitigate the fraud risks related to all material transactions executed by the Office and its implementing partners. It is expected that the report of the assessment will inform the 2015 work planning.

B. PROGRAMME MANAGEMENT

UNSATISFACTORY

Good practices identified

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

- a) The Office management actively supported Delivering as One in Nigeria, contributing to a better coordination of country programme activities with other UN agencies and the government;
- b) The Office followed a consultative and timely process, involving in-depth discussions with programme counterparts, for the development of workplans, allowing for their finalization before the start of the year; and
- c) Monitoring visit checklist templates were developed to ensure consistency in IP monitoring visits and spot checks.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION**UNSATISFACTORY**

14. The audit covered programme activities related to six outputs of the sixth Country Programme implemented by the Office in 2013 at a total cost of USD 22.6 million, inclusive of programme coordination and assistance (PCA) costs, with an overall financial implementation rate of 74 per cent (measured based on budgets allocated in Atlas). The implementation was managed through 32 different workplans. The audit also covered the development and quality-assurance of the seventh Country Programme 2014-2018, as well as the planning of the related programme activities scheduled for implementation in 2014 at a total budget of USD 30.6 million.

15. Activities implemented in 2013 were executed by UNFPA, with related expenses of USD 17.7 million (78 per cent of total programme implementation expenses) and a financial implementation rate of 77 per cent, and by 37 IPs, with aggregated related expenses of USD 6.1 million (22 percent of total programme implementation expenses) and a financial implementation rate of 68 per cent. In turn, some of the government IPs executed UNFPA-funded programme activities through other government units and contractees they engaged for that purpose. A large component of UNFPA's implemented activities corresponds to the procurement of reproductive health commodities (refer to section B.3 of the report for details).

16. 2013 was a "bridge" year for the Office. It endeavored (i) to wrap-up the Office sixth Country Programme 2009-2012, which was extended through the end of 2013 in order to allow the UN Country Team to align the United Nations Development Assistance Framework (UNDAF) III to the second National Implementation Plan 2014-2017; and (ii) to develop the seventh Country Programme 2014-2018, which was approved by the Executive Board in its 2013 annual session.

17. Programme implementation in 2013 was impacted by several challenges faced by the Office, including continued security risks in the North East region where a state of emergency was declared by the Government in two states supported by UNFPA, as well as flooding in the South Eastern part of the country and in some Northern States.

18. Work performed in the programme planning and implementation area focused on two projects implemented in 2013 at an aggregated cost of USD 18.6 million (82 per cent of total programme implementation expenses) and included (i) the review of a sample of four workplans related to the projects selected; (ii) the assessment of the process followed to prepare, cost and approve the workplans and monitor their implementation; and (iii) the review of standard progress reports, workplan progress reports, monitoring reports and other evidence of programme implementation, including site visits to five partners involved in the implementation of the projects selected at the national level and in two districts.

19. Work performed also included the review of the process followed for developing, quality-assuring and approving the seventh Country Programme 2014-2018 documents, and the assessment of the process followed to prepare, cost and approve 11 workplans reflecting aggregated budgeted expenses of USD 28.4 million in 2014.

Advocate for the Resident Coordinator, the UNCT members and the Nigerian government to sign the UNDAP

20. The Office used the UNDAP⁵ result matrix as a basis for planning its seventh Country Programme activities to be implemented starting in 2014. The related UNDAF III document was signed by the Nigerian government and the UNCT on 30 July 2014; however, the UNDAP has not been signed thus far. The delay in the signing of the UNDAP was attributed to scheduling conflicts between the relevant government counterparts and the United Nations Resident Coordinator in Nigeria.

IMPACT *In the absence of a signed UNDAP, it is not clear whether there is UNCT consensus on the division of work between UN agencies, and government agreement on the focus of the UNDAP.*

ROOT CAUSE *Other (factors beyond the control of UNFPA).*

CATEGORY *Strategic.*

RECOMMENDATION 3

PRIORITY: HIGH

Follow-up with the Resident Coordinator to prioritize the signing of the UNDAP in coordination with the UNCT and the government. Consult with the Regional Office and Headquarters management on the way forward if the UNDAP cannot be signed in the foreseeable future.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented*

The UNFPA Representative worked as the Chair of the UNCT Programme Management Team to facilitate the signing of the UNDAP which was signed by the Resident Coordinator and the Government of Nigeria in September 2014.

Systematically include output indicators, baselines and targets in workplans

21. From its review of a sample of 11 workplans related to 2014 programme activities, the audit noted that output indicators had not been included in two of the workplans reviewed, and that indicator baselines and targets had not been included in 10 and 7 of the workplans reviewed, respectively. Absent such information, it would be difficult to measure whether expected results have been achieved.

IMPACT *Inability to measure progress of implementation and whether expected results have been achieved.*

ROOT CAUSE *Guidance (inadequate guidance and supervision at Office level).*

CATEGORY *Operational.*

RECOMMENDATION 4

PRIORITY: HIGH

Implement a more rigorous workplan quality assurance process to ensure that output indicators, baselines and targets are consistently included in workplans.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office has developed a checklist for workplan document review, which includes ensuring all indicators, baselines and targets are in place, to be applied before the Representative signs the workplans. The Office visited the IPs during the July/August 2014 joint monitoring visits and worked with the IPs during the September 2014 mid-year review exercise to improve on the completion and quality of IP workplans. A technical committee has been set up for the review of the workplans of 2015 and beyond using the designed checklist.

Reflect more accurately workplan budgets in Atlas

22. The audit noted that for the sample of 11 workplans selected for review, the 2014 Atlas budgets differed significantly from the budgets reflected in the workplans. Overall, the aggregate Atlas budget for the workplans reviewed was approximately 33 per cent lower than the budgets reflected in the workplans, as reflected in Table 1 below:

Table 1: Variances between workplans and Atlas budgets

Implementation modality	Aggregate work plan budget	Aggregate Atlas budget	Variance	
	USD millions	USD millions	USD millions	%
UNFPA direct execution	35.1	24.0	11.1	32
National execution (i.e., by IPs)	7.1	4.5	2.6	37
Total	42.1	28.4	13.7	33

23. The Office attributed the differences to the fact that the work-plan budgets were used only as indicative figures and that budget sheets developed after the finalization of workplans were used as a basis for Atlas budget set-up. The audit noted, however, that the budget sheets provided by the Office revealed a difference ranging from 25 per cent to 155 per cent in comparison to the budget reflected in Atlas.

IMPACT *Inability to properly plan activities in line with workplans agreed with the IPS.*

ROOT CAUSE *Guidance (inadequate supervision at Office level).*

CATEGORY *Operational.*

RECOMMENDATION 5

PRIORITY: HIGH

Reconcile Atlas budgets to detailed workplan budgets. In addition, document all changes to workplans in line with UNFPA policies and procedures and promptly reflected such changes in Atlas.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2015*

The Office will develop a control that will require all budgets figures within Atlas to be supported by a signed workplan or an addendum that is signed and agreed by UNFPA and the IP in line with relevant UNFPA rules and procedures when the need arises.

B.2 – NATIONAL EXECUTION

UNSATISFACTORY

24. National Execution (NEX) expenses amounted to USD 6.1 million (27 percent of programme implementation expenses) in the period under review, representing activities executed by 37 IPs (8 federal government entities, 15 federal state governments and 14 non-governmental organizations), with a financial implementation rate of 68 per cent. Per the available general ledger information, NEX expenses corresponded primarily to daily subsistence allowance (DSA) payments to meeting participants (USD 1.9 million), contract personnel costs (USD 0.6 million), printing services and publications (USD 0.5 million) and refurbishment of facilities (USD 0.3 million).

25. NEX audits performed in 2014 covered 23 of 37 IPs with expenses of USD 5.2 million (87 per cent of total NEX expenses in 2013). All NEX audit reports were unqualified. Operating Fund Account balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.7 million quarterly in 2013 and amounted to USD 0.1 million as at 31 December 2013.

26. Audit work performed in this area included the review of the IP selection and capacity assessment processes for a sample of 12 IPs engaged by the Office (including federal and state government IPs and non-governmental organizations running large multi-state programmes and local-level activities), as well as tests of (i) the existence of appropriate Letters of Understanding signed with the IPs; (ii) 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; (iii) the controls implemented over the Operating Fund Account used to record and control funds advanced to the IPs; and (iv) the process followed to monitor IP activities, for a sample of four IPs (one federal government entity, two state governments and one non-governmental organization) reporting aggregate programme implementation expenses of USD 1.9 million (or 33 per cent of total NEX expenses) in 2013.

27. The audit also covered the preparation for the implementation of the 2014 HACT⁵ framework, the review of five 2013 NEX audits reports covering NEX expenses amounting to USD 1.2 million (21 per cent of 2013 NEX expenses), as well as site visits and meetings with four IPs, 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 work plan 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.

Properly document the justification for IP selection

28. The audit noted that the 14 non-governmental organizations engaged by the Office in 2013 were not selected through a competitive process, although there are over 900 registered non-governmental organizations that operate in Nigeria⁶.

29. The Office provided the audit team with an undated and unsigned document which recommends working with certain civil society organizations (CSOs) in several programme areas. According to the document, “a committee comprising of key programme and finance staff was set up to review and make recommendations to CSOs that would be engaged as partners for programme implementation”. However, for most of the CSOs mentioned, the document only included a summary of the CSO activities and their sources of funding, without providing a justification for the selection of the respective organization versus other CSOs.

IMPACT	<i>The IPs best qualified to implement on behalf of UNFPA may not be identified and engaged.</i>
ROOT CAUSE	<i>Guidance (inadequate guidance and supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

⁵ HACT – Harmonized Approach to Cash Transfers. The Office is one of the locations selected by UNFPA to pilot the implementation of the 2014 HACT framework.

⁶ Nigeria Network of non-governmental organizations - <http://nnngo.org/content/ngo-list#S>

RECOMMENDATION 6

PRIORITY: HIGH

Follow a competitive selection process for the selection of non-governmental organization implementing partners. Should it not be feasible to follow a competitive selection process, provide a comprehensive written justification of the partner's unique capacity and other rationale underlying the selection.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2015

The Office has developed a checklist for IP selection based on the UNFPA policy on IP engagement. All staff were oriented about the steps for engaging IPs as contained in the Policies and Procedures Manual during the last Results-Based-Management training that was held in June 2014. The Office will also consider a competitive selection of IPs in all cases where no partner suitable for a strategic partnership can be identified, in line with the corporate policies.

Consistently assess the capacity of implementing partners engaged under the new Country Programme 2014-2017

30. The Office did not consistently assess the capacity of the IPs engaged for programme implementation. No assessments were completed for two out of 12 IPs selected for review by the audit team. IPCAT⁷ assessments were completed for only three IPs, and HACT micro-assessments (which focus solely on the IP financial management capacity) were available for another six IPs. In addition, the Office relied on an IP assessment performed by another UN agency. The different assessments provided to the audit team for review were completed between 2009 and 2013. The disbursement modality selected for all 37 IPs was the direct cash transfer, regardless of whether or not a capacity assessment had been completed or of the risk rating assigned to the IP.

31. The audit noted that the quality of these assessments varied significantly. The three IPCAT assessment checklists reviewed were not consistently filled out, leaving some assessment criteria unrated; nor were they dated and signed off by the staff completing the assessments. No supporting documents were provided to the OAI team to support the IPCAT or micro-assessments. With the exception of one micro-assessment (which another UN agency commissioned), the micro-assessments reviewed did not have the depth of analysis required to allow the Office to effectively assess risk, define capacity building needs and perform financial monitoring. The assessments usually identified few weaknesses and made few improvement recommendations.

IMPACT *The effectiveness of national execution may be diminished due to IP capacity gaps.*

ROOT CAUSE *Guidance (inadequate guidance and supervision at Office level).*

CATEGORY *Operational.*

RECOMMENDATION 7

PRIORITY: HIGH

Complete appropriate capacity assessments for all IPs to be engaged by UNFPA for the delivery of the new Country Programme 2014-2017 using the latest corporate guidelines and tools. Ensure that sufficient supporting documentation is available to allow the Office to effectively assess risk, define capacity building needs and perform financial monitoring.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

⁷ IPCAT: Implementing Partner Capacity Assessment Tool.

MANAGEMENT ACTION PLAN:

DUE DATE: December 2014

The Office carried out an IPCAT exercise for IPs in July/August 2014. The reports are being shared with the Headquarters unit dealing with HACT. Consultants were jointly engaged by UNFPA, UNICEF and UNDP; and micro-assessments started in mid-September 2014. The draft reports of the micro-assessments are already under review and the final reports are to be submitted by end of November 2014.

RECOMMENDATION 8

PRIORITY: HIGH

Consider all IPs not subject to a capacity assessment as high risk and adapt the frequency and scope of assurance activities accordingly.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2015

Assessments using the IPCAT tool have already been conducted and final consolidated reports are being prepared. Individual Reports have already been completed. The Office will review all 2015 IP workplans to identify specific activities to aid the development of a risk-based assurance plan with bias for material activities to aid the process of spot checks and monitoring by the country office.

Introduce a more consistent approach toward capacity building of implementing partners

32. While the Office conducted regular joint programme and finance IP monitoring visits which provide for elements of capacity development, there was no specific capacity development plans for the IPs which had been assessed as high risk in one or more capacity areas. In addition, no action plans to mitigate weaknesses identified and agreed with the management of the respective IPs were provided by the Office.

IMPACT *The effectiveness of national execution may be diminished due to IP capacity gaps.*

ROOT CAUSE *Guidance (inadequate guidance and supervision at Office level).*

CATEGORY *Operational.*

RECOMMENDATION 9

PRIORITY: MEDIUM

Develop, implement and monitor capacity development plans for IPs based on the results of the IP capacity assessments.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2015

A results-based monitoring plan was develop and implemented in July and August and each respective monitoring team shared their findings with IPs. Action Plans are also being finalised following the IPCAT exercises and the IPs would be supported to include in their 2015 workplans, the capacity issues/weaknesses in programming that UNFPA has committed to support the IPs on. The Office will also follow up with action plans within the purview of the IP management.

Enhance programme and financial monitoring

33. A monitoring process was in place during the period under review. Monitoring plans were developed for 2013 and 2014, covering all IPs engaged by the Office; monitoring visits, which included both programme and finance personnel, were documented in standardized monitoring reports covering both programmatic and financial matters.

34. The audit noted, however, that the scope of financial monitoring activities undertaken by the Office may not have provided sufficient assurance that UNFPA funds were used for the intended purposes per the approved workplans.

35. As part of the audit procedures applied in the course of its site visits to IPs, the OAS team reviewed the supporting documents provided by an IP for a small sample of meetings and training activities for which DSA payments were made and reported as expenses to UNFPA.

36. The audit noted that no participant contact information was available for 75 per cent of the meeting and training events selected. The audit team contacted the DSA recipients for one event for which participant contact information was available. Ten of the payees confirmed that they had attended the training event and provided the audit team with the DSA amount that had been paid to them; the latter was lower than the amount reported by the concerned IP. Two participants contacted declined to provide information to the OAS team, and it was not possible to reach another three participants.

37. In addition, the OAS team visited three out of ten health facilities for which renovation expenses amounting to USD 127,000 were reported by an IP. The OAS team noted that compared to the actual scope of work to be performed per the contracts between the IP and the construction companies engaged for the renovation, limited renovation work had been actually performed on all three facilities visited. Despite of the lack of contract completion, the IP made payments to the concerned suppliers and the related charges were accepted by the Office.

IMPACT	<i>Insufficient level of assurance about whether the funds provided to implementing partners were used for the intended purpose.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at Office level)</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 10

PRIORITY: HIGH

In order to provide sufficient assurance that UNFPA funds are used for the intended purpose and in a cost-effective manner, enhance the monitoring plan to clearly define the type, scope and frequency of programmatic and financial monitoring activities to be performed as regards to material and/or higher risk programme activities and financial transactions executed by implementing partners.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office will review all IP workplans to identify specific activities to aid the development of a risk-based assurance plan with focus towards material activities as part of the 2015 workplans. The Office will use the plan to conduct activity-based monitoring and spot checks.

Enhance IP management activities

38. The audit noted that, while letters of understanding were maintained on file for all 12 IPs selected for testing, there were no comprehensive up-to-date files with the documentation required by the policy for registration of IPs, such as provision of legal status, by-laws, last annual report, board of directors membership, banking relationships and accounts, last annual audit report, information on programme activities, etc., as well as their status as regards the different taxes levied in Nigeria.

IMPACT	<i>IPs engaged may not meet policy requirements. Information on the IPs may be lost or outdated.</i>
ROOT CAUSE	<i>Guidance (inadequate guidance and supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 11

PRIORITY: MEDIUM

Maintain permanent files with the documentation required by the Policy and Procedure on Registration of Implementing Partners.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The Office will ensure relevant IP documentation is scanned and uploaded onto E-Files in addition to the ones already available for easy access. All IPs supported by the Office now have clear focal persons. Each IP focal person also keeps updated IP files containing hard copies of all relevant documentation. The Office recently had an IT systems upgrade, which enabled the expansion of storage space and the creation of drives for programmatic purposes. A program drive has been created containing files created for storing IP documentation. The drive is accessible to all program staff at the Office level. Head of units are tasked to monitor the filing of documents.

B.3 – INVENTORY MANAGEMENT

UNSATISFACTORY

39. During the period under review, the Office supplied reproductive health commodities and medical equipment at a cost of USD 7.6 million⁸ (inclusive of transportation costs), funded from non-core resources provided by the Nigerian government, two donors and the Global Programme to Enhance Reproductive Health Commodity Security. In addition, in 2012 the Office supplied commodities procured at a cost of USD 8.9 million.

40. The majority of the inventory supplied consisted of contraceptives procured through the UNFPA Procurement Services Branch (PSB), based in Copenhagen, Denmark, to support government efforts to increase contraceptive availability. In addition, the Office locally procured dignity kits at a cost of USD 0.3 million for the benefit of adolescent girls and pregnant and lactating mothers affected by flooding in the southern states of Nigeria. All inventory supplied was stored at and distributed from four Federal Ministry of Health (FMOH) managed warehouses located in Abuja and Lagos, as well one warehouse also located in Lagos, managed by a local logistics company. In addition, medical equipment was stored at the Lagos UNFPA Sub-office premises.

41. Audit work performed in this area included a review of the needs assessments and forecasting arrangements in place, as well as testing, for a sample of inventory supplied at a cost of USD 7.5 million (45 per cent of the value of inventory supplied in 2012 and 2013), the processes and controls in place in

⁸ This balance includes USD 8.9 million related to 2012 purchases, whose distribution mostly took place in 2013 and therefore audit tests included the related 2012 purchases.

the areas of: (i) procurement planning and requisitioning; (ii) order tracking and custom clearance; (iii) receiving and inspection; (iv) warehouse controls and inventory records (while the goods procured remained under UNFPA's control); (v) handover of the inventory to IPs; (vi) distribution to intended beneficiaries; and (vii) monitoring thereof. For locally procured commodities, audit work included a review of the related procurement processes (refer to section C.2 of this report).

42. Audit work performed also included site visits to two of the four FMOH managed warehouses, located in Abuja and Lagos, the warehouse managed by a local logistics company located in Lagos and to eight service delivery points located in Oyo, Ogun and Lagos States to (i) verify the receipt of the commodities procured by UNFPA; (ii) assess the warehouse controls in place and the reliability of inventory records maintained; (iii) test the distribution of the commodities by tracing a sample of deliveries across the supply chain; (iv) determine commodity availability and stock-out levels at the warehouse and facilities visited. The audit also reviewed the communication process between the service delivery points as well as available reports pertaining to commodity availability, including the most current stock-out survey.

43. In addition, the audit included the review of the existence and valuation, in accordance with International Public Sector Accounting Standards (IPSAS), of the inventory of contraceptives and medical equipment in-transit or held under the Office's control as at 31 December 2013, reflected in the UNFPA financial statements at a value of USD 7.5 million.

44. The audit noted that requisitioning and ordering activities were generally timely executed as soon as funding became available for the procurement of commodities. It also noted improvements in the warehouse management process in the period under review compared to previous audit visits to the Office, and no reportable issues were identified during the visits to service delivery points. The Office accurately valued and reported contraceptives and medical equipment in-transit or held under its control as at 31 December 2013. The audit noted, however, several matters that need management attention as noted below.

Significantly accelerate the customs clearance process

45. There were significant delays in the customs clearance process for four shipments of commodities procured at a cost of USD 3.1 million, which arrived in Lagos, Nigeria between September 2013 and March 2014.

46. The audit noted that commodity shipments that arrived in Lagos on 22 September and 30 December 2013 and on 8 January and 6 March 2014 were still undergoing clearance procedures at the time of the field audit mission (May 2014). These shipments were subject to daily demurrage charges, the amount of which was estimated by the OAIS team, with the assistance of the Office's logistics associate, at approximately USD 125, 000⁹ as at 8 May 2014, date of the field audit visit to Lagos. The OAIS team was informed by the clearing agent that the shipments were currently undergoing final clearance procedures and would be cleared soon.

47. The Office and the customs agent attributed the delays to revisions of the clearance procedures, port congestion and late issuance of custom duty exemption certificates. The audit was not able to identify a timely and clearly documented flow of communications between the customs agent and the Office to address the issues noted. The Office management indicated that another factor contributing to the delays could have been the use of only one customs agent to clear the large volume of commodity shipments managed (management indicated that an Invitation to Bid (ITB) process to select additional customs agents had been initiated at the time of the field mission).

⁹ The clearing agent and the Office management indicated that they have requested a rebate on these charges as they partially relate to delays beyond the control of the Office.

IMPACT *Increased risk of contraceptives stock-outs and excessive demurrage costs.*
 ROOT CAUSE *Guidelines (inadequate planning at Office Level), combined with factors beyond the control of UNFPA).*
 CATEGORY *Operational.*

RECOMMENDATION 12

PRIORITY: HIGH

Revise the custom clearance process activities, resources and tracking mechanisms with the aim of expediting the clearance of commodities and other inventory items procured by the Office.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The inventory at customs has now been cleared. The Office will intensify efforts to complete the tracking tool on a quarterly basis and enforce adherence to the application of the tool. The Office will also increase the number of clearing agents through an Invitation to Bid process; the ITB process is being discussed with PSB for guidance.

Expedite the distribution of inventory stored at the Lagos sub-office

48. During its visit to the Lagos sub-office, the audit identified boxes containing medical equipment procured at a cost of approximately USD 0.1 million that were stored in the parking area of the Office premises. The audit noted that the boxes were not protected from the weather and visible to people visiting the premises.

49. The audit established that the medical equipment arrived in Lagos through five different shipments between November 2013 and January 2014. The Sub-office's staff interviewed in the course of the audit indicated that the delay in distributing the equipment was attributable to delays in the finalization of the distribution plan, which was only received by the Sub-office from the States in April 2014. At the time of the field audit visit, the Sub-office was working together with the beneficiary States to expedite equipment distribution, with one shipment having taken place at the time of finalization of the field visit.

IMPACT *Late distribution of equipment could impact the effectiveness of the programme. The equipment may deteriorate while stored under inadequate conditions.*
 ROOT CAUSE *Guidelines (inadequate planning).*
 CATEGORY *Operational.*

RECOMMENDATION 13

PRIORITY: MEDIUM

Prepare medical equipment and commodities distribution plans at the time the related requisitions are raised, documenting the implementing partners and health facilities that will receive the goods procured and the expected distribution dates.

RESPONSIBLE MANAGER: *Deputy Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The Office will circulate a management memo to all technical and operations staff on the need for all equipment and commodities procurement requests to be backed by appropriate distribution plan showing the IP beneficiary, location, and exact quantities per location before initiating the procurement process. In addition, the Office will ensure that all requests for equipment and commodities procurement are backed by an appropriate distribution plan before the memo requesting the procurement process to begin is approved.

RECOMMENDATION 14

PRIORITY: MEDIUM

Expedite the distribution of the medical equipment that remained stored at the Lagos Sub-office at the time of the field audit visit.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The commodities have already been distributed in full to five states but for the sixth state (Adamawa), only three quarters were distributed by 13 August 2014, partly due to the escalating security situation in the State. The remaining quarter is to be sent to the state by the end of the year at the distributing agent's cost.

Use more effectively the commodity procurement tracking tool

50. To supplement the UNFPA corporate Order Tracking System, the Office developed an in-house tool for tracking commodities and medical equipment orders. The tool allows the monitoring of critical milestones in the downstream logistics process, such as the dates of issuance of requisitions and orders, arrival of shipments at the port, request and receipt of custom duty exemption certificates, start and completion of custom clearance, etc. The audit noted, however, that information on these milestones was missing for several procurement orders, limiting the Office's ability to monitor shipment status in real time, and take remedial action to address bottlenecks and delays in the process.

IMPACT *Inability to adequately track the status of the commodities procured.*

ROOT CAUSE *Guidance (inadequate guidance and supervision at Office level).*

CATEGORY *Operational.*

RECOMMENDATION 15

PRIORITY: MEDIUM

To allow for real-time tracking of shipments, regularly update all fields in the commodities tracking tool for each purchase order.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Procurement and Supply Management (PSM) Tracking tool was developed by the Office to improve efficiency of movement of goods procured for IPs. The tool has been very helpful and effective in providing information on status of procurement and shipping of contraceptives. The Office will also hold meetings chaired by management staff to review the tracking tool on a monthly basis, to ascertain the quality of completion before the tool is discussed and disseminated outside UNFPA.

Reduce commodity stock-outs through more timely coordination with programme stakeholders

51. A commodity availability survey¹⁰ conducted in November 2013 showed that contraceptive stock outs¹¹ within three months preceding the survey date had increased to 48 per cent from 37 per cent in 2012. Stock-out levels were higher at tertiary facilities and in the North East and South West regions of Nigeria.

52. The increased stock-out level was attributed by the Office management to delays in shipment clearance of shipments (at national level and at warehouses), and to the reduction in the number of “review and re-supply” meetings that took place during 2012 and 2013.

53. “Review and re-supply” meetings were originally scheduled by the Reproductive Health Commodity Security Technical Working Group, under the leadership of the FMOH, and were to take place every two months, with participation of State Government representatives (primarily Family Planning coordinators), service delivery points and UNFPA. The objectives were (i) to review information provided by the Contraceptives Logistics Management System regarding stock levels, usage and needs, and (ii) to identify and address issues impacting the supply chain. The audit noted that only three meetings took place in 2012 and 2013, limiting the ability of the Office and of its programme partners to take prompt corrective actions to address the issues affecting commodities’ supply.

54. The Office indicated that it had agreed with the FMOH that, as from 2014, the “review and re-supply” meetings would take place at least four times a year starting in March 2014. The audit noted that the meeting scheduled for March 2014 was held as planned at the 34 States level and the Federal Capital Territory, resulting in the distribution of family planning commodities to 6,970 health facilities to address stock outs.

IMPACT	<i>Stock-outs of commodities at state and service delivery point level could prevent the achievement of programme objectives.</i>
ROOT CAUSE	<i>Guidelines (inadequate planning).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 16

PRIORITY: HIGH

Conduct “review and re-supply” meetings in line with the schedule agreed with the Reproductive Health Commodity Security Technical Working Group and the Federal Ministry of Health.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The Office will ensure that at least four review-resupply meetings are held annually. For the year 2014, the Country Office Management has ensured that the Schedule for Review and Re-supply meetings was developed in a timely manner and appropriately agreed on and shared with partners and stakeholders at state and national levels. There is a renewed commitment at Federal and State levels, as well as at UNFPA to ensure that schedules are complied with. So far four meetings have been held in 2014, in March, May, July, September, and it is expected that a final one will be held in November 2014.

¹⁰ Facility assessment for reproductive health commodities and services in Nigeria - 2013 Survey Report. Federal Republic of Nigeria and the United Nations Population Fund.

¹¹ The survey measured stock availability or stock outs on the day of the survey, for all contraceptive methods offered by the service delivery point. In addition, it measured whether one or more of the contraceptive methods offered by the service delivery point had been out of stock on any given day in the 3 months preceding the survey.

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

55. Programme implementation expenses related to activities funded from non-core resources during the period under review amounted to USD 14.8 million (62 per cent of total programme expenses for the period), with a financial implementation rate of 66 per cent. Of this amount, approximately USD 4.0 million correspond to funding provided by four different donors to support gender sensitive and culturally appropriate quality maternal health services and USD 9.0 million to funding provided by three other donors for the procurement of reproductive health commodities.

56. Audit work performed included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for two projects with aggregated expenses of USD 13.3 million (90 percent of non-core funded expenses). The audit also included tests of the accuracy of reports submitted to donors and of compliance with the new cost recovery policy, as well as inquiries of representatives of two major donors regarding their assessment of UNFPA's performance and achievements.

57. No reportable issues were identified based on the audit work performed. The audit noted delays in the release of funds by two donors, which led to the roll-over of activities initially scheduled for implementation in 2013 into the 2014 workplans. The delay in releasing the funds committed resulted in an average implementation rate of 64 per cent in 2013 for the projects reviewed. The donors visited in the course of the audit field mission, acknowledged the funding delays and noted that this would be closely monitored to avoid further delays in the future.

C. OPERATIONS MANAGEMENT**PARTIALLY SATISFACTORY***Good practices identified*

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

- a) Bank services were used for the disbursement of DSA to participants in training activities organized by the Office and by Federal Ministries and non-governmental organizations in Abuja;
- b) A fixed asset verification review was conducted by an accounting firm engaged by the Office in November 2013, to allow for the reconciliation of its physical assets to the asset management records following the 2011 bombing of the UN House, the Office subsequent relocation to new premises and the decentralization of activities to Sub-offices; and
- c) A "Contracts, Assets and Procurement" review committee was put in place as from the fourth quarter of 2013 to review procurement and assets transactions and contracts awarded by the Office.

C.1 – HUMAN RESOURCES MANAGEMENT**SATISFACTORY**

59. During the period under review, the Office incurred payroll costs amounting to USD 5.0 million (the payroll is managed by the United Nations Development Programme - UNDP). In addition, the Office made extensive use of contract personnel and engaged seven individuals under the Service Contract (SC) modality and another 40 under the Special Service Agreement (SSA) modality, for management activities and programme delivery, incurring related costs in the amount of USD 1.6 million.

60. Work performed in this area included (i) the analytical review of payroll and contract personnel costs; (ii) a walk-through of the payroll reconciliation controls with UNDP; and (iii) the testing of a sample of three SCs and six SSAs awarded by the Office at a cost of USD 0.2 million (15 per cent of the costs incurred in the period), for linkage to the corresponding workplans and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included the review of the outcome and follow-up actions to the 2012 Global Staff Survey; testing of the recruitment process for five staff members hired in 2013; and testing of 20 payments of staff benefits and entitlements and contract personnel fees amounting to approximately USD 0.4 million.

Adhere to human resources policies and procedures

61. The audit noted seven instances of deviations from the requirements of the policies and procedures applicable to the recruitment of contract personnel, such as personnel that commenced service before the approval of the contract by the Representative, and/or signing the contract and lack of verification of work references, past performance assessments and academic credentials.

IMPACT	<i>The Office may not engage the most qualified professionals and/or be exposed to legal liability.</i>
ROOT CAUSE	<i>Guidance (inadequate guidance and supervision at Office level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 17

PRIORITY: MEDIUM

Enforce compliance with human resources policies and procedures.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The Office commits itself to ensure that HR policies are adhered to. The International Operations Managers initials all human resource related documents before the Representative signs to ensure compliance. The Office commits itself to ensure background checks are done on candidates engaged.

C.2 – PROCUREMENT

UNSATISFACTORY

62. During the period under review, the Office locally procured goods and services at a cost of USD 3.5 million, issuing a total of 1,336 purchase orders. The most significant categories of goods and services procured corresponded to fixed assets, publications and printing services and facility costs. In addition, the Office procured reproductive health commodities and other inventory items and transportation equipment through PSB at a cost of USD 7.9 million.

63. Audit work performed in this area included the review of a sample of 30 local purchases made at a cost of USD 0.5 million (14 per cent of total local procurement) for linkage to the corresponding workplans, compliance with the UNFPA procurement principles,¹² 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 of charges related to common services shared with other United Nations organizations. The following matter requiring significant management attention was identified by the audit.

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

Enhance managerial oversight of procurement activities

64. The audit identified some significant instances related to procurement which may have diminished the achievement of the UNFPA procurement principles of value-for-money, integrity and effective competition.

65. The audit noted that two out of three offers received in response to a request for quotation for the procurement of furniture were submitted by one supplier using different company names, a situation that was easily identifiable from the review of the offers received. It was not possible for the audit team to determine if the third offer received originated from an independent supplier. The furniture was purchased from the concerned supplier based on the lowest offer submitted at a cost of USD 14,799.

66. A similar situation was noted as regards the procurement of office supplies at a cost of USD 12,015 and the procurement of bags for a maternal health conference at a cost of USD 9,940. In the latter case, the suppliers that submitted the offers were contacted and confirmed that the two offers received were from the same supplier.

67. In addition, the audit was not provided with relevant supporting documentation regarding the solicitation process for the procurement of office supplies made at a cost of USD 10,457.

68. The instances found create the risk that the Office may have paid excessive prices for the goods purchased, as competitiveness was impaired by not receiving a sufficiently high number of valid independent offers. These situations are indicative of the need to significantly enhance the level of supervision and managerial oversight of procurement activities.

IMPACT	<i>Procurement activities may not be executed in a competitive, fair and transparent manner to provide appropriate value for money to the organization.</i>
ROOT CAUSE	<i>Guidance (inadequate guidance and supervision at Office level).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 18

PRIORITY: HIGH

Strengthen management oversight over procurement activities to enforce compliance with procurement policies and procedures and enhance competitiveness of the process.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

The Office will strengthen the controls over the procurement procedures to ensure full compliance with respective policies. Specifically, the Office will facilitate a session on Ethics and Integrity and will discuss with the staff the repercussion of failure to adhere to procurement rules; the Office will include a requirement that the Procurement Committee entrusted to review procurement quotes and bids include in the minutes a record that the Committee spent a given slot of recorded time to review all new quotes and bids. The Office will ensure that the procurement checklist used by the Procurement Committee to validate compliance with the procurement policy is filled out, signed by the Committee members and attached to the respective procurement file to confirm proper assessment of transactions by the Committee members.

C.3 – FINANCIAL MANAGEMENT

SATISFACTORY

69. During the period under review, the Office processed 3,200 financial transactions, including 2,562 accounts payable vouchers used to process payments, and 286 journal entries and vouchers used primarily to process adjustments and record expenses reported by IPs.

70. Work performed in this area included the review of (i) the Office financial management capacity; (ii) the authorization and proper processing of financial transactions; (iii) the coding of 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 (VAT) 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 with the exception of the following one.

Explore strategies to better manage the impact of value-added tax on programme expenses

71. Goods and services procured directly by UNFPA are considered to be exempt from the 5 per cent value-added tax (VAT). The audit noted, however, that the VAT exemption is not consistently applied by all suppliers. More specifically, audit testing performed revealed three purchases of goods and services for which UNFPA was charged and paid VAT for an amount of USD 3,940.

72. In addition, the audit noted that VAT exemption does not apply to purchases of goods and services made by non-governmental IPs using funding provided by UNFPA.

IMPACT	<i>Cost savings opportunities, increasing funds available for programing, may not be realized.</i>
ROOT CAUSE	<i>Guidelines (inadequate supervision at Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 19

PRIORITY: MEDIUM

Enhance accounts payable supervisory controls to enforce VAT exemption for purchases of goods and services made by the Office. In collaboration with the UNCT, advocate for the extension of the VAT exemption to activities executed through non-governmental implementing partners using UN funds. Should it not be possible to generalize the exemption, re-assess the implementation modality for workplans involving significant purchases of taxed goods and services.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office has designated a VAT focal point who checks payments to ensure VAT is not paid. VAT has been as an agenda item in operations and programme meetings to sensitize staff on the requirements in relation to VAT. The Office also put the tax exemption issue on the agenda at the November 2014 OMT meeting to advocate for the Government to address the issue of granting tax exemption to IPs and vendors carrying out activities using UNFPA funds. Discussions are ongoing.

C.4 – GENERAL ADMINISTRATION**SATISFACTORY**

73. Work performed in this area focused on the travel and asset management processes.

74. Travel expenses incurred by the Office during the period under review amounted to USD 4.9 million. A significant portion of these expenses (USD 3.8 million) corresponded to a large number of small value DSA payments for field and monitoring visits, and attendance to training workshops and conferences. Audit work performed in the area of travel included a walk-through of the travel process and the testing of a sample of 20 travel-related and UNFPA-directly implemented transactions amounting to approximately USD 0.3 million (5 per cent of total travel expenses) for appropriateness of business purpose, 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. No reportable issues were identified based on the work performed.

75. As of 31 December 2013, the Office held 190 in-service fixed asset items with a net value of USD 1.3 million. During 2013, the Office procured fixed assets for its own use and for delivery to IPs at a cost of USD 0.7 million. The most significant categories of fixed assets procured by the Office were information technology equipment, vehicles and building/security related equipment and installations. Audit work performed in this area included the assessment of the asset management process and the review of a sample of assets procured by the Office in 2013, at a cost of USD 0.4 million (53 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 in this area.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY**PARTIALLY SATISFACTORY**

76. Work performed in this area included the review of Atlas access rights and the access rights certification process, a walk-through of the Office's backup-policy and disaster recovery plan, as well as a physical inspection of the server room.

77. The audit noted that the current back-up policies do not cover the three decentralized offices and that not all the elements foreseen in the backup policy were in place during the period under review. The Office management, however, demonstrated the on-going preparations for an infrastructure upgrade, including the procurement of backup equipment, and explained the new technology deployment plans.

78. Although no specific recommendation has been raised, the Office management is encouraged to timely implement all back-up procedures as foreseen in the Office's back-up policy.

C.6 – SECURITY MANAGEMENT**SATISFACTORY**

79. Programme delivery and operations in Nigeria are affected by the security situation prevailing in the country. Security risk for the city Abuja, site of UNFPA's main office in Nigeria, and for two of the three States where UNFPA maintains offices has been assessed as high or substantial.

80. No reportable issues were identified based on audit work performed in this area, which focused on the review of documentation related to the security management process and the coordination of the UNFPA security focal points with the United Nations Department for Safety and Security (UNDSS). A security assistance mission conducted by the Regional Security Advisor in July 2013 assessed a high level of Minimum Operating Security Standards compliance at the Abuja, Kaduna and Lagos offices, issuing specific security-related recommendations to each location that were followed up by Office management at the time of the field mission. The Cross-River Sub-office moved to new premises in early 2013 and is in the course of addressing all its UNDSS recommendations.

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:
 - a) Lack of or inadequate corporate policies or procedures
 - b) Lack of or inadequate Regional and/or Country Office policies or procedures
 - c) Inadequate planning
 - d) Inadequate risk management processes
 - e) Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - a) Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - b) Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - a) Lack of or insufficient resources: financial, human, or technical resources
 - b) 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 (PeopleSoft based) Enterprise Resource Planning System
CSO	Civil Society Organization
FACE	Funding Authorization and Certificate of Expenditures
FMoH	Federal Ministry of Health
HACT	Harmonized Approved to Cash Transfers
IPCAT	Implementing Partner Capacity Assessment Tool
IP	Implementing Partner
NEX	National Execution
OAIS	Office of Audit and Investigation Services
OMP	Office Management Plan
PSB	Procurement Services Branch
SC	Service Contract
SMT	Senior Management Team
SP	Strategic Plan
SSA	Special Service Agreement
UNDAP	United Nations Development Assistance Plan
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDSS	United Nations Department for Safety and Security
USD	United States Dollars
VAT	Value Added Tax