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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN PAKISTAN

FINAL REPORT

N° PAK 102

23 June 2015

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office (the Office) in Pakistan. The audit covered the period from 1 January 2012 to 30 September 2013. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate. In view of its preliminary findings, the audit was put on hold pending completion, in October 2014, of an external audit commissioned by the Office management of a programme implemented jointly with other United Nations organizations and additional analyses on a project implemented by another UN organization. Audit work resumed and the report was finalized following the receipt of the said audit report and additional analyses.

Background

2. The activities covered by the audit correspond primarily to UNFPA's seventh Country Programme, originally approved by the Executive Board in June 2003 for the five-year period 2004-2008, followed by a two-year extension for the period 2009-2010, and a further two-year extension for the period 2011-2012. In October 2012, the Executive Board approved a new five-year Common (UNDP, UNFPA and UNICEF) Country Programme for the period 2013-2017, the implementation of which began towards the end of 2013.

3. Total expenses in the period covered by the audit amounted to USD 13.7 million, incurred by 28 implementing partners (USD 4.7 million) and by UNFPA (USD 9.0 million), funded from core resources of USD 9.8 million and non-core resources of USD 3.9 million. Approximately 70 per cent of the expenses incurred were allocated to reproductive health, young people and gender activities, with a focus on the increased utilization of high-quality reproductive health services, including family planning, for men, women and youth, and the needs and perceptions of men, women and youth in reproductive health. The population and development component accounted for 20 per cent of the expenses. Management, and programme coordination and assistance costs accounted for the remaining 10 per cent of expenses.

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 control 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.

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

<u>*Key findings and recommendations*</u>

7. During the period under review, the Office operated under difficult conditions in a complex environment, facing multiple challenges, including those related to the acceleration of the devolution process[1] initiated in 2011; wrap-up of its seventh Country Programme; development of the UNFPA component of the Common Country Programme 2013-2017; and restructuring of the Office's operations, initiated in mid-2012, to allow a smoother transition from the seventh Country Programme into the new Common Country Programme. As part of the Office's restructuring, several posts were suppressed and there was a large number of staffing changes, with the majority of the new staff recruited in the second half of 2013 and 2014 and, hence, extended vacancy periods. Programme implementation activities were significantly curtailed in 2013 to devote efforts to the finalization of the new Common Country Programme documents and strategies, the implementation of which only began in late 2013.

8. The audit noted, however, an improvement in comparison to the situation identified by the previous OAIS audit performed in May 2011, mainly due to the reduction in the size and complexity of the programmatic and operational activities in the period under review, and the efforts of the Office management team to address the aforementioned challenges.

9. In spite of the improvements noted, the audit identified several areas that continue to require management attention. Overall, the report includes 16 high priority and 9 medium priority recommendations designed to address the issues noted and help the Office improve its programme delivery and operations. Of the 25 recommendations, 4 are of strategic nature; 13 relate to operational matters; 5 correspond to compliance issues and 3 to reporting. Implementation of 14 of the recommendations raised by the audit had been completed, per the Office Management, at the time of submission of the management response to the report.

[1] Activities executed by UNFPA's key federal level partners, such as the Health, Population Welfare, Education, Women Development, and Youth ministries and the National AIDS Control Organization were decentralized to the provinces

Strategic

10. At the strategic level, the audit noted the need to finalize the implementation of the action plan that was developed to guide the Office's restructuring initiated in 2012, with the aim of creating the capacity required to implement the UNFPA component of the Common Country Programme 2013-2017 and, in particular, filling all the posts that remained vacant as of the date of the field audit mission. The audit also noted the need to enhance the performance planning and assessment processes including a better alignment of office management plans and staff members' performance plans through the use of improved indicators and targets, and to develop clear terms of reference to clarify the roles and responsibilities of provincial offices.

Operational

11. From an office governance perspective, the audit noted the need to further structure the process and tools used for the management oversight of programmatic and operational activities and to regularly update the fraud and operational risk assessment and the corresponding action plan.

12. From a programme management perspective, the audit revealed the need to drastically improve the Office's programme and contract management capacity, as well as to strengthen the Office's corporate oversight of significant programmes. The effectiveness of monitoring should also be enhanced by implementing a more structured process and better tools, and by promptly addressing concerns raised through monitoring activities. Capacity assessments should be promptly completed for all implementing partners engaged for the new Common Country Programme, and financial monitoring of implementing partners increased.

13. The Office should obtain Headquarters' approval to hold inventories of medical equipment and sexual and reproductive health commodities, providing a clear justification for the need to hold such inventories. The audit also noted the need to enhance procurement planning, receiving and inspection controls, as well as the distribution of inventories through early preparation of distribution plans. Controls at the warehouses where inventories are stored while under UNFPA control should also be significantly improved.

Compliance

14. The Office should implement supervisory controls to enforce compliance with the guidelines applicable to the management of service contracts and special service agreements, as well as those applicable to local procurement of goods and services.

Reporting

15. Further, the Office should provide training and implement supervisory controls to ensure that financial transactions are charged to the appropriate accounts, allowing for a more accurate financial reporting and continued use of financial information as a useful monitoring tool.

<u>Management response</u>

16. The Office wishes to thank OAIS for their work in preparing the report on the audit of the Pakistan Country Office for the period 1 January 2012 to 30 September 2013.

17. The Representative on duty in the period April 2014 to January 2015 prepared the original management response transmitted to OAIS on 28 December 2014. The Representative, Deputy Representative and International Operations Manager at the time of the audit had since departed the Office when the draft audit report was received by the Office (3 December 2014), and thus some

consultation was required with these key staff who were in the Office at the time of the audit in preparing the management response.

18. The audit report covers the period 1 January 2012 to 30 September 2013. The report was received by the Office over one year later, on 3 December 2014, by which time the Representative, Deputy Representative and International Operations Manager in post at the time of the audit had all left the Office. The gap between the audit and receipt of the report makes it challenging for the Office to learn from the report’s recommendations because the situation has changed radically in the Office in the intervening period.

19. The audit covered an exceptional period in the history of the Office during a radical restructuring/re-profiling exercise, following a roadmap agreed with the Asia-Pacific Regional Office and Headquarters. During the period covered by the audit the majority of national posts were suppressed or separated. The most senior national post, the Assistant Representative, was suppressed. In the first half of 2013 only two programme staff were left at the Office on short term contracts. The vast majority of current staff was recruited in the second half of 2013 and 2014.

20. In October 2013, the audit team returned to headquarters clearly concerned about the findings which lead to an overall unsatisfactory audit rating. This was exacerbated by the successive departure of the three international managers in the Office, due to the retirement of the Representative and the need to reassign the Deputy Representative and International Operations Manager to other duty stations as they were eligible for rotation. The new Representative took up post in April 2014, new to UNFPA. Later that month the Deputy Representative left the post on rotation. The substantive replacement for the Deputy Representative arrived in December 2014. That gap was high risk at an Office still filling vacant posts and implementing the first year of a Country Programme with a largely new team. In November 2014, that risk was compounded when the International Operations Manager was rotated with no replacement. The risk was heightened from 5 January 2015 when the then Representative left UNFPA. As of that date, a new Deputy Representative with one month's experience in Pakistan was covering all three critical management posts in a highly important and complex country.

21. In March 2015, the new Office management team comprising an Officer-in-Charge (February to June 2015) and a new Deputy Representative (as of December 2014) were engaged by OAIS to revisit the original management response submitted on 28 December 2014, with a view to providing the Office the opportunity to update the response with actions derived to strengthen the operations and delivery of the programme. An interim International Operations Manager engaged under a Special Service Agreement in March 2015 was also engaged in the review of the management response. In revisiting the management response, past issues/comments emerged that the new management team recommend require OAIS engagement with key past management team members present during the period covered by the audit (January 2012- September 2013).

22. As the new management team reviewed the audit report and original management response, it is apparent that much progress has, and continues to be made since the time of the audit field mission. The importance of safeguarding the investments made in re-profiling and ensuring stability in the senior management team should be a major lesson learnt from the audit. The challenge related to attracting and retaining qualified international staff to country contexts like Pakistan needs to be addressed. The Office remains committed to further employing the audit recommendations that continue to strengthen the Office and its programme delivery.

OAIS Comments on the Management Response

23. OAIS acknowledges the exceptional circumstances faced by the Office during the period covered by the audit as explained earlier in the summary and in detail in the body of the report. OAIS further acknowledges that the changes in the Office's management team subsequent to the field mission and described in the management response, heightened the risks faced by the Office and represented a challenge to the new management team in responding to this report. This very situation stresses the importance of close management oversight and support afforded to Offices, such as this one, experiencing challenging situations and senior office management changes. This is a lesson learned that senior management should consider in other similar settings.

24. OAIS is pleased to note that over half of the recommendations raised have been reported by the Office Management as already completed at the time of submission of the management response to the report. OAIS looks forward to reviewing them as part of its recommendation follow-up of this report.

25. The OAIS team would like to thank the management and staff of the Office, the Asia-Pacific 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 2012 to 30 September 2013. Programme delivery and operational activities pertaining to other periods 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 Pakistan.

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 OAIS audit specialists, supported by staff from an external audit firm based in Pakistan, starting on 16 September 2013. A field mission took place from 28 October to 15 November 2013. Preliminary findings and recommendations were discussed with the Office's management at an exit meeting held on 19 November 2013. In view of preliminary findings related to a programme implemented jointly with other United Nations organizations, OAIS put the audit on hold pending: (i) completion of an external audit of a programme commissioned by the Office management (the final audit report of which was received on 15 October 2014, providing sufficient information to allow OAIS to complete the audit); and (ii) the receipt of information on activities executed by an United Nations organization engaged by UNFPA as its implementing partner in the period under review. Completion of these tasks allowed OAIS to finalize field audit work and issue the draft audit report, which was submitted to the Office on 2 December 2014. An initial management response was received on 28 December 2014. A revised response prepared by a new management team, clarifying actions already taken or planned to implement audit recommendations, was received on 7 April 2015, and additional clarifications provided by the Asia-Pacific Regional Office Director were received on 21 June 2015.

II. BACKGROUND

6. Pakistan's population was estimated at 177.1 million in 2011, growing at a rate of 2.05 per cent per annum[2]. Twenty-eight percent of the population is between the age of 15 and 29 years. Thirty-seven per cent of the population lives in urban areas, and growing urbanization is increasing pressure on the provision of quality services. The maternal mortality ratio stood at 260 deaths per 100,000 live births in 2010, compared to 380 deaths per 100,000 births in 2000[3]. The adolescent birth rate stands at 28 per 1,000 women aged 15-19[4], and the average contraceptive prevalence rate stands at 30 per cent[5]. HIV prevalence is concentrated among at-risk populations and is low in the general population (0.1 per cent).[6]

7. The activities covered by the audit correspond primarily to UNFPA's seventh Country Programme, originally approved by the Executive Board in June 2003 for the five year period 2004-2008, followed by a two-year extension for the period 2009-2010, and a further two-year extension for the period 2011-2012. In October 2012, the Executive Board approved a new five-year Common (UNDP, UNFPA and UNICEF) Country Programme for the period 2013-2017, the implementation of which began towards the end of 2013. Total expenses in the period covered by the audit amounted to USD 13.7 million, incurred through 28 implementing partners (USD 4.7 million) and by UNFPA (USD 9.0 million), which were funded from core resources of USD 9.8 million and non-core resources of USD 3.9 million.

8. Approximately 70 per cent of the expenses incurred were allocated to reproductive health, young people and gender activities, with a focus on the increased utilization of high-quality reproductive health services, including family planning, for men, women and youth, and the needs and perceptions of men, women and youth in reproductive health. The population and development component accounted for 20 per cent of the expenses. Management, and programme coordination and assistance costs accounted for the remaining 10 per cent of expenses incurred by the Office.

9. During the period under review, the Office operated under difficult conditions in a complex environment, facing challenges created by the acceleration of the devolution process[7] initiated in 2011 and restructuring of the Office's operations to allow a smoother transition from the seventh Country Programme into the new Common Country Programme 2013-2017. As part of the Office's restructuring, several posts were suppressed and there was a large number of staffing changes, with the majority of the new staff recruited in the second half of 2013 and 2014. Programme implementation activities were significantly curtailed in 2013 to devote efforts to the finalization of the new Common Country Programme documents and strategies, the implementation of which only began in 2014.

10. The main UNFPA office is located in the city of Islamabad, with three decentralized offices located in the cities of Karachi, Lahore and Peshawar. During the period under review, the Office was managed by a Representative assisted by a Deputy Representative, an International Operations Manager and, through the end of 2012, an Assistant Representative (this position was abolished as a result of the Office restructuring that took place in 2012).

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[2] Information obtained from the final common programme 2013-2017 documents for Pakistan

[3] Information obtained from the publication "Trends in Maternal Mortality 1990 to 2010-WHO, UNICEF, UNFPA and the World Bank Estimates" – issued in 2012

[4] World Bank 2011 adolescent fertility rate indicators

[5] Information obtained from the final common programme document for Pakistan (2013-2017)

[6] Information obtained from the final common programme document for Pakistan (2013-2017)

[7] Activities executed by UNFPA's key federal level partners, such as the Health, Population Welfare, Education, Women Development, and Youth ministries and the National AIDS Control Organization) were decentralized to the provinces

11. A new Representative assumed duties in April 2014 and separated from UNFPA in January 2015, and the Deputy Representative rotated to another office in May 2014 (the position was filled in December 2014). The International Operations Manager was transferred to another office in November 2014, with the post remaining vacant to the date of issuance of the audit report (an interim International Operations Manager was recruited in March 2015 under an individual consultant contract, pending the filling of the vacant position).

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE — UNSATISFACTORY

12. During the period under review, the Office operated under difficult conditions in a complex environment, facing challenges created by the acceleration of the devolution process initiated in 2011 and restructuring of the Office's operations to allow a smoother transition from the seventh Country Programme into the new Common Country Programme 2013-2017.

13. The restructuring of the Office was based on the "*Roadmap – support to the implementation of the Pakistan CCPD - Common Country Programme- Document- 2013-2017*" (2012 roadmap) developed in May 2012 following a multi-disciplinary mission to Pakistan led by the Deputy Executive Director, Management. The objective of this mission was to assist the Office in developing the capacity required to effectively implement its new programme in the post-devolution context and to address the managerial and operational weaknesses that affected the Office's programme and operations in previous years.

14. The roadmap outlined key actions required to: (i) strengthen the provincial offices management and operational capacity; (ii) improve operational accountability by strengthening the Islamabad-based operations team; (iii) consolidate the role of the Islamabad office in the areas of policy advocacy, coordination and partnership management; (iv) strengthen the planning, implementation and monitoring of humanitarian response activities; (v) enhance monitoring and evaluation; and (vi) improve the integration of programme and operations. Two key outcomes of the mission were the proposal for a new organizational structure and the definition of the human resource alignment process to be followed.

15. In addition, the roadmap included a detailed action plan to improve the management of the Office's programme and operations, including, inter-alia, in the areas of: (i) selection of implementation modalities; (ii) engagement and management of implementing partners (IPs); (iii) National Execution (NEX) assurance framework; and (iv) humanitarian response activities. Most of the actions planned were scheduled to be implemented as from mid-2012.

A.1 – OFFICE MANAGEMENT — UNSATISFACTORY

16. Work performed in this area included the review of: (i) progress in the implementation of the actions included in the 2012 roadmap; (ii) the 2013 Office Management Plan (OMP); and (iii) the performance management process and alignment of the OMP and performance plans for key staff members. Audit work also included interviews with Office management and key staff on the overall management and oversight of the Office's activities.

Complete promptly the implementation of the "Roadmap – support to the implementation of the Pakistan CCPD -Common Country Programme Document- 2013-2017"

17. The audit noted delays in the implementation of several of the actions outlined in the 2012 roadmap, principally those related to the engagement and management of IPs, NEX assurance, and humanitarian response activities.

18. The implementation of the human resources alignment process, led by the Division for Human Resources (which included a job fair, a matching process and recruitment activities) also experienced delays. The Office was not able to attract qualified candidates for several positions in the first round of the recruitment process initiated in September 2012. A second round of recruitment did not move forward as planned and as a result, only 20 of the 30 approved posts had been filled at the time of the audit field mission. The 10 vacant posts included, inter-alia: (i) an Assurance Analyst; (ii) a

Communications Analyst; (iii) a Monitoring and Evaluation Analyst; and (iv) three Programme Analysts. The Assurance Analyst position was filled in 2014. Six other posts, including those of Communications and of Monitoring and Evaluation analysts, remained vacant as of the date of issuance of the draft report.

IMPACT *Implementation of the Common Country Programme 2013-2017 could be affected.*

ROOT CAUSE *Guidance (inadequate supervision at Office, Regional Office and headquarters level).*

CATEGORY *Strategic.*

RECOMMENDATION 1	***PRIORITY: HIGH***

Promptly finalize the implementation of the key activities included in the "Roadmap – support to the implementation of the Pakistan CCPD -Common Country Programme Document- 2013-2017", including the recruitment of suitable candidates to fill vacant positions.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2015*

At the time of the field audit mission, a radical restructuring of the Office, reflected in the roadmap, had been agreed with UNFPA Headquarters and the Asia Pacific Regional Office (APRO) and required support from APRO and the Division for Human Resources for its implementation. Delays in recruitment noted in the audit came in the first round of recruitment, including delays of up to six months experienced by the Office in obtaining Compliance Review Board approval for new posts. Certain professional posts could not be filled in the first round due to lack of qualified candidates and were filled in a second recruitment in 2014. Challenges with recruiting qualified staff at international and national levels in country contexts like Pakistan are also important to note.

All fixed term posts created by the re-profiling have been filled at the time of preparation of the management response, with the exception of one. In April 2014, the incoming Representative decided to postpone recruitment pending an assessment of needs in the Office. As of March 2015, eight positions under the Service Contract modality established through the re-profiling were under recruitment and expected to be filled by June 2015. The critical issue at the time of submission of this management response is the vacancies in key senior International posts i.e. Representative and International Operations Manager. Under the 2015 rotation, priority has been given to filling the vacancies in Pakistan with an experienced staff member identified for the Representative post.

Strengthen the Office management oversight process

19. From its inquiries of management, the audit noted that management oversight of programme implementation and operations was conducted primarily through meetings between the Representative, the Deputy Representative and the International Operations Manager; the use of quarterly checklists to assess compliance with key programme management controls and responsibilities; and monthly meetings of programme staff with the Deputy Representative and the International Operations Manager. Based on its testing of the above, the audit noted the following:

a) The monthly programme staff meetings were not formalized; they did not take place on a regular basis and did not consistently include staff from the provincial offices;
b) Evidence of completion of the quarterly programme checklists was only provided for the third quarters of 2012 and 2013; and
c) There were no regular meetings of the operations team.

IMPACT	*Diminished management oversight of programme implementation and operational activities.*
ROOT CAUSE	*Guidance (Inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 2 — ***PRIORITY: HIGH***

Implement a management oversight plan, documenting the oversight activities to be performed and their objectives, responsible persons, and frequency; involving staff from provincial offices as appropriate.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

At the time of the field audit mission the Office was still in the middle of a major restructuring exercise. Infrequent monthly staff meetings were held and documented but, since the fourth quarter of 2014, they have been held on a monthly basis with documented minutes.

A full office planning retreat was held in February 2014. Monthly staff meetings and learning afternoons, involving provincial staff, have taken place regularly in 2014 except when the Office was disrupted by political demonstrations. A second planning meeting involving all staff took place in December 2014. Monthly programme meetings, involving provincial offices staff, were reinstated in the second half of 2014. The Humanitarian team, including provincial staff, has met more frequently in 2014. The lack of a Deputy Representative in the period April – November 2014 made it challenging for the new Representative to re-establish the Office fully with a new staff team whilst also acting as the line manager for programme and humanitarian teams. All staff and programme meetings have been undertaken on a monthly basis since January 2015, with an agenda and action-orientated minutes.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Strengthen staff performance planning and assessment and the alignment between office management plans and staff performance plans

20. The audit noted that the 2013 performance plans[8] of seven staff members (including three staff members recruited after 1 June 2013) had not been prepared at the time of the audit field mission in November 2013. Similarly, the audit noted a completion rate of only 42 per cent for the 2013 mid-year performance reviews[9]. Management explained that it was not possible to complete the mid-year reviews due to the staffing situation and also because staff were competing for posts following the re-profiling exercise, a situation that the audit acknowledges.

21. From its testing of a sample of four mandatory outputs reflected in the 2013 OMP and in staff performance plans, the audit noted that the indicators used in the performance plans for two outputs were too general to ensure clear accountability for the achievement of the outputs and to measure the sufficiency of results achieved. For example, the OMP indicator and related target for the output "Resource Management – Implementing Partners" was to clear Operating Fund Account (OFA) advances within a four-month period, while the indicator used in the performance plan of the staff member responsible for this output was "reduction in OFA", without specifying a timeframe and a value or

[8] Phase I of the Performance Assessment and Development (PAD) process
[9] Phase II of the PAD process – mid-year performance reviews are due 30 September of each year

percentage of reduction. This diminishes the usefulness of the indicator for assessing the staff member's performance.

IMPACT	*More limited accountability for results.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).* *Resources (lack of human resources at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 3 — ***PRIORITY: HIGH***

Complete performance planning and assessment activities in line with UNFPA policies, aligning staff performance plans to office management plans in terms of outputs, activities, indicators and targets.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *June 2015*

In the first half of 2013, staff contracts were discontinued and only a skeleton programme and operations staff remained in the Islamabad office: two programme staff on service contracts; two finance staff; and one information technology specialist. The alignment of the Country Programme to the Strategic Plan was initiated and staff had performance plans and assessments completed on schedule.

The Office filled the Monitoring and Evaluation Analyst post in December 2014, after a previous unsuccessful recruitment. The 2014 Office Management Plan was reviewed in February 2015 and lessons drawn to inform a strengthened office planning in 2015 through the new 2015 Office Results Plan that has informed the development of 2015 PADs.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING — PARTIALLY SATISFACTORY

22. One of the key outcomes of the 2012 office restructuring process was the definition of a new organizational structure, aligned with the requirements of the Common Country Programme 2013-2017 and of programme delivery in the post-devolution process. The number of authorized posts was brought up to 30, a net increase of nine positions compared to the structure approved for the implementation of the seventh Country Programme. Significant changes were made in terms of competencies and to the job descriptions of the vast majority of existing positions. The most significant changes included the abolition of the Assistant Representative position and the creation of several posts, including those of International Programme Coordinator, based in Karachi, Sindh, and the Humanitarian Response Specialist and Assurance Analyst positions, based in Islamabad.

23. To implement the restructuring, the Office conducted a human resources alignment process, resulting in 26 new or revised posts (in terms of responsibilities and/or competencies). These posts were advertised both internally and externally. With the support of the Division for Human Resources, the Asia-Pacific Regional Office and an international consultant, recruitment activities started in September 2012, resulting in the confirmation of the incumbents or the selection of new staff for 16 posts. Ten positions remained vacant as of November 2013, most of which were subsequently filled in 2014 and 2015.

24. Audit work performed in this area included: (i) the review of the organizational structure and staffing arrangements resulting from the Office's restructuring process, and of the alignment of the new structure to the Common Country Programme 2013-2017 requirements; and (ii) the definition and allocation of responsibilities between the main office based in Islamabad and the Sindh, Punjab and Khyber Pakhtunkhwa provincial offices.

Clarify provincial offices' responsibilities

25. The separation of roles and responsibilities between the office in Islamabad and the provincial offices was summarized in a document submitted by the Representative to the Asia-Pacific Regional Office seeking approval for strengthening the provincial offices. However, at the time of the audit field mission, written terms of reference detailing the roles and responsibilities of the provincial offices had not been prepared, and their results frameworks were under finalization. Further, four out of six fixed-term staff recruited at the provincial offices had not completed their performance plans. The staff of one of the provincial offices interviewed in the course of the audit indicated that there was confusion as regards the provincial office role and that the office appeared to operate primarily in response to requests from the Islamabad office, rather than acting based on a clearly defined mandate and deliverables.

IMPACT	*The provincial offices may not be able to meet expected results.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 4	***PRIORITY: MEDIUM***

Develop written terms of reference for provincial offices, clearly establishing their role and responsibilities, and finalize the provincial offices' results frameworks.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

Heads of the provincial offices were recruited against job descriptions that specified their roles and the roles of those offices. Two of them joined on fixed-term contracts in mid-2013 (one national and one international staff post) and the third one took up post in September 2014, after one failed recruitment. It should be noted that at the time of the field audit mission, the Office was restructuring but, in addition, the impact of the radical devolution of authority to the provinces in 2011 was still unfolding. In early 2014, the roles of the Humanitarian team (established in mid-2013) vis-a-vis provincial offices were articulated and communicated in a document shared with all provincial offices in April 2014. In 2015, roles and responsibilities of provincial and federal governments post devolution are still being debated and defined, and the UNFPA structure must continue to respond to these changes.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to determine the status of implementation of this recommendation.

A.3 – RISK MANAGEMENT	**PARTIALLY SATISFACTORY**

26. Audit work performed in this area consisted of management inquiries on the fraud and operational risk assessment and the assessment of the process followed by the Office.

Promptly operationalize the annual risk assessment action plan

27. The audit noted that the Office did not complete a risk assessment and action plan for 2012 and that the 2013 plan was in the final stages of completion at the time of the field mission, awaiting approval by the then Representative. The risk assessment process began in mid-September 2013, shortly before commencement of the audit, with the creation of a committee composed of programme and operations staff and led by the International Operations Manager. The delay in completing the risk

assessment is attributable to the compounding effect of vacancies resulting from the Office restructuring and of the heavy workload, as a result thereof, for the remaining staff.

IMPACT	*Inability to properly identify and manage risks that could prevent the achievement of the Office objectives.*
ROOT CAUSE	*Resources (lack of human resources at Office level).*
CATEGORY	*Compliance.*

RECOMMENDATION 5 — ***PRIORITY: MEDIUM***

Update the annual Fraud and Operational Risk Assessment and Action Plan, aligning processes and controls, as appropriate, to respond to identified risks.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The annual Fraud and Operational Risk Assessments and Action Plans were updated in 2014. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

B. PROGRAMME MANAGEMENT — UNSATISFACTORY

28. Programme implementation during the period covered by the audit was significantly impacted by the devolution process initiated in 2011; the human resource situation arising from the Office restructuring initiated in May 2012, which resulted in significant staff changes and a large number of vacant posts, ten of which had not been filled at the time of audit field mission; and the transition from the seventh Country Programme 2004-2008 (extended through 31 December 2012) to the new Common Country Programme 2013-2017, the development of which demanded significant Office management efforts given the staffing situation suffered by the Office. Programme implementation in 2013 was also impacted by delays in the finalization of key documents for the new programme cycle.

29. The 2012 programme was designed as a “bridge” between the seventh Country Programme and the new Common Country Programme 2013-2017, to allow the Office to consolidate lessons learned, widen its knowledge base on key national issues and challenges for the thematic areas proposed for the new country programme, and build evidence to prepare the Country Programme Action Plan. The 2012 programme was also designed to allow the Office to complete residual seventh Country Programme commitments, an effort which continued well into 2013.

30. As a result of the above events, programme implementation efforts were significantly reduced in the period under review. Programme expenses decreased from an annual average of approximately USD 20.0 million in the period 2010-2011 (significant humanitarian response activities were undertaken in this period) to USD 9.5 million in 2012, and USD 2.8 million in 2013 (as at 30 September 2013).

Good practices identified

31. The audit noted improvements in the quality of the work-plans prepared during the period under review compared to those reviewed by the previous audit completed in 2011. Workplans presented activities to be executed in a clearer manner, broken down by quarter, and the implementing partners executing the activities and the related budgets. The audit also identified work-plans that were

supported by detailed budget costing sheets, providing details by expense type, a practice that the Office should replicate to all the projects it manages.

B.1 – PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING	UNSATISFACTORY

32. During the period under review, the Office implemented activities of the seventh Country Programme and of the Common Country Programme 2013-2017 related to seven outputs, incurring programme implementation expenses of USD 12.3 million, inclusive of programme coordination and assistance costs. The majority of the expenses corresponded to activities of the seventh Country Programme, including continued support to the preparations for the Pakistan population census, initially scheduled to be completed in 2011 and deferred for reasons outside of the control of UNFPA. Expenses related to the new Common Country Programme 2013-2017 amounted to USD 0.8 million at 30 September 2013, as a result of the delay in finalizing the Programme Strategies document and the expanded results and resources framework. The programme budget implementation rate[10] stood at 76 per cent in 2012 and at 61 per cent in 2013 (as at 30 September 2013).

33. Audit work performed in the area of programme, planning and implementation included the review of workplans and of the process followed to prepare and approve them, and of monitoring reports and other evidence of programme planning, implementation and monitoring activities for three outputs with aggregated expenses of USD 7.6 million, or 62 per cent of programme implementation expenses during the period under review. Audit procedures performed included project site visits and interviews with representatives of a key donor, as well as the follow-up of assets[11] supplied in 2010 and 2011, at a cost of USD 2.8 million, in support of the planned population census activities.

Exercise close management oversight to minimize any potential impact caused by the delay in finalizing the programme cycle 2013-2017 key documents

34. Following the approval by the Executive Board[12] of the Common Country Programme 2013-2017, the Common Country Programme Action Plan was finalized in August 2013 and signed by the Government of Pakistan in October 2013. As a complement to the Common Country Programme Action Plan, which is aligned to the Pakistan One Programme II, the Office developed a Programme Strategies and Management Plan 2013-2017, to be used as an internal programme management tool to guide the design and implementation of the common programme components under the responsibility of UNFPA and promote greater accountability for programme results and stewardship of resources.

35. The Programme Strategies and Management Plan 2013-2017 was finalized in March 2014 with support from the Asia-Pacific Regional Office, and clarifies programme strategies. It includes an expanded programme action plan and refines the programme indicators and related baselines, targets and indicative resources. It also contains detailed programme plans developed with the assistance of consultancy firms, for the key interventions within the scope of the new programme which focuses on family planning and on strengthening female reproductive health services providers.

36. The Programme Strategies and Management Plan 2013-2017 documents the alignment of the programme to the UNFPA Strategic Plan 2014-2017 by breaking down the four outputs of the Common Country Programme into 15 sub-outputs, with a one-to-one relationship to the Strategic Plan outputs. The document also provides tools and terms of reference for enhanced programme management, including an Atlas project set-up strategy, to allow for the reporting of resources used and results under

[10] The budget implementation rate reflects expenses incurred as well as advances to implementing partners not yet cleared by these and commitments for the procurement of goods and services not yet received

[11] Census forms, intelligent character recognition scanners, servers, computers, printers and office furniture

[12] The Common Country Programme was approved by the Executive Board in its first annual session for 2013

both the One Programme II and the UNFPA Strategic Plan frameworks, as well as for each of the Pakistan provinces where the programme is delivered. The document further includes the designation of output conveners, responsible for result achievement under each of the outputs defined in the programme, and of work-plan and implementing partner managers. The document further fosters the use of two-year rolling project work-plans, and contains the design of the process to be followed for their preparation and approval.

37. The late finalization and approval of the Common Country Programme Action Plan and Programme Strategies and Management Plan 2013-2017, which is primarily attributable to the human resource situation arising from the Office restructuring process, coupled with the high vacancy level, resulted in a significant delay in starting the implementation of the activities within the scope of the Common Country Programme 2013-2017. The audit was not able to develop a point of view as to the potential impact of the shortened programme delivery period on the Office's ability to achieve the expected results within the remaining four years.

IMPACT	*Results of the new Common Country Programme 2013-2017 may not be achieved.*
ROOT CAUSE	*Guidance (inadequate planning at Office level).* *Resources (lack of human resources at Office level).*
CATEGORY	*Strategic.*

RECOMMENDATION 6 — ***PRIORITY: HIGH***

Reassess the Office capacity to deliver the expected results per the Common Country Programme Action Plan and Programme Strategies and Management Plan 2013-2017 within the remaining programme period, adjusting the programme targets, resource requirements and/or implementation timeline, as appropriate, while maintaining close management oversight of implementation progress.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *November 2015*

A mid-year review (MYR) of the Common Country Programme will be conducted during 2015 within the framework of the Pakistan One Program II. Outcomes of the MYR will be used to align staff capacity and financial and other resources to expected results. The MYR will also be used to align the Country Program to UNFPA's Strategic Plan. This may entail adjustment of indicators, targets, timelines, implementation modalities, etc. With the Deputy Representative, Monitoring and Evaluation and Quality Assurance positions filled, program monitoring and oversight capacity has increased.

Drastically improve the Office programme and contract management capacity and processes, as well as oversight of significant programmes

38. During the period under review, the Office participated in the implementation, jointly with other UN agencies (from now on, "the agencies"), of a programme to improve Maternal, New born and Child Health (MNCH) and Family Planning (FP) in vulnerable districts in the Sindh Province of Pakistan. The programme was funded by the Government of Norway, under the umbrella of the Norway-Pakistan Partnership Initiative (NPPI) to which Norway committed contributions in the amount of NOK 250 million (approximately USD 43.0 million at the exchange rate prevailing at the time of the audit field mission).

39. The programme was initially planned to be implemented in the period 2008-2012, but there were limited implementation efforts in the first years of the period. The audit of the Office conducted in

2011[13] raised concerns about the programme's low implementation level as a consequence of the lack of appropriate governance arrangements and insufficient management focus by the agencies involved.

40. Programme implementation efforts were intensified in 2011 and were concluded with the joint award by the agencies of two contracts, valued at PAK 1,461 million (approximately USD 15.0 million) for the delivery of MNCH services at four Sindh Province districts using a pay-for-performance modality: two districts under a contracting-out model[14] and another two districts through a voucher scheme.[15] Contract delivery for two districts was managed by UNFPA, while another UN agency managed delivery in the other two. The agencies equally shared the cost of services delivered under both contracts.

41. Based on the review of available documentation and inquiries of UNFPA management, the audit raised questions as to whether: (i) the contracts were awarded following a sufficiently competitive process; (ii) the organizations to which the contracts were awarded had the capacity to deliver the services as contracted; and (iii) the contracts were managed in an effective manner. The key issues noted by the audit are summarized below.

Contract award

42. The audit noted that the time allowed to respond to invitations to submit expressions of interest (EOIs) and to requests for proposal (RFPs) was too short (between 5 and 10 days) considering the complexity and value of the contracts (USD 15.0 million). Further, the audit noted that there were significant differences (of up to 64 points out of a maximum of 100) between the scores assigned by different panel members to the EOI submissions and/or proposals, which impacted the weighted technical assessment scores used to select the providers; there was also no clear documentation of the rationale underlying the scores assigned. In addition, no documentary evidence was provided to the audit team on how the panel validated the accuracy of the information provided in the EOI submissions. At the end of the process, one proposal was received for delivery of services under the contracting-out model, and two for the delivery of services under the voucher scheme, with only one assessed as being technically compliant.

43. With regards to the contracting-out model services, the only proposal received, submitted in July 2011 by a consortium led by a Pakistani company with the support of Afghani and local non-governmental organizations (NGOs) was assessed as technically compliant. The audit noted that the proposal did not address several requirements of the RFP, including the submission of a legally binding agreement between the parties in the consortium. The audit also noted that the main project references provided by the consortium corresponded to projects executed by the Afghani NGO, which did not appear to later have any role in the delivery of the services in Pakistan, and that the project references provided by the lead consortium member did not appear relevant to the project requirements.

44. As a result of post-bidding negotiations, the original proposal received was revised by the consortium five times to address issues and observations raised by the agencies. The final proposal, received in October 2011, reflected significant changes, including a 47 per cent decrease in the cost of services, to PAK 769 million, as well reductions in the targets for several programme indicators. No written evidence was provided to the audit on how the reasonableness of the final financial proposal was validated, or whether any analysis of the correlation between reductions in results targets and decrease in the financial proposal amount was conducted.

[13] Report on the Oversight Assessment of the UNFPA Country Office in Pakistan dated 2 August 2011

[14] This model aims at improving the availability and quality MNCH and FP services by strengthening and operationalizing selected health services facilities and establishing and strengthening performance and management systems

15 Under this scheme, booklets of MNCH services vouchers are provided to beneficiaries. The vouchers are redeemed in exchange for services at participating health services facilities, which are supported to enhance the quality of care they provide

45. With regards to the voucher scheme services, the audit noted that previous experience requirements included in the RFP were defined in a broad manner, not limited to voucher or conditional cash transfer schemes, but covering any form of pay-for-performance initiatives to improve facility or provider performance. Only two project citations were provided in the proposal that was assessed as technically compliant, both of them of much smaller size than the NPPI initiative. It is not clear whether these citations provided a sufficient basis to assess the bidder's capability to deliver the services.

46. The winning proposal was revised twice to address concerns raised by the agencies. No documented evidence was made available to the audit of the degree to which such concerns were addressed in the final proposal received on 30 September 2011. The proposal reflected reductions in targets compared to those established in the terms of reference for several programme indicators, including the number of beneficiaries to be covered. No evidence was provided of how the final financial proposal, which reflected a decrease in the cost of services of approximately 10 per cent, to PAK 692 million, was validated for reasonableness. The audit further noted that the financial proposal costs exceeded the cost baseline developed at the time the project was designed. In particular, administration costs, which were not modified in the revised financial proposal, accounted for almost 24 per cent of direct costs, compared to a baseline of 8 per cent.

47. The audit is of the view that, given that only one technically qualified proposal was received for each contract, and considering their financial and programmatic significance, as well as the extent of the post-bidding changes made to the technical and financial proposals submitted by the organizations awarded the contracts, the agencies should have initiated new EOI and/or RFP processes, to provide an opportunity to other organizations, including those shortlisted in response to the original EOI processes, to submit proposals aligned to the revised result targets.

48. The audit also raised several concerns regarding the content of the contracts, which were signed jointly by the agencies. Among the issues noted, the contract for the contracting-out model services was not signed by all consortium members. No clauses on audit and investigation were included in the voucher scheme contract, which appears to be a critical omission given the nature of the contract and the risk associated with its execution. Also, no evidence was provided of the completion of a contract legal review, to ensure that language appropriate for a pay-for-performance modality had been included and that that contract clauses and terms of delivery of the services contracted, for example, payments of incentives to government staff when certain service delivery targets were achieved by public health facilities, did not deviate from the agencies' regulations and rules.

Contract and service delivery performance management

49. Amounts due at the inception of the contracts (which were signed in December 2011), were not paid in full, with payments taking place in several tranches between December 2011 and April 2013. Per the contracts signed, subsequent payments were contingent on the achievement of agreed-upon quarterly performance targets to be measured by a vendor engaged to perform third party monitoring services. Due to delays in the delivery of monitoring reports, which were required to determine the contractors' performance, further payments by the agencies were delayed until April 2013, at which time additional payments were made to prevent service suspension. In the case of the contracting-out model, the additional payments were made based on the results of an alternative monitoring process conducted by a consultant previously engaged by another UN agency involved in the contract (the Office did not provide the report to the audit team). Similarly, the payment due at the inception of the voucher scheme contract was not made in full.

50. The third party monitoring reports, a mid-term review[16] of the programme performed by an international consultant and external reviews[17] of the contracts commissioned by the agencies revealed multiple service delivery performance issues. The third party monitoring reports provided to the audit team showed that the contractors did not meet the agreed upon quality of care targets and referred to severe and pervasive issues including lack of qualified staff and equipment, infrastructure problems, lack of supplies and inadequate medical practices. The mid-term review concluded that the project had neither been implemented effectively, nor properly managed and monitored. The mid-term review also concluded that expected results were over-ambitious and that there was no evidence that resources allocated were aligned to proposed targets.

51. The external review performed between July and August 2013 noted higher management and coordination costs compared to budget (accounting for almost 40 per cent of the contracting-out services costs incurred as of 30 June 2013, due to the low level of delivery of the contract outcomes), deficiencies in buildings and lack of key equipment at the health service facilities engaged to deliver the MNCH services under the contracting-out model, the suspension of services at some health services facilities engaged under the voucher scheme due to the lack of payment, as from July 2013, and some potential anomalies in the redemption of vouchers amounting to PAK 11.5 million.

52. In the case of the voucher scheme services, the contractor had indicated in its proposal that it would rely on a network of affiliated health services facilities, committing a target of 60 facilities capable of delivering the MNCH and FP services. However, per the third party monitoring reports, only 44 facilities were actually contracted, and none of the 18 facilities monitored during the first and second quarter of 2013 met the agreed-upon quality standards. The third party monitor concluded that the providers were not held accountable for the quality of their services and that the contractor had not made progress in improving facility performance, although this was one of the key contract outputs. In addition, concerns were raised that actions might have been taken in anticipation of the monitoring visits, to help improve performance scores without representing real improvements in the quality of care. The third party monitoring reports also raised concerns of potential misuse of vouchers.

53. The Office performed some monitoring of contract activities but the extent thereof was unclear. Issues similar to those raised in the third party monitoring reports and subsequently, in the mid-term review and the external reviews were identified as early as November 2012. It is, however, unclear whether these were addressed. The technical reports available to the audit suggest that the contractor and the health facilities it engaged did not have the capacity required to deliver the services per the contract terms.

Programme termination

54. Following the mid-term review completion, the donor decided to terminate its support of the programme, citing significant concerns about its strategic leadership and management, as well as the quality of the MNCH services delivered and the lack of accountable reporting. The donor requested that the agencies formulate and communicate an exit strategy. Under this strategy, UNFPA assumed sole responsibility, as from the fourth quarter of 2013, for the management of the voucher scheme in the two districts supported, with another UN agency doing the same for the contracting-out model services for the remaining two districts[18].

[16] Mid-Term Review Report, Norway-Pakistan Partnership Initiative, April-May 2013
[17] Conducted by an external audit firm
[18] No audit work was performed on the activities executed as part of the exit strategy for the contracting-out component, as these were managed by another UN agency

55. Although the performance targets agreed-upon with the voucher scheme services contractor were not reached, therefore providing a legal basis for contract termination, the Office decided to maintain service delivery to prevent an adverse impact on programme beneficiaries given the large number of vouchers that had not yet been redeemed for MNCH services as at 12 June 2013 (date at which the distribution of vouchers was discontinued). In October 2013, the Office agreed to pay the contractor PAK 66 million to allow for continuation of services, with future payments linked to reaching revised performance targets. The modification to the contract terms was made through exchange of letters between UNFPA and the contractor. The Office assigned two full-time vouchers managers, paid from its own resources, to collaborate with the contractor to improve and monitor service quality.

Programme review and assessment

56. In view of the audit findings, as well as those of the third party monitoring and the external review performed (see paragraphs 51 and 52), the Office management decided to commission a new external review of the contract, as a financial risk mitigation measure. The audit team supported this decision and advised management to undertake the review immediately. The new review was conducted by an external audit firm in June 2014, with the following objectives: (i) to verify that the amounts received by the contractor in November and December 2013 had been used to pay amounts owed to good quality care providers; (ii) to check the authenticity of voucher redemption claims submitted by health care facilities to the contractor; and (iii) to check the authenticity of expenses claimed by the contractor from UNFPA as per the new contractual arrangements. The final review report was provided to OAIS in October 2014. The report did not raise any new significant concerns and provided sufficient information for management to act on the claims made by the contractor. Further, the audit noted that an end-of-project evaluation[19] completed in October 2014 concluded that the project's relevance had been demonstrated and that there were several lessons to be learned, in particular on the efficiency and sustainability of intervention.

IMPACT	*Inability to achieve expected programme results, ineffective use of resources and reputational damage.*
ROOT CAUSE	*Guidelines (inadequate planning at Office Level).* *Guidance (inadequate supervision at Country, Regional Office and Headquarters level).* *Resources (lack of sufficiently trained resources at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 7 ***PRIORITY: HIGH***

With support from the Programme and Technical Divisions and the Asia-Pacific Regional Office, complete an in-depth lessons learned analysis for the NPPI project and use its findings to revise, as appropriate, the design of the programmes involving innovative approaches and/or pay-for-performance arrangements that will be implemented under the new country programme, as well as the arrangements for the management and monitoring of these programmes.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *August 2015*

With an almost full complement of staff, many of them new, lessons learned from the NPPI project will be used to enhance staff capacity and inform programme design. Headquarters and Asia Pacific Regional Office support will be sought in this regard.

[19] End of project evaluation of the Norway-Pakistan Partnership Initiative (NPPI). Population Council, Islamabad, October 2014

RECOMMENDATION 8	***PRIORITY: HIGH***

With support from the Programme Division, the Procurement Services Branch and the Division for Management Services, provide training on project and contract management practices to the Office staff members that will be involved in the management of complex projects and contracts for the delivery of the new country programme.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *September 2015*

The Office's capacity on contracting and project management has increased since 2014 as more staff came on board. Staff members are also advised to take mandatory online courses on procurement. In addition 3 staff members were trained in advanced procurement (2-week course). Dedicated training on managing complex projects and contracts in a complex environment will be organized in partnership with Headquarters Units. Both Programme and Operations staff, including senior staff, will be required to take this training.

RECOMMENDATION 9	***PRIORITY: HIGH***

Design and implement a mandatory quality assurance review of the design, planning and delivery of any programme involving innovative approaches, like pay-for-performance arrangements, above a pre-defined value threshold.

RESPONSIBLE MANAGER: *Deputy Executive Director, Programme* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2015*

Guidelines will be used by the Programme Division as regards quality assurance requirements for programmes involving innovative implementation approaches.

Enhance programme monitoring activities

57. The programme monitoring process was not clearly defined during the period under review. There was no monitoring plan or calendar in place. Programme managers conducted monitoring activities; however, these were ad-hoc, without a formalized process to log and track findings. The audit noted that some programme managers conducted progress meetings with implementing partners as a way to monitor workplan implementation progress, while other managers placed reliance on available work-plan monitoring tools. In some instances, there was limited monitoring, a point that was corroborated by implementing partner staff interviewed in the course of the audit who indicated that UNFPA monitoring activities diminished towards the end of 2012 and throughout 2013. The staffing situation arising from the Office restructuring, including the extended vacancy of the Monitoring and Evaluation Analyst position, may have contributed to this situation throughout the period under review.

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).* *Resources (insufficient human resources at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 10	***PRIORITY: HIGH***

Implement a more structured programme monitoring process, with a clear monitoring calendar and tools for documenting, aggregating and tracking monitoring findings.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2015*

Program monitoring capacity has increased with the recruitment of the Deputy Representative (December 2014), Monitoring and Evaluation Officer (December 2014) and Quality Assurance Officer (September 2014). Systems are being put in place to ensure structured monitoring and use of monitoring tools. A Travel/Monitoring Plan is in place; a Monitoring and Evaluation Calendar has been developed, tools are being strengthened, and support visits to sub-offices are planned to review Monitoring and Evaluation systems, and guide and build capacity, as necessary.

B.2 – NATIONAL EXECUTION — PARTIALLY SATISFACTORY

58. During the period under review, programme activities were implemented by 28 implementing partners (IPs), composed of 14 government agencies, 13 NGOs and one United Nations organization. They incurred expenses amounting to USD 4.7 million, representing 38 per cent of total programme implementation expenses.

59. The majority of the NEX expenses were incurred in 2012. Due to the wrap-up of the seventh Country Programme and the delayed start of the implementation of the Common Country Programme 2013-2017, the number of IPs engaged in 2013 decreased by 50 per cent, with NEX expenses incurred through 30 September 2013 amounting to USD 0.4 million (with an additional USD 1.0 million of cash advances to IPs outstanding at that date).

60. Audit work performed in this area included a review of: (i) available IP capacity assessments; (ii) letters of understanding signed with the IPs; and (iii) the process followed to review and authorize Funding Authorization and Certificate of Expenditure (FACE) forms submitted to request cash advances and report programme implementation expenses by the eight most significant IPs engaged by the Office which, collectively, reported expenses of USD 2.3 million (approximately 49 per cent of NEX expenses in the period under review). Audit work also included a review of the results of the NEX audits performed by the global NEX auditor and of the implementation of audit recommendations arising from the 2012 and 2013 NEX audit cycles, with emphasis placed on the IPs that received qualified NEX audit reports. The audit also included site visits to four IPs to observe the activities implemented and to assess their working relationship with the Office.

61. Generally, the Office maintained adequate control over cash advances provided to IPs. Atlas OFA balances were reconciled to FACE forms on a regular basis. Preparation for NEX audits and timeliness of submission of the NEX audit reports were generally satisfactory. Eleven IPs were audited in 2013 covering expenses incurred in 2012 amounting to USD 2.8 million (65 per cent of NEX expenses incurred by IPs in 2012). All the audits were performed by the UNFPA appointed global NEX auditor. Two IPs received qualified NEX audit opinions as a result of unsupported expenses amounting to USD 79,030, which were refunded to the Office in June 2013.

Enhance implementing partner assessments

62. The process followed to assess IP capabilities needs to be significantly enhanced. For the majority of IPs, capacity assessments were not completed before engaging them for the execution of programme activities. At the time of the field mission, only one out of the eight IPs selected for testing had been adequately assessed for both financial and programmatic capabilities in accordance with the revised procedures for selection and assessment of implementing partners issued in June 2012.

IMPACT	*IP capacity gaps may not be timely* identified *and remediated leading to inadequate implementation of programme activities.*
ROOT CAUSE	*Guidance (inadequate guidance at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 11 ***PRIORITY: HIGH***

Promptly complete capacity assessments for all implementing partners to be engaged under the Common Country Programme 2013-2017.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2015*

With the coming on board of the Quality Assurance Officer and hence more capacity at the Office, implementing partner assessments have been prioritized and the findings used to guide programme delivery. As of March 2015, all implementing partners with 2015 work-plans have been assessed, with few outstanding due the unavailability of key stakeholders to host the assessment teams.

Enhance financial monitoring of implementing partners

63. The audit noted that there was limited evidence of: (i) financial monitoring visits to validate expenses reported by IPs against supporting documentation; and (ii) evidence of implementation of the related activities and ongoing review and assessment of the IPs' financial management processes and capacity. The vacancy of the Assurance Analyst position to the date of the audit field mission may have contributed to the diminished financial monitoring of the period under review.

IMPACT	*Implementing partner financial management capacity gaps may not be timely identified and remediated, impacting the ability to achieve intended programme results.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).* *Resources (insufficient human resources at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 12 ***PRIORITY: HIGH***

Perform periodic financial monitoring visits and spot checks of implementing partners, based on a predefined financial monitoring calendar.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2015*

Building on the system put in place in 2014, a monitoring calendar has been drafted in 2015 to structure and coordinate programme and financial monitoring visits, including spot checks. Tools are also being developed/strengthened to ensure systematic monitoring and results-based reporting. Capacity building workshops are being organized for implementing partners.

Improve implementing partner training to enhance the correctness of FACE forms

64. The audit noted that a large proportion of the FACE forms submitted by IPs did not indicate the general ledger account codes to be charged for expenses incurred. In many instances, expenses were charged by the Office to incorrect general ledger accounts.

IMPACT	*Inaccurate financial reporting by the Office.*
ROOT CAUSE	*Resources (inadequate training of implementing partners and Office staff).* *Guidance (inadequate supervision at Office level).*
CATEGORY	*Reporting.*

RECOMMENDATION 13 — ***PRIORITY: MEDIUM***

Develop expense coding guidelines for use by implementing partners and implement supervisory procedures over the appropriate coding of expenses reported in FACE forms.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

Coding guidelines are available and being used in 2015 to guide expense reporting in FACE forms.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Charge grant expenses to the correct account codes

65. During the period under review, the Office provided eight grants amounting to USD 0.4 million to eight NGOs. Audit work performed in this area included the assessment of the processes followed for awarding the grants, monitoring results and reporting of expenses incurred by the grantees. The audit noted that, although the grant management process operated effectively during the period under review, grants were incorrectly charged to various expense accounts instead of account # 72605 "Grants to institutions and other beneficiaries", as required by the applicable policy.

IMPACT	*Inaccurate financial reporting by the Office.*
ROOT CAUSE	*Guidance (inadequate supervision at the Office level).*
CATEGORY	*Reporting.*

RECOMMENDATION 14 — ***PRIORITY: MEDIUM***

Implement supervisory controls to ensure that grants are charged to Account 72605 "Grants to institutions and other beneficiaries".

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

No further action is needed since the corporate policy on grants changed in the first quarter of 2014 and in line with that policy, the Pakistan Country Office will not issue grants in 2015.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

B.3 – INVENTORY MANAGEMENT	UNSATISFACTORY

66. During the period under review, the Office procured, through the Procurement Services Branch (PSB, based in Copenhagen, Denmark), medical equipment and reproductive health commodities at a cost of USD 1.9 million (inclusive of transportation costs). The majority of the purchases (approximately 60 per cent) consisted of reproductive health kits. In addition, the Office locally procured and distributed new born baby and hygiene kits at a cost of USD 1.6 million[20].

67. Also, during the period under review the Office maintained inventory under its control, at four different warehouses located in Islamabad, Peshawar and Karachi[21]. All warehouses were managed by a local logistics company. Most of the inventory held consisted of kits (new born baby, clean delivery and hygiene kits), which were prepositioned to facilitate the response to floods and other natural disasters that may affect Pakistan. In addition, the Office incurred logistics and storage services costs amounting to USD 0.2 million.

68. Audit work performed in this area included the testing of the processes followed in the areas of: (i) procurement needs identification; (ii) requisitioning; (iii) receiving and inspection; (iv) inventory controls (while the goods procured remained in UNFPA's possession); (v) handover to implementing partners; and (vi) distribution to beneficiaries. For locally procured commodities, audit work included a review of the related procurement processes. In addition, the audit covered the controls in place over storage costs billed by the logistics company engaged.

69. The audit also 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 2012, and which were reflected in the UNFPA 2012 financial statements at a value of USD 1.0 million.

70. Based on the work performed, the audit noted several matters that need management attention, as detailed below.

Obtain authorization to hold inventory from the Commodity Security Branch

71. The audit noted that the Office did not obtain authorization to hold inventory from the Commodity Security Branch at Headquarters, contrary to the inventory management policy[22]. Field offices that identify the need to hold stocks under their control on a regular basis must first obtain authorization from the Commodity Security Branch, providing justification for the need to hold inventory and identifying where the goods will be stored.

IMPACT	*Unnecessary or excessive inventory levels may be maintained. Storage conditions may not be adequate.*
ROOT CAUSE	*Guidance (inadequate supervision at Office Level).*
CATEGORY	*Compliance.*

[20] This amount includes USD 1.2 million worth of kits procured during the period 1 July to 31 December 2011 that were distributed in 2012

[21] Two warehouses were used in Karachi

[22] Policies and Procedures Manual - Inventory management policy, section A.3.1

RECOMMENDATION 15	***PRIORITY: HIGH***

Promptly obtain authorization to hold inventory from the Commodity Security Branch as prescribed by the inventory management policy.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office requested approval from the Commodity Security Branch in December 2013. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Strengthen receiving and inspection procedures

72. Products procured through PSB were received and cleared by an independent agent hired by the Office. The audit team was not provided with documentary evidence of the inspection of the shipments upon arrival in Pakistan to ensure correspondence of the goods received to the shipping documents and that the goods were not damaged or otherwise altered. In addition, there was no evidence that UNFPA staff were involved in the receiving and inspection processes. The Office indicated that it relied on e-mail sent by the agents as confirmation of receipt; however, such e-mail did not provide details of any formal receiving and inspection processes or the results thereof. Per the applicable guidelines, it is the responsibility of UNFPA staff to inspect the goods and to ensure full matching between the goods ordered, shipping documents, and goods physically received[23].

IMPACT	*Inventory discrepancies and/or damage may not be timely identified.*
ROOT CAUSE	*Guidance (inadequate supervision at Office Level).*
CATEGORY	*Compliance.*

RECOMMENDATION 16	***PRIORITY: MEDIUM***

For all internationally or locally procured inventories, conduct receiving and inspection procedures and complete Receipt and Inspection Reports, as prescribed in the inventory management policy.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office implemented the recommendation during 2014. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Significantly enhance warehouse controls

73. The audit visited the four warehouses managed by a local logistics company where, at the time of the audit field mission, the Office stored inventory such as reproductive health, new born baby and hygiene kits, as well as office furniture.

[23] Inventory management Policy, section B.2.5

74. Controls and storage conditions in all but one of the warehouses were in need of attention. The audit noted that inventory was not laid out in an orderly manner, hindering access to the items and making it difficult to count the inventory on hand. One of the warehouses did not have appropriate security controls such as cameras, security guards on site and firefighting equipment. Inventory records kept by the storekeepers differed from those maintained by UNFPA. There was no evidence that the Office had conducted periodic physical counts and that a reconciliation process was in place. Sample inventory counts performed by the audit revealed differences between stock quantities on hand and the quantities per the records kept by the storekeepers and the Office which, albeit not significant, revealed a lack of regular updating of stock records. The audit also noted the existence of inventory with a cost of USD 52,523 that had expired in December 2012, but was still retained in one of the warehouses.

75. Management was aware of the issues raised by the audit as it had conducted its own warehouse visits in June and July 2013. However, the findings from these visits had not been acted upon at the time of the field audit mission.

IMPACT	*Increased risk of inventory losses due to inadequate storage conditions and controls and inaccurate recording keeping.*
ROOT CAUSE	*Guidance (inadequate supervision at Office Level).*
CATEGORY	*Operational.*

RECOMMENDATION 17 — ***PRIORITY: HIGH***

In collaboration with the logistics and storage services provider, ensure that adequate controls, as prescribed by the inventory management policy, are implemented at warehouses.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office implemented the recommendation during 2014. Evidence is available for further reference.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

RECOMMENDATION 18 — ***PRIORITY: HIGH***

Perform inventory counts at all warehouses on a regular basis, retain records of the counts, reconcile the results to the stock records, and follow up on discrepancies noted.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office implemented the recommendation during 2014. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Timely plan and monitor the distribution of commodities and equipment

76. The audit identified that three shipments of commodities and equipment, procured through PSB at a cost of USD 0.6 million, were received at one of the Karachi warehouses between February and March 2013 but were only delivered to beneficiaries in mid-June 2013. The audit review of the distribution plan revealed that it was only prepared and finalized on 13 June 2013. In addition, the audit did not identify the existence of a monitoring plan to provide assurance that the products were used for the purpose for which they were supplied and that they reached the intended beneficiaries.

IMPACT	*Distribution of inventories may be delayed and additional storage costs incurred. The goods procured may not timely reach the intended beneficiaries.*
ROOT CAUSE	*Guidelines (inadequate planning at Office level).* *Guidance (inadequate supervision at Office Level).*
CATEGORY	*Operational.*

RECOMMENDATION 19 — ***PRIORITY: HIGH***

Timely prepare inventory distribution plans and monitor their implementation to ensure that goods are delivered timely and reach their intended beneficiaries.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office implemented the recommendation during 2014. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Verify logistics and storage services charges before initiating payment

77. Upon review of invoices submitted for logistics and storage services in the amount of USD 0.2 million, the audit noted that there were no controls in place over the appropriateness and accuracy of the amounts billed to the Office, based on the supporting documents received and the terms of the applicable agreements.

78. The audit also noted the existence of office furniture stored in one of the Karachi warehouses, some of it for more than eight months, at a cost of between USD 2 and USD 48 per day. The Office could not provide justification for maintaining the furniture and incurring storage charges.

IMPACT	*Excessive storage costs could be incurred.*
ROOT CAUSE	*Guidance (inadequate supervision at Office Level).*
CATEGORY	*Operational.*

RECOMMENDATION 20 — ***PRIORITY: MEDIUM***

Validate the appropriateness and accuracy of charges for logistics and storage services before initiating payment, maintaining in stock only necessary items for the shortest period of time.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The Office implemented the recommendation during 2014. Evidence is available for validation

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Report inventory under Office control in accordance with the inventory management policy

79. The Office did not report the quantity and value of inventory maintained under its control, at third-party warehouses, at 31 December 2012. As a result, the value of this inventory, which could not be determined by the audit, was not reflected in the UNFPA financial statements as at 31 December 2012. The Office stated that this was due to an oversight on its part. The Office has subsequently implemented procedures to ensure that year-end inventories are determined, valued and reported as required by the applicable inventory management policy. Therefore, no recommendation is provided as regards this matter in consideration of the steps taken by management to remediate the issue.

B.4 – MANAGEMENT OF NON-CORE FUNDING	UNSATISFACTORY

80. Programme implementation expenses funded from non-core resources amounted to approximately USD 3.9 million during the period under review, representing approximately 30 per cent of total programme expenses. Approximately two thirds of this amount corresponded to NPPI activities. The budget implementation rate for the programme activities funded from non-core resources stood at 55 per cent in 2012 and at 72 per cent in 2013 (as of 30 September), and was impacted by the issues that affected the projects funded under the NPPI.

81. The significant issues affecting the UNFPA programme components funded under the NPPI have been discussed in detail in Section B.1 of this report and will not be repeated here.

C. OPERATIONS MANAGEMENT	PARTIALLY SATISFACTORY

82. As previously mentioned in Section B of this report, programme implementation was significantly reduced in the period under review, decreasing from an annual average expense of approximately USD 20 million in the period 2010-2011, to USD 9.5 million in 2012, and USD 2.8 million in 2013 (as at 30 September 2013).

83. Staff turnover and vacancies arising from the restructuring process created some operations management challenges, the impact of which was attenuated by the significantly lower level of procurement, recruitment of consultants and transfers of assets resulting from the smaller size of the programme implemented by the Office.

Good practices identified

84. Compared to the previous audit completed in 2011, the audit noted improvements in the timeliness of the distribution of assets procured for use by IPs and in the issuance of the corresponding transfer of title documents.

C.1 – HUMAN RESOURCES MANAGEMENT	PARTIALLY SATISFACTORY

85. Staff payroll costs incurred during the period under review amounted to USD 1.9 million (the payroll is managed by UNDP), with Service Contract (SC) and Special Service Agreement (SSA) costs amounting to USD 0.4 million and USD 0.2 million respectively.

86. Audit work performed in this area included an analytical review of the staff payroll, SC and SSA costs, and the testing of: (i) a sample of allowances and other non-recurring payroll costs amounting to USD 173,000 in the period under review; (ii) the recruitment process for five locally recruited staff members; (iii) compliance with mandatory training requirements by Office staff; (iv) leave management controls; and (v) a sample of 11 SCs awarded at a cost of USD 0.4 million, representing 77 per cent of SC costs incurred during the period under review, and eight SSAs, awarded at a cost of USD 0.16 million, representing approximately 93 per cent of SSA costs incurred during the period under review.

Improve compliance with the guidelines for the award and management of Service Contracts and Special Service Agreements

87. The audit noted deviations from the policies and procedures related to awarding and managing SCs and SSAs. For five of the eight SSAs tested, minutes of the selection panel meetings were not available on file, as a result of which the audit was not able to form an opinion on whether the candidates were selected in a fair and transparent manner. In addition, the audit was not able to assess whether terms of reference for three of the SSAs tested were comprehensive and relevant as these too were not available on file. Further, evidence of final clearance based on satisfactory performance evaluation, prior to the release of final payment and/or contract renewal, was not available on file for four of the SSAs tested. Additionally, performance appraisals for SCs were not completed as at 31 December 2012 (the Office made an attempt to complete them during the course of the audit field mission).

IMPACT	*The Office may not engage the most qualified human resources.*
ROOT CAUSE	*Guidance (inadequate supervision at Office Level).*
CATEGORY	*Compliance.*

RECOMMENDATION 21	***PRIORITY: HIGH***

Implement supervisory controls to enforce compliance with the policies and procedures governing the award and management of Service Contracts and Special Service Agreements.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* — STATUS: *Agree*

MANAGEMENT ACTION PLAN: — DUE DATE: *Completed*

All Fixed Term Appointment (FTA) and Special Service Agreement (SSA) personnel are recruited through UNDP. In 2014 the policies and processes governing FTA, SSA and SC recruitment and performance management have been strictly adhered to. UNFPA continues to recruit locally via UNDP despite the length of time this takes.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Develop a comprehensive training plan and a process to monitor and enforce compliance thereto

88. The audit noted that staff training activities were not planned and that some mandatory[24] and recommended courses were either not completed or were partially completed by key Office staff.

IMPACT	*Programme and operations activities may be impacted by lack of capabilities and/or lack of understanding of policies and procedures.*
ROOT CAUSE	*Guidance (inadequate supervision at Office level).*
CATEGORY	*Operational.*

RECOMMENDATION 22 ***PRIORITY: MEDIUM***

Develop a training plan based on an assessment of Office staff needs vis-à-vis the country programme requirements. At a minimum, require that all staff complete all mandatory training.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2015*

In 2015, in recognition that the majority of the Office staff team joined in 2013/2014, a comprehensive training plan will be developed in accordance with the 2015 PAD Planning Phase and the Office Results Planning module of the Strategic Information System.

C.2 – PROCUREMENT **PARTIALLY SATISFACTORY**

89. The Office locally procured goods and services, other than medical equipment and reproductive health commodities, in the amount of USD 0.8 million during the period under review. The majority of these purchases corresponded to goods and services for the population and development and the reproductive health programme components, including generators, furniture, computer equipment, professional services and training materials.

90. Work performed in this area included the review of a sample of 25 purchases amounting to USD 0.5 million, for compliance with policies and procedures in the areas of bidding, vendor selection, procurement committee review and approval, contract award, payment and recording of transactions, as well as for linkages to work-plans. Although improvements were noted in the procurement process in comparison to the situation noted by the audit performed in 2011, there are areas still in need of management attention, as discussed below.

Timely complete the procurement plan and review it on a regular basis

91. The audit noted that the procurement plan was not used as an effective management tool for procurement planning and managerial oversight. Only one out of the 25 procurement transactions selected for testing was reflected in the procurement plans for the period under review. The Office could not provide evidence of its regular update or implementation monitoring.

IMPACT	*Procurement activities may not be completed timely impacting the effectiveness of programme implementation.*
ROOT CAUSE	*Guidelines (inadequate planning at Office Level).*
CATEGORY	*Operational.*

[24] UN Cares: HIV in the Workplace, Procurement (Level 1), Basic and Advanced Security in the Field, Internal Control Framework, and Ethics and Fraud.

RECOMMENDATION 23	***PRIORITY: HIGH***

Prepare a comprehensive procurement plan, clearly linked to workplans, update it as necessary and monitor its implementation on a regular basis.

RESPONSIBLE MANAGER: *Representative/Officer-in-Charge* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *Completed*

The recommendation was implemented in 2014 and the procurement plan for the year is available for further reference. The 2015 plan was under preparation at the time of submission of the management response.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

Provide training on procurement policies and procedures and reinforce management supervision over procurement transactions

92. The audit noted deviations from procurement policies and procedures based on its testing of a sample of 25 procurement transactions.

93. There was no documentation on file to explain the reasons for the rejection of two bids offering prices 15 per cent lower than the price offered by the supplier finally awarded a contract for the procurement of generators, at a cost of approximately USD 55,000. For the same procurement action, the Office entered into negotiations with the awarded supplier to reduce the price, without following the negotiation process set out in the procurement policies and procedures. The audit also noted that the technical evaluation of proposals received for the procurement of photocopiers, at a cost of approximately USD 41,000, was not carried out based on the specifications included in the request for quotation, and that in two cases, technical offer evaluation scoring sheets were not signed by all the members of the technical evaluation committee.

94. The audit also noted three instances where deliveries were not made as per the schedules agreed in the purchase orders but late delivery penalties were not claimed from the suppliers. In two instances, the contracts had already expired at the time of delivery but no contract extensions were negotiated. Based on its interviews with Office staff regarding procurement, the audit is of the view that there was an insufficient understanding of the procurement policies and procedures issued in 2012, a situation which may have caused some of the issues highlighted above.

IMPACT	*Procurement activities may not be conducted fairly or provide appropriate value for money to the Office.*
ROOT CAUSE	*Resources (inadequate training of Office staff).* *Guidance (inadequate supervision at Office Level).*
CATEGORY	*Compliance.*

RECOMMENDATION 24	***PRIORITY: MEDIUM***

With support from the Procurement Services Branch, provide training to programme and operations staff to enhance their understanding of procurement procedures, and implement supervisory controls to enforce compliance with such procedures.

<u>RESPONSIBLE MANAGER</u>: *Representative/Officer-in-Charge* <u>STATUS</u>: *Agree*

<u>MANAGEMENT ACTION PLAN</u>: <u>DUE DATE</u>: *Completed*

In 2014, one learning afternoon has been held for all staff on procurement, and priority was placed on all staff completing mandatory on-line training courses in 2014, including procurement, monitored through the performance management system. In 2014, the Office's Procurement Associate and two senior programme staff undertook a two-week intensive training course on procurement run in Pakistan by procurement specialists from the UNFPA Procurement Services Branch, in February 2015, the Procurement Associate undertook CIPS Level 2 training.

<u>OAIS COMMENTS ON THE MANAGEMENT RESPONSE</u>*:*

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

C.3 – FINANCIAL MANAGEMENT — PARTIALLY SATISFACTORY

95. Work in this area included the review of the accuracy, authorization and proper processing of journal entries, accounts payable vouchers and accounts payable journal vouchers, and the coding of transactions to the correct account, project and fund codes. The audit also included a review of the General Sales Tax control arrangements in place, including an assessment of their adequacy in ensuring that applications for tax exemption certificates for all qualifying purchases are submitted to the relevant government authorities and tracked by the Office. The following matter in need of management attention was identified based on the work performed.

<u>Enhance staff awareness of the importance of accurate transaction coding to improve financial reporting</u>

96. The audit noted multiple instances where expenses were not charged to the correct general ledger account codes. Based on interviews regarding programme management, the audit is of the view that Office personnel have limited awareness of the need and relevance of ensuring accurate expense recording.

IMPACT	*Inaccurate financial reporting may lead to incorrect decisions.*
ROOT CAUSE	*Resources (inadequate training of Office staff).* *Guidance (inadequate supervision at Office Level).*
CATEGORY	*Reporting.*

RECOMMENDATION 25 — ***PRIORITY: MEDIUM***

With support from the Finance Branch, provide training to programme and operations staff to enhance their understanding of the correct codes for recording expenses, including those reported by implementing partners through FACE forms, and implement project level budget-to-actual reconciliation controls to help identify coding errors.

<u>RESPONSIBLE MANAGER</u>: *Representative/Officer-in-Charge* <u>STATUS</u>: *Agree*

<u>MANAGEMENT ACTION PLAN</u>: <u>DUE DATE</u>: *Completed*

The Office has implemented the recommendation as of 2014. Implementing Partners are regularly trained and informed on the preparation of the FACE form, including financial reporting requirements. Evidence is available for validation.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Follow-up review will be performed to validate the status of implementation of this recommendation reported by management.

C.4 – GENERAL ADMINISTRATION — SATISFACTORY

97. Audit work in this area focused on the travel and asset management processes.

98. Travel expenses incurred by the Office during the period under review amounted to approximately USD 0.5 million. A significant portion of the expenses incurred corresponded to daily subsistence allowance payments related to field and monitoring visits and attendance to training workshops. During the period under review, travel expenses decreased significantly when compared to 2011 (USD 1.2 million), in line with the more limited program activities implemented in 2012 and 2013, which resulted in less frequent travel undertaken by the Office management and staff.

99. Audit work performed on travel included a walk-through of the travel management process for a sample of five air travel and international and local daily subsistence allowance payments, to understand the controls in place to ensure: (i) appropriateness of business purpose; (ii) proper authorization; and (iii) accurate calculation and recording. In general, controls in this area were found to be operating effectively. The audit noted that the Office was not always observing the timeframe for the procurement of air tickets ("at least 15 days before travel") in order take advantage of cheaper fares typically obtained by booking early. Office management was aware of the issue and was already taking remedial action at the time of the field audit mission. Therefore no recommendation is provided on this matter. No other reportable issues were identified based on the audit work performed in this area.

100. Audit work performed on the asset management process included the review of asset purchases aggregating approximately USD 0.6 million during the period under review (94 per cent of the value of fixed assets procured), focusing on compliance with the applicable asset management policies and procedures. The main assets procured related mainly to computer equipment and furniture for the census project. Focus of the audit in this area was placed on reviewing the timely delivery of assets procured and the issuance of the related transfer of title documents. Work also included physical inspection of assets supplied to ensure their continued existence and operation for the purpose for which they were supplied. The audit also tested assets disposals recorded by the Office during the period under review, to ensure that they corresponded to properly documented correction of accounting errors made in previous years (capitalization) or otherwise, for compliance with the asset management policy requirements. No reportable issues were identified based on the audit work performed in this area.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY — SATISFACTORY

101. Work in this area was limited to the review of compliance with the mandatory annual certification of Atlas access rights and the local network back-up facilities and controls in place. No reportable conditions were identified based on the work performed.

C.6 – SECURITY MANAGEMENT — SATISFACTORY

102. Work in this area included: (i) inquiries of designated security officers at headquarters and in Pakistan; (ii) the review of actions taken by the Office in response to findings from security assessments; (iii) the level of compliance with minimum operating security standards; (iv) the assessment of UNFPA's representation and attendance to Security Management Team meetings; and (v) the level of compliance with mandatory security courses. No reportable issues were identified based on the work performed.

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
FACE	Funding Authorization and Certificate of Expenditures
FP	Family Planning
FTA	Fixed Term Appointment
IP	Implementing Partner
MNCH	Maternal, new born and child health
MYR	Mid-year Review
NEX	National Execution
NOK	Norwegian krone
NPPI	Norway-Pakistan Partnership Initiative
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
OMP	Office Management Plan
PAK	Pakistani Rupee
PSB	Procurement Services Branch
SC	Service Contract
SSA	Special Service Agreement
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollars
WFP	World Food Programme