



## **United Nations Population Fund**

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every childbirth is safe and  
every young person's potential is fulfilled.**

### **OFFICE OF AUDIT AND INVESTIGATION SERVICES**

### **AUDIT OF THE UNFPA COUNTRY OFFICE IN SRI LANKA**

**FINAL REPORT**  
N° IA/2023-18

**10 November 2023**

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## EXECUTIVE SUMMARY

1. The UNFPA Office of Audit and Investigation Services (OAIS) conducted an audit of the UNFPA Country Office in Sri Lanka (the Office). An audit field mission took place from 19 to 30 June 2023. The audit aimed to assess the adequacy and effectiveness of the governance, risk management, and controls relating to the following areas:

- a) Office Governance – Office management, organizational structure and staffing, and risk management;
- b) Programme Management – Programme planning and implementation, Implementing Partner management, programme supplies management, and management of non-core funding; and
- c) Operations Management – Human resources management, procurement, financial management, general administration, information and communication technology, and staff safety and security.

2. The audit covered activities conducted from 1 January 2022 to 31 March 2023, which corresponded to the last year of the ninth Country Programme 2018–2022, with indicative resources of USD 4.1 million, and to the first quarter of the tenth Country Programme 2023–2027 approved by the Executive Board in its second regular session 2022, with indicative resources of USD 9.6 million.

3. Expenses covered by the audit amounted to USD 5.1 million, executed by 13 Implementing Partners (USD 1.8 million or 36 per cent) and by UNFPA (USD 3.3 million or 64 per cent), and were funded from core resources (USD 2.8 million or 55 per cent) and non-core resources (USD 2.3 million or 45 per cent).

4. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (The IIA).

### Overall audit rating

5. OAIS issued an overall audit rating for the Office of **“Satisfactory”**,<sup>1</sup> which means that the assessed governance arrangements, risk management practices, and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues and improvement opportunities identified did not affect the achievement of the audited entity or area’s objectives.

6. The audit provided recommendations to address the following issues: (a) A need to strengthen the Office’s monitoring and evaluation function; (b) Inadequate staffing to meet rapidly changing needs of the Office; (c) Ineffective review of and oversight over HACT<sup>2</sup> spot checks conducted by third party auditors; (d) Gaps in the Implementing Partners Protection from Sexual Exploitation and Abuse assessments; (e) Gaps in programme supplies management; (f) Long recruitment turnaround time; and (g) Errors in the recording of financial transactions.

<sup>1</sup> See complete set of definitions in Annex 1.

<sup>2</sup> Harmonized Approach to Cash Transfers

7. Ratings by key audit area are summarized in the following table.

<b>Audit ratings by key audit area</b>		
<b>Office Governance</b>		<b>Satisfactory</b>
<i>Office management</i>		<i>Satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Satisfactory</i>
<b>Programme Management</b>		<b>Some improvement needed</b>
<i>Programme planning and implementation</i>		<i>Satisfactory</i>
<i>Implementing Partner management</i>		<i>Some improvement needed</i>
<i>Programme supplies management</i>		<i>Some improvement needed</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
<b>Operations Management</b>		<b>Satisfactory</b>
<i>Human resources management</i>		<i>Some improvement needed</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Some improvement needed</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communication technology</i>		<i>Not Applicable</i>
<i>Staff safety and security</i>		<i>Not Applicable</i>

### Good practices identified

8. The audit identified the following practices, which enhanced governance, strengthened internal controls, and improved risk management:

- (a) The Office developed a Country Programme Implementation Plan to supplement the tenth Country Programme Document in tracking progress over the programme cycle. The plan breaks down the Country Programme Document’s targets into annual interim results throughout the programme cycle and includes lower-level indicators and activities designed to achieve results;
- (b) The Office introduced an informal buddy system for colleagues to check on each other, which helped them get through the COVID-19 lockdown periods in the country;
- (c) The Office held a joint all-staff retreat with another UNFPA Country Office to review the results achieved in the prior year and plan for the next year that resulted in the development of action plans and proactive follow-up on implementation of the retreat’s recommendations thereafter; and
- (d) The Office developed an in-house methodology and framework to monitor implementation of its humanitarian plan and to collect and consolidate monthly indicator results achieved by Implementing Partners engaged in humanitarian work.

### Key recommendations Total = 7, high priority = 1

9. For high priority recommendations, prompt action is necessary to ensure that UNFPA is not exposed to high risks (i.e., where failure to act could result in critical or major consequences for the Organization). The high priority recommendation is presented below.

#### *Operational level*

10. To ensure good quality and compliance with applicable policy, the Office needs to strengthen its Implementing Partner assurance activities by increasing staff involvement in spot-checks conducted directly by the Office or by significantly enhancing its review and oversight processes over spot-checks conducted by third-party auditor.

### **Implementation status of previous OAIS recommendations**

11. The Office was last audited by OAIS in 2007.<sup>3</sup> All recommendations arising from the audit were fully implemented and closed. The Office has not been recently audited by the United Nations Board of Auditors.

### **Management comments and action plan**

12. Management accepted all recommendations in the report and commenced their implementation. Comments and/or additional information provided have been incorporated in the report, where appropriate.

#### *Acknowledgement*

13. The OAIS team would like to thank Management and personnel of the Office, the Asia and Pacific Regional Office, and the different Headquarter units for their cooperation and assistance throughout the audit.

DocuSigned by:  
*Moncef Ghrib*  
50458A3AFD0C4EF...  
Moncef Ghrib  
Director  
Office of Audit and Investigation Services

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<sup>3</sup> Then named the Division for Oversight Services – Report No: FPA0143 issued on 21 September 2007 with a 'Partially Satisfactory' rating.

## I. AUDIT BACKGROUND

1. Sri Lanka is a lower middle-income country with a population of approximately 22 million.<sup>4</sup> Sri Lanka's Human Development Index value for 2021 was 0.782 - placing the country in the high human development category — with a rank of 73 out of 191 countries and territories.<sup>5</sup> The maternal mortality rate in Sri Lanka was at 29 deaths per 100,000 live births in 2020, and the unmet need for family planning for women aged 15-49 was at 5 per cent in 2023. The contraceptive prevalence rate was 45 per cent in the same year. At 10 per cent, the country's prevalence rate for child marriage (i.e., married by age 18) is below the regional average of 18 per cent.<sup>6</sup> Sri Lanka has a Gender Inequality Index value of 0.383, ranking it 92 out of 191 countries in the 2021 index.<sup>7</sup> The country is classified as a tier II programme country in the 2022-2025 Strategic Plan<sup>8</sup>.

2. The country has, in recent times, enjoyed steady socio-economic progress, being briefly classified by the World Bank as an upper middle-income country in 2019. However, a multitude of economic issues, such as the impact of the COVID-19 pandemic on the nation's economy and a necessity to serve an unsustainable level of foreign debt, deteriorated the economic situation. In April 2022, the country defaulted on its external debt, triggering an acute phase of a socio-economic crisis characterized by inflation, fuel and food shortages, electricity blackouts, national currency devaluation, and other economic hardships. Although the situation has improved since the onset of the crisis, the country is facing financial and economic challenges that must be resolved to restore economic stability and sustainable growth.

3. As set forth in the 2023 OAS Annual Workplan, an audit of the UNFPA Country Office in Sri Lanka was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (The Institute of Internal Auditors), 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 aimed to assess the adequacy and effectiveness of the governance, risk management, and controls relating to the following areas:

- a) Governance – Office management, organizational structure and staffing, and risk management;
- b) Programme activities – Programme planning and implementation, and the management of Implementing Partners (IP), programme supplies, and non-core funds; and
- c) Operations – Human resources management, procurement, financial management, general administration, information and communication technology, and staff safety and security management.

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

- a) Effectiveness and efficiency of the Office operations;
- b) Conformity of expenses with the purposes for which funds were appropriated;
- c) Safeguarding of assets entrusted to the Office;
- d) The level of compliance with applicable regulations, rules, policies, and procedures; and
- e) Reliability of the Office's financial and operational reporting.

5. The Office was last audited by OAS in 2007.<sup>9</sup> All recommendations arising from the audit were fully implemented and closed. The Office has not been recently audited by the United Nations Board of Auditors.

<sup>4</sup> Source: <https://population.un.org/wpp/DataQuery/>

<sup>5</sup> Source: [https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf\\_1.pdf](https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf)

<sup>6</sup> Source: <https://www.unfpa.org/data/world-population/LK>

<sup>7</sup> Source: <https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index#/indicies/GII>

<sup>8</sup> Tier II comprises programme countries that have not attained two of the three transformative results.

<sup>9</sup> Then named the Division for Oversight Services – Report No: FPA0143 issued on 21 September 2007 with a 'Partially Satisfactory' rating.

6. The audit covered activities of the Office from 1 January 2022 to 31 March 2023, which corresponded to the last year of the ninth Country Programme (CP9) 2018–2022, with indicative resources of USD 4.1 million, and to the first quarter of the tenth Country Programme (CP10) 2023–2027 approved by the Executive Board in its second regular session of 2022, with indicative resources of USD 9.6 million. Expenditure covered by the audit in 2022 amounted to USD 5.1 million, executed by 13 Implementing Partners (USD 1.8 million or 36 per cent) and by UNFPA (USD 3.3 million or 64 per cent), and were funded from core resources (USD 2.8 million or 55 per cent) and non-core resources (USD 2.3 million or 45 per cent).

7. Approximately 56 per cent of the expenses incurred in the period under review corresponded to the Quality of Care and Services output. The Gender and Social Norms output accounted for 25 per cent of the expenses incurred, the Population Change and Data output accounted for 4 per cent, the Humanitarian Action output and the Policy and Accountability output each accounted for 3 per cent, respectively, and the Adolescents and Youth output for 2 per cent. Costs funded from the institutional budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 7 per cent of expenditure.

## II. AUDIT RESULTS

8. The audit results, including good practices identified and matters requiring Management attention, are presented below, by audit area.

### A. OFFICE GOVERNANCE

**SATISFACTORY**

9. The following practices were adopted in office governance:

- a) The Office developed a Country Programme Implementation Plan (CPIP) to supplement the tenth Country Programme Document (CPD) in tracking progress made over the programme cycle. The CPIP breaks down the tenth CPD's targets into annual interim results throughout the programme cycle and includes lower-level indicators and activities designed to achieve planned results;
- b) The Office introduced an informal buddy system for colleagues to check on each other. The buddy system helped personnel get through lockdown periods in the country, occasioned by the COVID-19 pandemic and enforced from 2020 to 2022; and
- c) The Office held a joint all-staff retreat with another UNFPA Country Office to review programme results achieved in 2022 and to plan for 2023. The exercise resulted in the development of action plans and proactive follow-up on implementation of the retreat's recommendations thereafter.

### A.1 – OFFICE MANAGEMENT

**SATISFACTORY**

#### **Issue 1**      The Office's monitoring and evaluation function needs strengthening

10. According to applicable policy,<sup>10</sup> continuous monitoring is mandatory for all programme activities regardless of whether implemented by a partner, or by UNFPA directly. Regular monitoring includes an assessment on how the implementation of activities - programmatically and financially - is progressing compared to what was planned, and on how progress is made towards the intended workplan targets. Monitoring observations must inform and influence decision making.

11. The CP9 evaluation report prepared by the UNFPA Evaluation Office indicated that the effectiveness of the Office's monitoring and evaluation (M&E) function was negatively affected during the programme cycle by absence of a dedicated M&E Specialist. The monitoring gaps outlined in paragraphs 14 and 15 below were noted during the audit.

12. The Office included an M&E Specialist position in its organizational structure, as part of its human resource (HR) plan for CP10 and was assigned to a programme management staff member as a temporary measure. Although, the position was approved in April 2023, it was yet to be advertised at the time of the audit field mission and remained vacant. Management explained that the recruitment process did not start due to pending approval by the Asia and Pacific Regional Office (APRO).

13. In the interim, to support the M&E focal point and to mitigate the capacity gap in monitoring and evaluation, the Office engaged an M&E Specialist on a technical assistance mission from another UNFPA Country Office, who was mainly responsible for enhancing the Strategic Information System (SIS) monitoring process, as well as developing a humanitarian M&E framework separate from the Office's overall M&E framework and its integration into a holistic Humanitarian-Development nexus M&E process. However, the technical assistance mission ended during the audit field mission and responsibility for the M&E function assigned to a programme management staff member as another stop-gap measure.

14. Interventions by the Office to respond to the socio-economic crisis required enhanced monitoring activities, further increasing the need for additional resources in the M&E function. The function's limited capacity resulted in a few issues, as follows:

<sup>10</sup> Policy and Procedures for Preparation, Management and Monitoring of Workplans, Revision 4: 20 September 2022.

- The 2022 SIS annual plan was not aligned to CP9. All six output indicators selected for testing were not included and tracked in SIS. Therefore, despite 2022 being the last year of the CP9 cycle, there was no monitoring in SIS of workplan implementation at the outcome level;
- Although the Office significantly improved the quality of its SIS data in 2023 by including all the CP10 output indicators in the system for tracking and appropriately aligning SIS annual targets with those in CPIP, there were several inconsistencies in setting up baselines, targets, and quarterly milestones; and
- The 2022 humanitarian indicators were not monitored at the Office level, with more focus placed on rapid deployment of the humanitarian response rapidly and regular reporting to the Humanitarian Country Team on the “5Ws”.<sup>11</sup>

15. The existing M&E framework did not include a process/tool for cascading SIS country programme level output indicators’ annual targets to underlying lower-level Office and IP workplans. Similarly, the humanitarian M&E framework did not directly indicate individual sub-targets for Office and IP workplans. For instance, the audit was not able to align workplan indicators with the SIS and humanitarian targets that they were designed to contribute to. As a result, it was impossible to track progress towards the achievement of annual targets included in a sample of IP workplans reviewed.

16. Significant improvement of the M&E function in 2023, particularly in developing the CPIP for 2023 – 2027, which breaks down high-level CPD planned results into annual targets and lower-level activities, is hereby acknowledged. This provides a good foundation for a more effective and efficient function. In addition, the Office designed an in-house humanitarian M&E framework and reporting database in 2023, which allows effective monitoring of humanitarian activities at the Office level and enhances the donor reporting process.

17. To further improve the M&E function, the Office planned to hire a service contractor to roll out the humanitarian M&E framework. However, given that the recruitment process for the position of a full-time M&E Specialist had not started at the time of the audit field mission (see paragraph 46 below), the Office lacked resources to oversee a successful deployment of the newly-designed framework and its integration into a holistic Humanitarian-Development nexus M&E process.

ROOT CAUSE	<i>Resources: Insufficient human resources at the Office to carry out the M&amp;E function. Guidance: Lack of or inadequate guidance or supervision at the Regional Office level (APRO did not provide the required approval to initiate the recruitment process for the position of M&amp;E Specialist).</i>
IMPACT	<i>Programmatic monitoring activities may not be effectively and timely executed, negatively impacting planning for and achievement of programme results, and the reporting process at the Office.</i>
CATEGORY	<i>Operational.</i>

<b>Recommendation 1</b>	<b>Priority: Medium</b>
Expedite recruitment for the Monitoring and Evaluation function and continue work on developing and implementing the integrated M&E framework.	
<u>Manager Responsible for Implementation:</u> Representative, with support of the Director, APRO	
<u>Status:</u> Agree	

<sup>11</sup> The 5W Process (Who's doing What, Where, When and for Whom)

**Management action plan:**

Subsequent to the audit field mission, recruitment, onboarding and training of a Monitoring and Evaluation Analyst on Fixed Term Appointment (FTA) and a Project M&E Analyst Service Contract (SC) is complete. The Office has also, developed and deployed the integrated M&E framework and data collection tools to ongoing programmes (CPIP) and has aligned workplan indicators to milestones in SIS and CPIP.

The Office plans to further strengthen the cascading of high-level annual targets into low-level annual targets and embedding them in individual workplans of the Office, IPs, and staff members (where applicable).

**Estimated completion date:** June 2024.

**A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING**

**SATISFACTORY**

**Issue 2** Inadequate staffing to meet rapidly changing office needs

18. Following the conclusion of the CP9 cycle (2018-2022), CP10 (2023-2027) commenced in January 2023 and included a different structure for planned programme outputs in alignment with UNFPA’s Strategic Plan 2022–2025. CP10 had significantly increased indicative resources of USD 9.6 million compared to USD 4.1 million in CP9.

19. Further, as the country experienced the acute phase of the socio-economic crisis, the Office reprioritized its interventions and reorganized its human resources to address pressing humanitarian needs.

20. Both the increase in indicative resources and reprioritization and reorganization of human resources had the impact of increased workloads on the Office personnel. The magnitude of additional workloads is best illustrated by the amount of funds (more than USD 10.7 million) raised by the Office from May 2022 to December 2023 to respond to the socio-economic crisis, which exceeded the initially proposed indicative resources of USD 9.6 million planned for the entire CP10 cycle.

21. The humanitarian response required new skills previously not envisioned by the Office. For instance, as the Office was not involved in managing programme supplies (inventories) before the start of the socio-economic crisis, it neither had dedicated internal processes and staff nor established communication mechanisms with the national Ministry of Health and other relevant stakeholders in relation to programme supplies. As a result, during the acute phase of the emergency, the Office did not have any insights into the country’s commodity needs assessment, a national process led by the Ministry of Health. It also did not have visibility over commodity distribution processes and, therefore, could not assess the effectiveness of controls over operations to ensure that supplies reached the intended beneficiaries (i.e., the people in need).

22. Review of the Office’s organizational structure revealed the following:

- A human resource plan submitted in June 2022 as part of the CP10 approval process indicated an Office staffing structure with 15 FTA posts intended to enable the Office deliver on the programme cycle’s outputs;
- In April 2023, four months into CP10, the Office obtained approval from relevant Headquarter offices for six additional FTA positions funded from non-core resources to strengthen capacity for delivering the rapidly evolving needs of the country. This corresponded to a more than 40 per cent increase in the human resource needs envisioned at the time of developing CP10 in July 2022;
- Based on the Office’s existing organogram in June 2023, 8 out of 21 FTA posts (38 per cent) were yet to be filled. In addition, out of 15 Service Contract positions created to strengthen the Office’s capacity, 8 (53 per cent) were yet to be onboarded; and
- The lack of human resources increased workloads for the existing team. This was highlighted by donors interviewed during the audit field mission, who raised concern about the potential

negative impact of heavy workloads on staff well-being and the Office’s overall capacity to deliver its programmes and operations.

23. The key factor leading to increased workloads was the humanitarian response that included various activities funded by two key donors in the amount of USD 10 million. These activities are planned to be completed by December 2023 to coincide with the end of the acute phase of humanitarian emergency. Although this may relieve workloads, there was an uncertainty at the time of the audit field mission on the next steps as the country moves to a new normal, which is expected to be protracted recovery process due to ongoing economic and financial challenges. For instance, it was not clear as to the extent to which the Office will continue to be involved in the management of programme supplies, cash voucher assistance, or other interventions that were not originally envisaged in CP10. As a result, the Office’s organizational structure and staffing arrangements will need to be assessed for fitness of purpose and alignment with the emerging programme delivery and operations environment.

ROOT CAUSE *Other: Factors beyond the Office’s control (change in the Office’s operating environment in a humanitarian context).*

IMPACT *The existing organizational structure, staffing arrangements, and personnel contract modalities may not be aligned with the Office’s programme and operational needs in a rapidly evolving environment.*

CATEGORY *Strategic.*

<b>Recommendation 2</b>	<b>Priority: Medium</b>
Leveraging on the human resource plan presented in June 2022, review the Office’s staffing arrangements and personnel contract modalities to assess their fitness for purpose and alignment with the post humanitarian emergency phase.	
Manager Responsible for Implementation: <i>Representative</i>	
<u>Status</u> : Agree	
<p><b>Management action plan:</b></p> <p>The Office agrees with the recommendation and will carry out a review of the structure, staffing and personnel contract modalities by 2024.</p> <p><b>Estimated completion date:</b> December 2024.</p>	

**A.3 – RISK MANAGEMENT**

**SATISFACTORY**

24. Audit work performed in this area included: (a) reviewing the latest corporate strategic and fraud risk assessments completed by the Office in 2022, the process followed in identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risks, and (b) interviews with the Office Management to gain an understanding of the risks identified by the Office and actions taken to mitigate them.

25. Other than the issues raised in the various sections of this report that touch on the overall risk management of the Office, no reportable matters were identified based on the audit work performed in this area.

**B. PROGRAMME MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

26. The Office developed an in-house methodology and framework to monitor implementation of its humanitarian plan and to collect and consolidate monthly indicator results achieved by IPs engaged in humanitarian work.

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

**SATISFACTORY**

27. Audit work performed in this area included: (a) a review of workplans related to three outputs selected, for the periods under review; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as to monitor their implementation by the Office and various IPs; (c) a review of monitoring reports and other evidence of programme implementation, along with site visits to where programme activities were implemented; (d) review of the alignment of workplan activities to relevant CPDs and the United Nations Sustainable Development Cooperation Framework (UNSDCF); and (e) the level of achievement of CP9 cycle outputs for selected programmatic components.

28. No reportable matters were identified based on the audit work performed in this area.

**B.2 – IMPLEMENTING PARTNER MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

**Issue 3** Ineffective review of and oversight over HACT<sup>12</sup> spot-checks conducted by third party auditors

29. Applicable guidance<sup>13</sup> requires the Office to periodically review spot check reports in order to ensure quality of the documentation and findings.

30. A review of spot-check assurance activities conducted by the Office in 2022 indicated no evidence that it reviewed and analysed spot-check reports provided by third-party auditors. Such reviews and analyses are essential in overseeing the quality of work performed and compliance with applicable policy. In particular, spot-check reports for three IPs prepared by a third-party auditor were not in the UNFPA-recommended format. The format used presented fewer details on findings, with no ratings assigned to findings. Nonetheless, despite lacking the necessary information to enable proper review and follow-up, the spot-check reports were accepted by the Office and processed in IPAS.<sup>14</sup>

31. In addition, a review of a sample of financial transactions for select IPs revealed deficiencies in their financial processes and controls such as poor supporting documentation and compliance lapses with the IPs’ procurement policies, use of spreadsheet-based systems without controls to mitigate the systems’ inherent weaknesses e.g., password requirements, and non-cancellation of vouchers upon payment - indicating a need for the Office to institute robust assurance activities to monitor IPs. Outsourcing of spot-check activities to third-party auditors without strong oversight by the Office may render financial monitoring of IPs ineffective.

Root Cause *Guidance: Inadequate supervision at the Office level (inadequate oversight over spot-checks undertaken by a third-party auditors).*

IMPACT *Insufficient oversight over spot-checks may result in failure to identify and timely manage emerging risks that impact the achievement of planned programme results.*

CATEGORY *Operational.*

<b>Recommendation 3</b>	<b>Priority: High</b>
Strengthen Implementing Partner assurance activities by increasing staff involvement in spot-checks conducted directly by the Office or by significantly enhancing its review and oversight processes over spot-checks conducted by third-party auditor.	
<u>Manager Responsible for Implementation:</u> <i>Representative</i>	
<u>Status:</u> Agree	

<sup>12</sup> Harmonized Approach to Cash Transfers.

<sup>13</sup> Spot Check Guidance, Revision 2, September 2017.

<sup>14</sup> IPAS – UNFPA’s Implementing Partner Assurance System.

**Management action plan:**

Subsequent to the audit field mission, the Office developed a comprehensive assurance plan, including spot checks to be carried out by Office staff, as well as third-party auditors. The assurance activities will include audits, remote and physical verifications of high value/risk transactions by the Office staff as needed (e.g., cash voucher assistance). The assurance plan is currently being implemented and will be completed within corporate timelines, in compliance with applicable policy.

**Estimated completion date:** March 2024.

**Issue 4**      Gaps in IPs’ Protection from Sexual Exploitation and Abuse (PSEA) assessments

PSEA assessment and monitoring tool not used

32. The Office did not use the policy recommended PSEA assessment and monitoring tool to track its PSEA activities, timelines, and the results to be achieved. It was, therefore, difficult to verify if PSEA activities were undertaken, as required by applicable policy, from the time the tool was launched in 2018 up to the time of the audit field mission.

33. An IP was engaged by the Office in 2021 to implement CP9 without undergoing a mandatory PSEA capacity assessment. During the process of selecting partners to implement CP10 in 2022, the same IP’s PSEA capacity was assessed as ‘medium’. Given the assessment rating, the Office was required by applicable guidance to develop a PSEA capacity development plan to ensure that gaps identified in the assessment were closed within a six-month period, with a subsequent PSEA assessment to result in a rating of ‘full capacity’. There was no evidence that such a plan was prepared and no subsequent PSEA assessment conducted.

34. To address this finding, following the audit field mission, the Office put the PSEA assessment and monitoring tool into use by populating it with information on IP PSEA assessments and preparing a PSEA capacity development plan for the IP discussed in paragraph 33 above.

Lack of consistent documentation of continuous monitoring activities

35. Applicable guidance<sup>15</sup> stipulates that UNFPA workplan managers are responsible for regular monitoring of all IPs as part of continuous programmatic monitoring to ensure that they maintain their originally assessed PSEA standards. This is particularly important for IPs involved in higher-risk programme activities, which, in the case of the Office, include cash and voucher assistance interventions carried out in 2022 and 2023 in response to the humanitarian emergency.

36. Office Management indicated that programme monitoring activities conducted by the Office ensured that IPs maintained the standards necessary to prevent Sexual Exploitation and Abuse (SEA). However, the monitoring activities were not consistently documented as evidence of continuous compliance with PSEA requirements.

ROOT CAUSE	<i>Guidance: Inadequate supervision at the Office level.</i>
IMPACT	<i>Engaging IPs without the required PSEA capacity increases UNFPA’s exposure to reputational risk.</i>
CATEGORY	<i>Compliance.</i>

<b>Recommendation 4</b>	<b>Priority: Medium</b>
Strengthen supervisory controls over the IP PSEA process to meet the requirements of applicable guidance <sup>15</sup> through: (a) consistent use of the PSEA assessment and monitoring tool, including timely	

<sup>15</sup> UNFPA Operationalization of the United Nations Protocol on Allegations of Sexual Exploitation and Abuse Involving Implementing Partners - Assessment Process and Technical Guidance.

updates on the results of subsequent PSEA assessments for IPs initially assessed with ratings below 'full capacity'; and (b) proper and full documentation of PSEA-related monitoring activities.
Manager Responsible for Implementation: <i>Representative</i>
Status: Agree
<p><b>Management action plan:</b></p> <p>Subsequent to the audit field mission, the Office developed a PSEA capacity development implementation plan for the concerned IP with limited capacity that is being implemented, conducted a PSEA training for Office staff responsible for IP management, and provided relevant PSEA toolkits.</p> <p>The Office will ensure PSEA assessment completion. The necessary implementation plan is already in the United Nations Partner Portal (UNPP) and capacity has been strengthened through IP PSEA assessment refresher training sessions for Office staff members.</p> <p><b>Estimated completion date:</b> June 2024.</p>

**B.3 – PROGRAMME SUPPLIES MANAGEMENT**

**Some Improvement Needed**

**Issue 5**      Gaps in programme supplies management

37. UNFPA’s supply chain management processes are aimed at guaranteeing that programmatic and UNFPA mandate-based commitments are met efficiently and effectively while ensuring that fiduciary responsibilities are properly discharged.

38. The following gaps were noted from a review of supply chain management processes followed by the Office:

Incomplete receiving and inspection Procedures

39. A review of a sample of nine purchase orders revealed the following exceptions with regard to policy-mandated Receiving and Inspection Reports (RIR) for commodities: (a) In one case, there was no evidence that RIRs were prepared; and (b) In all the other eight cases sampled, RIRs were not signed by warehouse staff, as required by relevant policy.

Omission of supply chain management outputs in the SIS annual plan

40. A review of information included in SIS and interviews conducted with Office staff indicated that, in 2022, there were no outputs related to monitoring the effectiveness of supply chain management in the SIS annual plan. This was due to the fact that the supply of commodities to the Office was occasioned by a socio-economic crisis that emerged during the course of the year.

41. Subsequently, in 2023, the SIS annual plan included one output i.e., "*Minimum preparedness - MPA7: Enhance the ability to quickly provide the affected population with critical relief supplies*". Although relevant, the output was inadequate to cover all supply chain management activities of the Office.

Root Cause	<i>Other: Factors beyond the control of the Office (socio-economic crisis created unforeseen skills demand for the Office). Guidance: Inadequate supervision at the Office level.</i>
IMPACT	<i>The ability to achieve programme objectives and discharge management oversight efficiently and effectively over programme supplies may be impaired.</i>
CATEGORY	<i>Operational</i>

<b>Recommendation 5</b>	<b>Priority: Medium</b>
Strengthen supervisory controls over compliance with applicable supply chain management policies, including conducting receiving and inspection procedures for all commodities received, and completing the requisite reports, and enhance the inventory reporting process to adequately monitor operational effectiveness of supply chain management in the Strategic Information System.	
<u>Manager Responsible for Implementation:</u> <i>Representative</i>	
<u>Status:</u> Agree	
<p><b>Management action plan:</b></p> <p>Subsequent to the audit field mission, the Office completed the inclusion of clear milestones to capture programme supplies management in its SIS annual plan for 2023. Further, the Office is strengthening its capacity to comply guidance in the corporate Policy and Procedures Manual related to supply chain management requirements by recruiting, onboarding, and training staff to assist in programme supplies management. In addition, the Office will engage APRO’s Supply Chain Management Group to strengthen this programmatic area.</p> <p><b>Estimated completion date:</b> June 2024.</p>	

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

**SATISFACTORY**

42. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting. The audit also included tests of the accuracy of reports submitted to donors, and compliance with the cost recovery policy.

43. No reportable matters were identified based on the audit work performed in this area.

**C. OPERATIONS MANAGEMENT**

**SATISFACTORY**

**C.1 – HUMAN RESOURCES MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

**Issue 6**      Long recruitment turnaround times

44. The corporate key performance indicator for human resource recruitment is 90 per cent of positions recruited within 107 days in normal circumstances, and within 20 days in case of activation of Fast Track Procedures (FTP).

45. The review, on a sample basis, of six positions (two FTAs and four Service Contracts) revealed that the Office took more than six months to recruit five of the six positions from the time they were either created or became vacant. Moreover, out of 10 staff positions planned for recruitment as per a human resource plan attached to an FTP extension request submitted by the Office in November 2022, only 3 positions were filled by the time of the audit field mission.

46. Recruitment was often delayed due to shortage of relevant skills in the local labour market or few responses to advertised positions – factors that were beyond the control of the Office. However, there were instances where recruitment processes were delayed because of positions not being timely created in Quantum<sup>16</sup> by APRO. In particular, the Office obtained approval for seven positions essential for its programme delivery and operations in April 2023, including that of M&E Specialist (see paragraph 17 above).

<sup>16</sup> Quantum – UNFPA Enterprise Resource Planning system.

However, at the time of the audit field mission, APRO was yet to create the seven positions in Quantum, preventing the Office from proceeding with recruitment processes.

47. In addition, the Office did not leverage all the options for flexibility afforded by FTP, which would have eliminated or simplified a significant number of recruitment activities and sped up recruitment processes. For instance, the Office did not utilize the option to waive competitive selection processes, with the resultant effect of prolonged recruitment processes.

Root Cause *Other: Factors beyond the control of the Office (lack of relevant skills in the local labor market and competition with the private sector for a shallow talent pool).  
Guidance: Inadequate supervision at the Regional and Office levels (significant delays in creating positions in Quantum and limited use of flexibilities afforded in FTP).*

IMPACT *Prolonged vacancies adversely affect programme delivery, operations, and the achievement of intended results.*

CATEGORY *Operational*

<b>Recommendation 6</b>	<b>Priority: Medium</b>
In collaboration with APRO, develop and implement strategies to attract and recruit suitable candidates to promptly fill all vacant and approved positions, including the timely creation of posts in Quantum and possible reprofiling of existing vacant positions.	
Manager Responsible for Implementation: <i>Representative, with support from the Director, APRO.</i>	
Status: Agree	
<p><b>Management action plan:</b></p> <p>Subsequent to the audit field mission, all approved positions have been created by APRO in Quantum and the Office has completed onboarding for the majority of positions.</p> <p>In order to attract more candidates, the Office is carrying out extensive internal and external advertisements and reaching out to potential candidates and networks wherever possible. The Office will engage the APRO Humanitarian Team to explore a wider application of FTPs, where necessary.</p> <p><b>Estimated completion date:</b> March 2024.</p>	

**C.2 – PROCUREMENT**

**SATISFACTORY**

48. Work performed in this area included testing of a sample of fifteen procurement transactions carried out by the Office for linkage to procurement plans and corresponding workplans, compliance with applicable policies and procedures, and assessing the operating effectiveness of controls in the areas of: (a) appropriate approvals and segregation of duties; (b) vendor selection; (c) contract award; (d) contract management; and (e) accurate recording of transaction amounts.

49. Based on work performed in this area, the audit identified some low-risk issues that were reported to Management in a separate memorandum.

**C.3 – FINANCIAL MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

**Issue 7** Errors in the recording of financial transactions.

50. UNFPA has a defined chart of accounts that all business units are required to follow in recording each transaction. The chart is categorized in a manner to support the organization’s financial planning, budgeting, and reporting, as well the production of managerial data and performance analysis.

51. From a sample of 15 voucher transactions amounting to USD 304,972, four valued at USD 175,776 (58 per cent of the sampled transactions) were misclassified in expense accounts and posted to incorrect accounting codes.

52. The misclassified transactions related to the procurement of dignity kits and payment of daily subsistence allowances for international trips.

53. While the audit verified that the errors were subsequently corrected through adjusting journal entries raised by the UNFPA Finance Branch as part of its quarterly account closure procedures in 2022, such errors increase the burden on second-line controls and increase the risk of financial misreporting by UNFPA.

Root Cause	<i>Guidance: Inadequate supervision at the Office level (lack of training for data entry personnel).</i>
IMPACT	<i>Incorrect use of accounting codes compromises reliability of the Office's financial records, increasing the risk of inaccurate financial reporting by UNFPA.</i>
CATEGORY	<i>Reporting.</i>

<b>Recommendation 7</b>	<b>Priority: Medium</b>
Provide training of relevant staff on the need to correctly record financial transactions and strengthen supervisory procedures to prevent the charging of expenses to erroneous account codes.	
Manager Responsible for Implementation: <i>Representative</i>	
Status: Agree	
<b>Management action plan:</b>	
Subsequent to the audit field mission, the Office has trained its staff on the chart of accounts, budget coding, and use of correct codes in requisitioning, purchase order creation, payments, and verifications. The Office will continue to generate monthly payment voucher reports and share them with budget holders for review and verification against the chart of accounts.	
The Office will also strengthen the capacity of programme managers and reviewers, to ensure accuracy of the chart of accounts at the time of payment review and verification.	
<b>Estimated completion date:</b> March 2024.	

<b>C.4 – GENERAL ADMINISTRATION</b>	<b>SATISFACTORY</b>
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54. Work performed in this area focused on the travel management process. The audit included a walk-through of the travel process and testing of a sample of 21 travel-related transactions for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of controls over: (a) procurement of travel services; and (b) authorization, calculation, and payment of daily subsistence allowances.

55. No reportable matters were identified based on the audit work performed in this area.

<b>C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY</b>	<b>NOT APPLICABLE</b>
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56. There were no audit risks identified in this area during the audit planning phase, and nothing came to the auditors' attention throughout the execution of the audit that would warrant a reassessment of the risks in this area. Therefore, Information and Communication Technology was not included in the scope of the audit.

**C.6 – STAFF SAFETY AND SECURITY**

**NOT APPLICABLE**

57. No audit risks were identified in this area during the audit planning phase, and nothing came to the auditors' attention throughout the execution of the audit that would warrant a reassessment of the risks in this area. Therefore, Staff Security and Safety was not included in the audit scope.

## ANNEX 1 - DEFINITION OF AUDIT TERMS

### A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,<sup>17</sup> are explained below:

<ul style="list-style-type: none"> <li>▪ <b>Satisfactory</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area’s objectives.</p>
<ul style="list-style-type: none"> <li>▪ <b>Partially satisfactory with some improvement needed</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> <li>▪ <b>Partially satisfactory with major improvement needed</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> <li>▪ <b>Unsatisfactory</b></li> </ul>		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area’s objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

### B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

**Guidelines:** absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

**Guidance:** inadequate or lack of supervision by supervisors

- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by Headquarters

**Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

**Human error:** un-intentional mistakes committed by staff entrusted to perform assigned functions

**Intentional:** intentional overriding of internal controls.

**Other:** factors beyond the control of UNFPA.

<sup>17</sup> Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

### C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories 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 management actions, 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**

<b>Acronym</b>	<b>Description</b>
<b>APRO</b>	Asia and Pacific Regional Office
<b>CP</b>	Country Programme
<b>CPD</b>	Country Programme Document
<b>CPIP</b>	Country Programme Implementation Plan
<b>FTA</b>	Fixed Term Appointment
<b>FTP</b>	Fast Track Procedures
<b>HR</b>	Human Resource
<b>IP</b>	Implementing Partner
<b>IPAS</b>	Implementing Partner Assurance System.
<b>M&amp;E</b>	Monitoring and Evaluation
<b>OAIS</b>	Office of Audit and Investigation Services
<b>PSEA</b>	Protection from Sexual Exploitation and Abuse
<b>RIR</b>	Receiving and Inspection Report
<b>SIS</b>	Strategic Information System
<b>UN</b>	United Nations
<b>UNFPA</b>	United Nations Population Fund
<b>UNPP</b>	United Nations Partner Portal
<b>UNSDCF</b>	United Nations Sustainable Development Cooperation Framework
<b>USD</b>	United States Dollars