

Internal Audit of the Lebanon Country Office

December 2014



Office of Internal Audit
and Investigations (OIAI)
Report 2014/43

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Lebanon country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 16 June to 10 July 2014. The audit covered the period from January 2013 to June 2014.

The 2010-2014 country programme originally included three core components: *Social Policy; Child Protection; and Life Skills for Adolescence*. It had a total approved budget of US\$ 11.3 million. However, following the mid-term review with the Government of Lebanon in the second half of 2012, the office revised the programme direction to respond to the escalating Syria crisis. The revised 2010-2014 country programme had the following components: *Social Policy; Child Protection; Education and Adolescents; Emergency Child Survival and Development; and Communication, Advocacy and Monitoring and Evaluation*.

Since January 2013, UNICEF has treated the Syria crisis as a Level 3 Corporate Emergency (i.e. the scale of the emergency is such that organization-wide mobilization is required). By the end of April 2014, the office reported that Lebanon was hosting approximately 1.1 million registered Syrian refugees or individuals awaiting registration. The revised programme sought to integrate both 'development' and 'emergency' programmes across all programme components, and add flexibility in the evolving Lebanese context to support Government line ministries and emergency response programmes. In June 2014, UNICEF Board agreed to extend the 2010-2014 country programme, as modified, by one year to 2015.

The annual total budget had significantly increased, from US\$ 12.4 million in 2012 to US\$ 290.7 million in 2014. Of the latter figure, US\$ 770,700 was regular resources (RR) and US\$ 290 million was Other Resources (OR); of the latter, US\$ 4 million was regular OR and the remainder, US\$ 286 million, was OR emergency (ORE). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling.

The country office is in the capital, Beirut; there are four field offices, in Zahle, Qobayat, Tripoli and Tyre. As of 9 June 2014 the country office had a total of 141 staff, of which 40 were international professionals, 63 were national officers and 16 were individual consultants. The total budgets were US\$ 56 million in 2013 and US\$ 286 million in 2014. Total expenditure was US\$ 56 million in 2013, and US\$ 43.3 million so far in 2014 (as of end June).

Action agreed following the audit

In discussion with the audit team, the country office has agreed to take a number of measures. Two are being implemented by the country office to address issues that require immediate management attention. These are as follows.

- The office agrees to strengthen its monitoring of, and reporting on, performance. Specifically, it agrees to revise the management performance indicators to include measures of timeliness of key operations support functions such as procurement and

delivery of supplies to partners and end-users and payments of cash advances to partners. The office also agrees to set priorities for zone offices; develop indicators and targets to measure and report their progress; and clearly define and communicate their accountabilities, responsibilities and authorities. The office will also complete the recruitment of staff in zone offices, including the heads of the offices, as a priority, so that the zone offices become fully operational.

- The office agrees to strengthen programme monitoring. In particular, it agrees to carry out mid-year and annual reviews of all programmes jointly with all relevant government and NGO partners as appropriate. The office will also ensure the field monitoring plan is risk-based and will revise, streamline and consolidate all programme monitoring checklists; develop guidance on how to conduct programmatic spot checks; and establish a mechanism to follow up and report on outstanding key action points stemming from field monitoring visits.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control processes over the country office were generally established and functioning during the period under audit.

The Lebanon country office, with support of the Middle East and North Africa Regional Office, and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit. Controls were found to be functioning well over a number of areas. The office had streamlined and simplified its standard operating procedures in 2013 taking into account UNICEF's expected procedures in the context of a Level 3 emergency. The office had also updated its risk and control self-assessment (RCSA)¹ in October 2013, had established an action plan to mitigate the risks identified, and was monitoring the status of its implementation.

The performance of staff was assessed on time in 2013 and 2014. Performance objectives of sampled staff members were linked to the key priorities of the office. There had been compulsory ethics training for all staff. Further, in 2013 and 2014, all staff, including those at the zone offices, were briefed on the code of conduct, with a special emphasis on integrity and fraud.

¹ The RCSA is part of UNICEF's Enterprise Risk Management (ERM) policy. It is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

However, the audit also noted the following.

Delegation of authorities

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012.

Access to VISION is given through the provisioning of a user identification (ID) that has "roles" assigned to it. Heads of Offices, and their delegates, approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls and its supplements*. Each office is also required to maintain a manual Table of Authority (ToA); the Head of the Office should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments.

Alignment of roles with functional responsibilities: Some roles assigned to staff were not aligned with their functional responsibilities. For example, in VISION the paying role was assigned to the chief, education; to the supply specialist; and to the chief, social policy and monitoring. As such, these non-accounting staff could pay invoices and reverse financial transactions in VISION, which was not in accordance with their functional responsibilities. Further, two programme assistants were assigned procurement L1 – solicitation, contracts and logistics. These non-supply staff could therefore process supply and logistics functions in VISION; again, this was not in accordance with their functions.

Consistency between the Table of Authority (ToA) and VISION: There were several inconsistencies between the responsibilities delegated in the ToA and the roles assigned in VISION. For instance, the approving role and purchase order (PO) release L2 roles, which were delegated in the ToA to the finance and administrative specialist and to the supply officer respectively, were not registered in VISION. Further, though the administrative assistant and one of the supply assistants had been assigned the certifying role in VISION, they were not delegated this authority in the ToA. This would allow them to perform roles not assigned to them.

Segregation of duties: In order to prevent error and fraud, certain roles should be segregated so that no one individual can have complete control of any transaction. However, some roles were not adequately segregated. For example, the chief of operations and the finance and administrative specialist had the roles of posting documents, clearing open items, and approving bank reconciliations, and were also members of the signatory panel. In another case, an approving officer role was assigned to two staff members who were also assigned a paying role. These staff members could therefore have run payment for invoices they themselves had posted. Further, an asset accounting L1 role was assigned to a staff member who was also assigned physical inventory role. They could thus have adjusted the results of the stock count in VISION so that discrepancies were not evident. Appropriate segregation of these roles would reduce the risk of inappropriate transactions.

Bank signatory panel: Only five of the 11 signatory staff members had signed to acknowledge their awareness of their accountability and acceptance of delegation.

Agreed action 1 (medium priority): The office agrees to:

- i. Periodically review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties, so as to protect UNICEF assets and the integrity of financial transactions.
- ii. Regularly review the registration of the Table of Authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.
- iii. Formalize accountability and acceptance of delegation by the signatory panel.

Staff responsible for taking action: Finance and Administrative Specialist

Date by which action will be taken: The office reports the action as having been taken in November 2014

Statutory committees

Country offices are expected to maintain appropriate teams and committees to monitor and guide their operations and the implementation of the country programme. The audit reviewed the functioning of a sample of key statutory committees and noted the following.

Composition of committees: The office had established a country management team (CMT), property survey board (PSB) and contract review committee (CRC). The composition of the PSB and CRC was appropriate in 2013 and 2014 but that of the CMT was not. The four zone offices contributed significantly to the office's humanitarian emergency response to the Syrian crisis. However, the membership of the CMT (as set out in its terms of reference) did not include the heads of zone offices or their representatives. Neither did it include the chief of field operations (CFO), responsible for overseeing the performance of zone offices. The office stated that the CFO has always been a CMT member and that this was reflected in the 2013-2014 minutes (the audit confirmed this). At the time of the audit, the office was in the process of updating the CMT membership and confirmed that the CFO position would be included in the terms of reference.

Country Management Team (CMT): The CMT met regularly in 2013 and 2014. However, the standing agenda did not cover some important risk areas. For instance, the office had identified assurance activities under the Harmonized Approach to Cash Transfers (HACT)² as a medium high risk in its recent RCSA, and had incorporated the review of HACT as a standing agenda item in its risk-mitigation plan. However, the audit did not find clear evidence in the minutes that HACT was discussed during CMT meetings (although the office stated that it was). Further, the office's management performance indicators did not include the status of implementation of HACT assurance plan in 2013 and 2014; however, the office started measuring the frequency of HACT spot checks in 2014.

The audit also noted that progress against key priorities established in the 2013 and 2014-2015 annual and rolling workplans respectively was not reported to the CMT for review. Further, although action points were assigned to responsible staff, there was no evidence of follow-up in subsequent CMT meetings.

Contract Review Committee (CRC): For contracts for goods or institutional services of US\$ 100,000 and above, the CRC function of the office was fulfilled by the common services unit of the Regional Office. The Regional Office CRC also reviewed individual contracts for

² See observation *Harmonized Approach to Cash Transfers*, p15 below.

services above US\$ 20,000. Those contracts for individual services below US\$ 20,000, but over a threshold of US\$ 10,000, were reviewed by the local CRC in the country office.

The audit reviewed all the purchase orders and contracts during the period under audit that were valued between US\$ 50,000 and US\$ 100,000 and were therefore not submitted to the CRC for review. These represented 22 percent of the total local procurement (which totalled about US\$ 11 million).

The audit reviewed minutes from a sample of five CRC processes and noted the following.

- The sampled CRC decisions by the Regional Office took on average 16 calendar days from submission to approval by the Representative. On average, it took eight out of the 16 days to reach the CRC recommendations, and the remaining eight for the Representative to approve them.
- A contract of US\$ 359,000 was awarded based on a recommendation made by the CRC when it had met without the required quorum. In addition, the recommendation was unclear. In another case, a contract valued at US\$ 611,100 was awarded on 31 January 2013 as single source but reviewed and recommended *post-facto* by CRC on 9 May 2013.
- Sampled CRC minutes showed incomplete information or analysis. In two cases, they lacked necessary information such as previous contract(s) with the awardee, performance evaluation and record of adherence to UNICEF policies. In another case, there was no explanation and justification for single-source selection. There was also an inconsistent approach to risk management.

The office confirmed at the time of the audit that it has taken steps to mitigate the above risks by developing a standard operating procedure for the CRC process.

Property Survey Board (PSB): One of six sampled PSB recommendations and approved decisions were not implemented accurately. In that case, the PSB minutes recommended, subject to consultation with the Regional Office, donation of three I-direct modems (original value of US\$ 22,500, but now of nominal value) to other UNICEF country offices or zone offices in the region. The Regional Office advised that they be discarded through the PSB. However, the office donated them to a national NGO without notifying, and obtaining approval from, the PSB. To ensure adequate protection of UNICEF assets, PSB recommendations and decisions should be implemented.

Agreed action 2 (medium priority): The office agrees to:

- i. Ensure that zone offices are adequately represented in the country management team (CMT), action points are adequately followed up and progress is properly documented in the CMT minutes.
- ii. Either agree, with the common services unit of the Regional Office, a contract review committee (CRC) ceiling at US\$ 50,000, or consider starting CRC review at the country level for all contracts above US\$ 50,000.
- iii. Ensure that CRC analysis and recommendations are adequately explained and documented in CRC minutes, and the CRC recommends adequate mitigation measures in case of identified contractual risks.
- iv. Ensure approval of award of contracts by the Representative based on CRC review and recommendations.
- v. Implement property survey board (PSB) recommendations accurately, and notify any deviation to the PSB for its review before implementation.

Staff responsible for taking action: Deputy-Representative, Chief of Field Operations and Chief of Operations

Date by which action will be taken: January 2015 and ongoing

Monitoring and reporting performance

Country offices are expected to clearly define and communicate to staff the country office's priorities and expected results in an annual or rolling management plan. There should also be management performance indicators to regularly monitor and report on performance of the office, including zone or field offices.

Performance indicators: The office had a comprehensive list of management performance indicators that were monitored monthly, the results being reported to the country management team (CMT) for review. The list covered key areas such as human resources, financial management, fundraising, programme management, supply, staff security and travel. It contained 20 indicators as of June 2014 (and 22 in 2013).

However, the majority of management performance indicators measured quantity or volume, or compliance with established policies and procedures. There were very few indicators of efficiency (or productivity), or of timeliness, which is critical in an emergency. For instance, there were no indicators to measure the timeliness of: recruitment; procurement and delivery of supplies to partners and end-users; development of project cooperation agreements (PCAs); payments and liquidation of cash advances to partners; or donor reports. The audit identified cases of delays in recruitment, procurement and delivery of supplies and cash transfer advances to partners (see later observations in this report). With respect to operations indicators, the operations section had a long list of 50 indicators, which focused mainly on volume and compliance; very few of them measured timeliness.

Setting priorities: The office had prepared an annual management plan (AMP) for 2013 and a rolling management plan (RMP) for 2014-2015. The AMP was comprehensive, including information on the office's priorities, coordination mechanisms and technical assistance required from the Regional Office. However, the AMP/RMP did not identify zone office-specific priorities and did not include zonal workplans.

Further, the 2013 programme and operations priorities were often not specific and measurable. In 2014, there were a high number of priorities and targets which reduced the level of focus and direction (56 indicators and 56 targets for programme priorities; and 26 indicators and 26 targets for operation priorities). The indicators measured volume/quantity but not quality. The office had not monitored and reported on progress against priorities to the CMT in either 2013 or 2014.

Performance of zone offices: The office had increased its presence in the field in 2012 and 2013 by establishing four zone offices as emergency hubs. These four zone offices, which had 58 of the 196 established posts as of June 2014, were expected to strengthen field monitoring of programme implementation.

However, the office's annual and rolling management plans did not include a description of the accountabilities, responsibilities and authorities of zone offices; neither did they define their priorities, performance indicators and targets, and how their performance would be monitored and reported. There were no key indicators for field monitoring (such as field

monitoring visits by staff, partner or site, or reviews of implementation of zone workplans); internal management (such as zone-office meetings); or management of programme supplies (such as timeliness of delivery of supplies to end-users by partners, or value of inventory in UNICEF and/or partners' warehouses).

The office stated that management of the very fast growth needed to effectively respond to the large-scale complex emergency was challenging. The zone offices had been established in Zahle and Qobayat in late 2012, and in Tyre and Tripoli in July 2013. However, at the time of the audit in June 2014, the zone offices were not fully operational, though this had been set as an office priority in early 2013.

As of the end of June 2014, the head-of-office posts were still vacant in the three zone offices. The vacancy rate was at least 30 percent in each zone office (Tripoli, 50 percent; Zahle, 37 percent; Tyre, 36 percent; and Qobayat, 33 percent). At the time of the audit, several posts were being recruited. For instance, there were not enough office drivers available in Zahle, Tripoli and Tyre.

The audit visited the Zahle zone office and found that one additional vehicle was needed for efficient on-site field monitoring.

Agreed action 3 (high priority): The office agrees to:

- i. Review its management performance indicators to include measures of timeliness of key operation support functions such as recruitment, procurement and delivery of supplies to partners and end-users, preparation of programme cooperation agreements and payments of cash advances to partners.
- ii. Set priorities for zone offices, and develop indicators and targets to measure progress against those priorities and report to the emergency management team and country management team.
- iii. During mid-year review, assess progress against priorities and streamline/simplify priorities to focus on critical high-value targets.
- iv. Clearly define and communicate the accountabilities, responsibilities and authorities of zone offices as well as their priorities and how their performance would be monitored and reported.
- v. Complete the recruitment of staff in zone offices, including heads of offices and drivers.
- vi. Give priority to the acquisition of any vehicles required for zone offices to become fully operational.

Staff responsible for taking action: Chief of Field Operations, Chief of Social Policy, Planning, Monitoring and Evaluation (SPPME), HR Specialist and Supply Specialist
Date by which action will be taken: March 2015 and ongoing

Staffing structure

Country offices are expected to establish an adequate staffing and management structure for the country programme. As of 9 June 2014, 77 (55 percent) of the 141 established posts were vacant. The country office had a total of 119 staff on the ground, of which 40 were international professionals (including three on mission from other offices and three from

standby partners³); 63 were national officers; and 16 were consultants. Of the 119 staff, 64 were temporary appointments, 33 fixed terms and 16 on contracts. The audit review noted the following:

Because of the Syria crisis that had escalated rapidly since January 2013, the office had significantly increased its human resources capacity. It had submitted two major programme and staffing revisions to the Programme Budget Review (PBR)⁴ of the Regional Office since January 2013.

The 2013 PBR completed in February 2013 included the establishment of four field offices (mainly as emergency hubs) and increased staff from 30 to 70. In 2014, the office also prepared another major staffing revision for an extension of the country programme by one year. This included regularization of temporary functions to fixed-term positions. The audit examined the PBR submissions and review done by regional Technical Review Panel (TRP) and found that the follow-up actions were adequately cleared and implemented, and that the revisions to the staffing structures were approved by the Regional Office.

Due to the constantly changing environment and to funding uncertainty, the office sought to maintain a temporary and flexible structure in 2013. It continuously reviewed the balance between fixed-term and temporary staff, and the use of consultants and surge deployments for the country programme's extension to 2015. Staffing revisions were extensively discussed between management and staff, including the Staff Association. The office did not document its capacity gap and workload analysis for the four zone offices and the Beirut office. However, the audit found that PBR submission was generally based on an analysis of the emergency and response needs, and HR staffing gaps and needs to equip UNICEF to meet its obligations. The office confirmed that gap and workload analysis could be more explicitly integrated into future PBR submissions.

Finally, the office was of the view that an exit strategy for downgrading to a non-emergency country when appropriate was not applicable in the Lebanon context. The office said it was pursuing an ongoing exit strategy from the emergency through conservative recruitment, and in its programme approach; this emphasized support to institutions rather than direct implementation, and through narrow prioritization. These approaches would, it said, allow it to scale down more easily when the time came.

At the time of the audit, the office was in the process of aligning the post authorization table in VISION with the approved organizational structure. Four out of five sampled staffing changes approved in the recent Programme Budget Review submissions were properly supported with funding certificates to demonstrate funds availability for the duration of the contract.

³ UNICEF has Standby Arrangements with a number of external partners. These maintain a roster of personnel who can be deployed upon UNICEF's request to assist in humanitarian crises. The Standby partners include NGOs, government agencies and private companies. Standby personnel are only used for three to six months, although in some instances this can be extended up to a year. Their contract is with the Standby Arrangement partner, not UNICEF. Full details of how and when they can be used are given in the UNICEF Executive Directive *Recruitment and staffing in emergency situations* (CF/EXD/2010-005).

⁴ The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

Agreed action 4 (medium priority): The office agrees to:

- i. Complete the alignment of the post authorization table in VISION with the approved organizational structure.
- ii. Establish monitoring mechanisms to ensure the actual funding of staffing changes is consistent with funding source as established in the Programme Budget Review submissions approved by the Regional Office.

Staff responsible for taking action: Budget officer and HR specialist

Date by which action will be taken: December 2014

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control processes over governance, as defined above, were generally established and functioning during the period under audit.

2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning.** The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation.** This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation.** This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.

All the areas above were covered in this audit. The audit found that controls were functioning well in some areas. The Regional Office had established the Syria hub in February 2012 to support country offices affected by the Syria crisis and ensure quality assurance over the emergency response. Key functions supported by the hub included resource mobilization, contributions management, monitoring and evaluation, emergency planning, inter-agency support and humanitarian performance monitoring. Though the audit did not review the effectiveness of controls in the Syria hub, the Regional Office confirmed that it had carried out 44 missions in support of the Lebanon country office during 2013.

In 2013 the office received US\$ 123.5 million, which almost met the required appeal target of US\$ 125.4 million. As of the end of June 2014, US\$ 110 million out of US\$ 286 million of planned funds had been received. Several funding appeals and strategies had been launched. The office regularly monitored the funding status of each programme, and the Regional Office had developed a draft Syria crisis resource mobilization strategy in February 2014.

The office had developed integrated monitoring and evaluation plans (IMEPs) for 2013 and for 2014-2015. The implementation of the IMEP was monitored monthly and reported to the country management team. The office had significantly increased resources for monitoring and evaluation in 2014, and the IMEP budget had soared from US\$ 190,000 in 2013 to US\$ 1,192,000 in 2014-2015. The office had carried out several critical IMEP activities, such as implementing monitoring systems for the humanitarian programme in line with the Syria Regional Response Plan (RRP).

However, the audit also noted the following.

Results-based programme planning

The Government and UNICEF country office are expected to jointly conduct annual planning and review meetings for all programmes covered by the Country Programme Action Plan (CPAP).⁵ The annual work plans (AWP) or rolling work plans (RWP) are expected to detail the activities to be carried out, the responsible implementing institutions, timeframes and planned inputs from the Government and UNICEF. Heads of Government units, in collaboration with UNICEF, are also expected to have direct responsibility for planning, implementing and monitoring project activities. For each project, a Government official is expected to be designated to work with the country office and be responsible for planning, managing and monitoring project activities.

The office developed an equity-focused and integrated country programme to include development and emergency responses in all programme components. However, the audit noted the following.

CPAP: The office had a CPAP for 2010-2014 that described the commitments of UNICEF and the Government regarding planning and management of the country programme, including the use of the Harmonized Approach to Cash Transfers for Government and NGO partners (see following observation). However, the Government had not signed the CPAP. The office said it had attempted to obtain Government approval several times but without success, likely because of political instability.

Timeliness of workplans: In 2013 and 2014, the workplans, developed jointly with Government ministries, were not completed and signed on time. In 2013, the office developed three annual workplans with Government ministries. Two of them had been signed. In 2014, the office increased the number of workplans from three to five, to integrate the regular and emergency programmes; three were signed in May and June 2014, but as of the end of June 2014, those for Education and Adolescent Development and for WASH (Water, Sanitation and Hygiene) had not been signed.

Development of workplans: The office held annual planning meetings with Government counterparts for the regular country programme. However, they were not conducted in the last quarter of the year 2013. Also, a review of sampled workplans found the following:

- The 2013 annual workplans and 2014-2015 rolling workplans generally included list of planned activities, timelines and budgets. However, the 2014 annual workplan for the Education and Adolescent Development programme did not include timelines of activities.
- The contributions of the Government were not identified in any of the workplans for 2013 or 2014-2015.
- The audit reviewed a sample of programme component results (PCRs) and intermediate results (IRs)⁶ and found that they were not sufficiently specific and measurable. The use of words “enhance” and “improve” are not conducive to measurement.

⁵ The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

⁶ UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome.

- Sampled indicators and targets in the workplans reviewed by the audit showed adequate linkages with planned activities and IRs. However, the indicators were mainly measures of quantity/volume (i.e. to measure access) and there were very few measures of timeliness and quality of interventions. The means of verification of each indicator were not clearly described in the humanitarian response and resilience plan (HRRP) of the office; and there were no baselines identified.

Alignment of PCR and IRs: Following the 2012 mid-term review, the office adapted the PCRs and IRs in mid-2013 to correspond to the changing environment and the revised programme direction. The office's 2014 HRRP was supported by four inter-dependent programme frameworks: the No Lost Generation initiative, the Education Proposal, the Stabilization Framework and the Syria Regional Response Plan. The HRRP, developed through workshops with programme sections, was established to streamline the results framework and measure results as defined in all these documents, the annual workplans and the country programme document.

The audit found that the HRRP did strengthen alignment of PCRs and IRs among the various planning documents. However, there were inconsistencies between the strategic shifts following the mid-term review in 2013, and the workplans and HRRP. For instance, some intermediate results stemming from the 2013 mid-term review were not included in annual or rolling workplans. The office stated that the new country programme document for 2016-2020 would clarify the major shifts in programme strategy, structures and budgets. As of the time of the audit, the office confirmed that it would prepare a plan to develop the new country programme document in the last quarter of 2014.

Agreed action 5 (medium priority): The country office agrees to:

- Given the major increase in, and turnover of, staff since January 2013, provide refresher training to UNICEF staff on programme policies and procedures to improve the quality of annual and rolling workplans and alignment of results in various planning documents.
- Revisit workplans and include a comprehensive set of performance indicators and targets that measure not only quantity and volume but also timeliness and quality of planned interventions; and develop a plan for establishing baselines for 2015.
- Clearly define and include means of verification of performance indicators for the country programme in the humanitarian response and resilience plan.

Staff responsible for taking action: Chief of Field Operations and Chief of SPPME

Date by which action will be taken: February 2015

Harmonized Approach to Cash Transfers

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either Government entities or NGOs. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the

programme cycle. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

HACT is required for some other UN agencies, and country offices should coordinate with them to ensure best use of resources.

During 2013 and 2014, the office collaborated with 61 partners and disbursed a total of US\$ 41.8 million as cash transfers. Of the 61 partners, 33 received more than US\$ 500,000. The audit review noted the following.

This text has been redacted

Micro-assessment: As of the end of May 2014, 42 of the office's 45 partners receiving more than US\$ 100,000 had been micro-assessed (93 percent). About 50 percent of partners had been micro-assessed before signing programme cooperation agreements (PCAs). The remaining partners were scheduled to be micro-assessed during the year. As of mid-June 2014, 15 partners were rated as low risk; 23 as moderate-risk partners; six as significant risks and one as high risk. The office informed the audit that it had started to follow up with partners on the implementation of recommendations stemming from micro-assessments effective April 2014.

The audit visited four implementing partners. Two of them had not received a copy of micro-assessment reports and were not aware of the risk rating or of the capacity gaps that had been identified. Draft reports had not been shared with them for review and comments prior to finalization. Further, the sampled partners were not asked to provide UNICEF with an action plan for the implementation of the recommendations, and management comments were not

included in the final report. None of the Government partners had been micro-assessed, as the Government had not agreed to implement HACT.

Assurance activities: The office had developed an assurance plan that included micro-assessments, spot checks, programme monitoring and scheduled audits. The assurance plan was risk-based effective June 2014; i.e., the office was basing the frequency of assurance activities on the risk rating of partners. However, although the assurance plan included the list of weaknesses and related ratings from the micro-assessments, it was not used to monitor the implementation of their recommendations.

As of the end of May 2014, 17 out of 48 planned spot checks had been conducted – an implementation rate of 35 percent. This low implementation rate was mainly due to insufficient training of staff on HACT, delays in contracting audit firms and late hiring of a staff member responsible for management of HACT implementation.

The audit visited four NGO partners and found that three of them had had financial spot checks done either by UNICEF or a contracted audit firm. One of the partners visited disagreed with the assessment done by the firm, and the case was pending at the time of the audit. The office planned a schedule audit later in the year. Another partner visited by the audit had not received a copy of the spot-check report and was not therefore aware of any actions the spot check had found necessary to improve controls.

Sampled spot checks completed by contracted audit firms did not disclose the detailed testing of sampled transactions. The office could not therefore assess the quality of testing done by contracted audit firms to ensure that funds had been used as intended and supplies delivered to end-users as agreed, or that transactions were supported with sufficient documentation (such as approved invoices and proof of delivery of supplies to end-users).

Scheduled audits: Although 33 NGOs had received more than US\$ 500,000 since January 2013, no scheduled audits had been done as of the time of the audit. The office said that five NGOs were scheduled for audits by December 2014.

Programme monitoring: The office conducted several field monitoring visits as well as annual programme reviews with Government partners. However, the field monitoring visits were not risk-based i.e. the number of visits were not linked to the risks of partners (see separate observation *Programme monitoring*, p18 below).

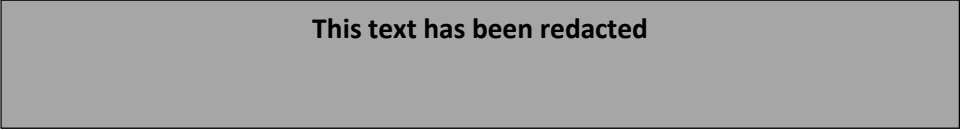
Procedures and tools: The office had developed a standard operating procedures on HACT. The spot-check template was comprehensive, except that it did not require follow-up on recommendations from previous spot checks. Further, none of the four sampled programme cooperation agreements (PCAs) included a clause defining the frequency of spot checks.

Training: The office stated that it conducted training of several NGOs on HACT since January 2013. However, the audit's visits to six partners (four NGOs and two government partners) showed the need for more training on HACT. Four of the six partners visited had not been received such training, including Government partners. The partners also expressed a need to obtain written guidance from UNICEF on the management of cash transfers.

The office had taken steps to improve the management of HACT. In April 2014, the office had established a HACT Committee as well as terms of reference for monitoring HACT implementation; assigned a dedicated staff member with the responsibility to monitor HACT

implementation; and engaged the services of three chartered accounting firms to conduct assurance activities, mainly financial spot checks.

Agreed action 6 (medium priority): The country office, with support from the Regional Office, agrees to:

- i.  This text has been redacted
- ii. Establish mechanisms to systematically follow up on the implementation of the recommendations made in the macro-assessment of the public financial management system, micro-assessment of partners, financial spot checks and scheduled audits.
- iii. Establish standard operating procedures to distribute draft micro-assessment reports and financial spot checks reports to partners prior to finalization, and include their management response and action in the final reports as appropriate.
- iv. Ensure the frequency of field-monitoring visits is linked to the risk ratings of partners (see separate agreed action 7.iv on observation *Programme monitoring*, p21 below).
- v. Identify and train partners and staff that have not been trained on HACT, particularly all government partners.
- vi. Revise the spot-check template to include a requirement to follow up on recommendations stemming from previous spot checks; and revise the programme of cooperation agreement template to include a clause that defines the frequency of spot checks.
- vii. Supply written guidance and standards to contracted audit firms to ensure that spot-check reports include sufficient explanation of the number of sampled transactions related to cash transfers and/or supplies, and the results of that sampling.
- viii. Develop a methodology to review the quality of work conducted by contracted audit firms through means such as NGO satisfaction surveys or joint on-site spot-check visits.
- ix. Prepare, and distribute to partners, written UNICEF guidelines on the management of cash transfers.

Staff responsible for taking action: Chief of Field Operations, Chief of Operations, Chief of SPPME and Section Chiefs

Date by which action will be taken: January 2015 and ongoing

Programme monitoring

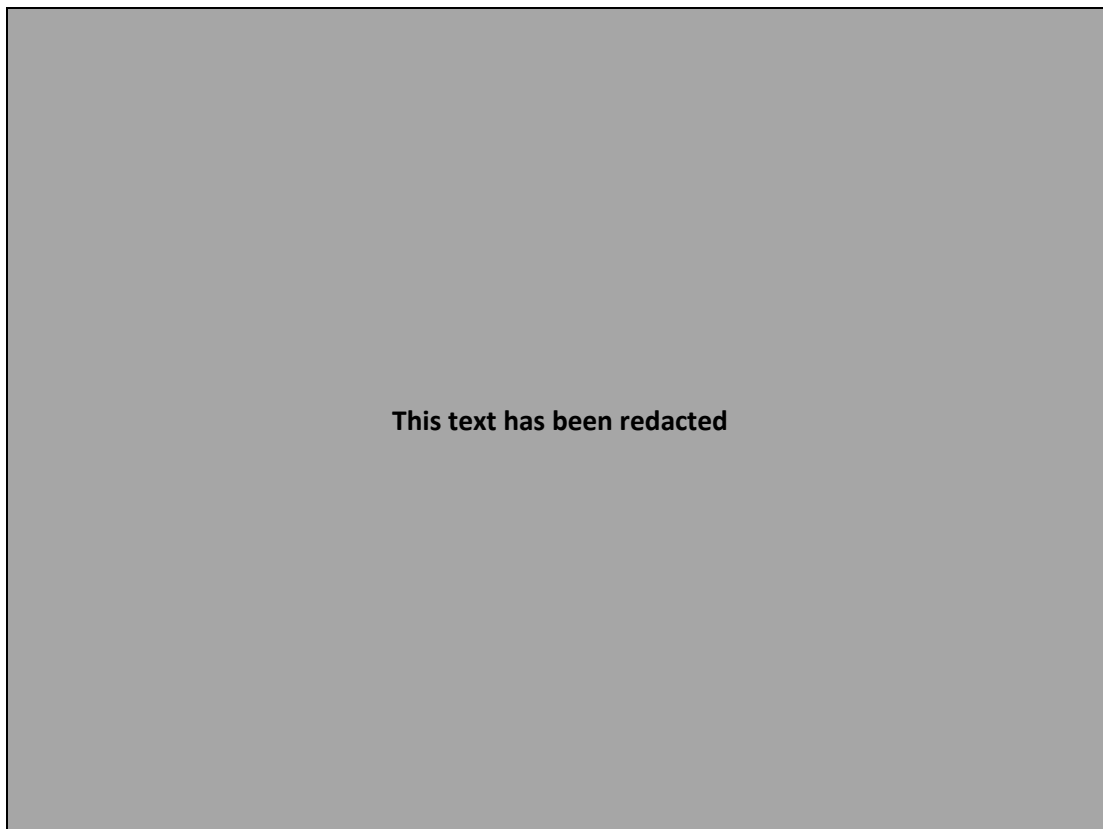
Country offices are expected to put in place mechanisms and tools to monitor progress against planned outputs and targets. They should also conduct mid-year and annual programme reviews jointly with partners so as to review progress, identify constraints and lessons learned, and implement corrective measures. In major humanitarian situations, country offices are expected to prioritize and focus their monitoring efforts in line with high-frequency reporting on the Core Commitments for Children (CCCs).⁷

The office had a high-frequency monitoring system to monitor programme delivery and progress on key CCC performance indicators. Each partner was required to report progress on

⁷ A set of guiding principles regarding children in emergencies. See *Core Commitments for Children in Humanitarian Action*, UNICEF, 2010.

selected high frequency indicators using ActivityInfo, an inter-agency initiative for gathering and sharing data on humanitarian activities. The office had also developed innovative monitoring tools to strengthen data entry and analysis (for example, online monitoring and data collection using tablets and smartphones). It had also created an online partner tracking system (named Equitrack) to monitor programme cooperation agreements (PCAs) with NGO partners (see observation *Information and communication technology*, p30 below).

However, the audit noted the following.



Field monitoring: The audit interviewed staff in two zone offices (Zahle and Qobayat), the chief of field operations and all chiefs of sections; it also visited one zone office (Zahle). It noted that zonal HRRPs had been developed in March 2014 to monitor progress against targets by PCA. Further, workplans and travel plans were prepared monthly and updated weekly to support field monitoring. However, these plans were not risk-based; that is, the frequency of monitoring did not take into account the risk rating of each partner.

The audit also noted significant changes in monitoring standards and tools since January 2013, creating duplication and misunderstandings between staff. For instance, staff had not used the HACT programme monitoring or supply monitoring checklists, and had not systematically used the third-party monitoring (TPM) checklist (to monitor implementation of PCAs). Interviewed staff said that the TPM checklist focused mainly on quantitative and not sufficiently on qualitative assessment and needed to be updated. Further, the trip report templates to record the results of field monitoring by staff had been used only since March 2014. Interviews also showed the need to revise and consolidate all programme monitoring checklists and automated tools to focus more on qualitative and not only on quantitative assessments.

At the time of the audit, the office was in the process of reviewing and consolidating all its automated and manual monitoring tools, to make them readily available to all staff.

The audit visited three ITS (Informal Tented Settlements) and noted that supplies received by end users, such as tents, school bags and latrines, were generally of good quality. Interviewed partners confirmed good coordination and support from UNICEF staff and the use of ActivityInfo software to report performance information, particularly high-frequency indicators.

Trip reports: The audit reviewed a sample of nine trip reports, and found that none referred clearly to annual/rolling workplan outputs, or showed evidence of a review of accuracy of reporting done by partners through ActivityInfo or quarterly narrative progress reports. Several trip reports did include follow-up action points with assigned responsibilities and timelines. None of the nine sampled reports indicated the type of programme input (cash or supply) given to partners, and they rarely showed evidence of review of status, use and effectiveness of such inputs. Further, the trip reports from the zone and Beirut offices were not systematically stored in a central database so as to make them available to all staff; and there was no global follow-up mechanism to monitor outstanding key action points. Staff interviewed by the audit said that trip report templates had been used only since March 2014.

Assurance activities on programme results: Programme monitoring is one key assurance activity under HACT (see observation *Harmonized Approach to Cash Transfers*, p16 above). Field-monitoring visits are expected to provide assurance on the implementation of programme activities as defined in PCAs with NGOs or annual workplans with government partners. The audit was informed that the reasonableness of performance information reported by partners in ActivityInfo software was reviewed by the office staff, and programme sections and zone offices were told of any unusual trends or variations that they should review.

The audit found that there was insufficient guidance to staff on the methodology to use for ensuring results disclosed by partners in ActivityInfo or quarterly narrative progress reports was credible and supported with sufficient evidence. Interviews with several staff confirmed that the accuracy of reporting by partners in ActivityInfo or quarterly narrative reports was not systematically sampled against source documents during field visits. The third-party monitoring checklist, designed to monitor PCA implementation, also lacked a specific requirement to check to source documents; it stated simply that that “the method for gathering information is observation, key informant interviews and group interviewing/informal conversation for beneficiary feedback”. Sample review and testing of results disclosed by implementing partners in ActivityInfo or quarterly narrative progress reports by staff would provide assurance on the accuracy and completeness of results.

Agreed action 7 (high priority): The country office agrees to:

- i. Carry out mid-year and annual reviews of all programmes jointly with all relevant government and NGO partners as appropriate; and ensure that the methodology includes analysis of progress against each intermediate result or output, as well as related constraints and risks to programme implementation.
- ii. Report results of the year-end review in the UNICEF Results Assessment Module.
- iii. Ensure the field monitoring plan is risk-based i.e. linked to the risk rating of partners.
- iv. Revise, streamline and consolidate all available programme monitoring checklists to improve coherence and efficiency. In particular, ensure that the trip-report template

includes a clear link to the annual/rolling workplan programme component results and outputs, and includes a requirement to disclose the nature and extent of programmatic spot checks.

- v. Develop guidance to programme staff on how to conduct programmatic spot checks to ensure that results disclosed by partners in ActivityInfo software or quarterly narrative progress reports are credible and supported with sufficient evidence.
- vi. Ensure trip reports are stored in a central location, and establish a global mechanism to follow up and report on outstanding key action points stemming from field monitoring visits done by staff and third-party monitors.

Staff responsible for taking action: Chief of SPPME and Section Chiefs

Date by which action will be taken: February 2015

Management of programme supplies

Country offices are required to establish effective processes to ensure the procurement of programme supplies and services is properly planned, implemented and monitored, and inputs reach end users.

The country office procured programme supplies and services worth US\$ 11 million during the period from January 2013 to May 2014. The main categories were emergency supplies. The office had established supply plans for 2013 and 2014. It maintained and updated a database of suppliers and had conducted market survey in 2013. It had also arranged, in collaboration with another UN agency, seminars for suppliers in 2014. However, the audit noted the following.

Delivery of programme supplies: Programme supplies were not delivered on time for any of the 10 purchase orders (POs) sampled by the audit. The delay ranged from two to 69 days with an average of 27 days. The office had not set management performance indicators to measure timely delivery of programme supplies. Untimely delivery of supplies could delay implementation of the emergency response.

Suppliers' performance evaluation: Evaluation of suppliers' performance had not been done for three of the four sampled POs; the remaining one had a performance evaluation report, but it was marked as "fully met expectations" despite the emergency supplies having been delivered a month late; this was not in the evaluation report.

Endorsement of waybills by partners: Partners did not always stamp the waybills (proof of delivery) to acknowledge receipt of supplies. Where they had done so, the names, job title of the endorser, official stamp and dates were missing.

Agreed action 8 (medium priority): The office agrees to:

- i. Establish mechanisms to monitor and report on timely delivery of programme supplies.
- ii. Before paying suppliers, ensure that partners have properly signed and stamped waybills to acknowledge receipt of delivered supplies.
- iii. Evaluate performance of suppliers and include any performance weaknesses in the evaluation.

Staff responsible for taking action: Supply specialist

Date by which action will be taken: February 2015

Partnerships with NGOs

The office's budget had increased from US\$ 12.4 million in 2012 to US\$ 290.7 million in 2014. To meet the needs for a rapid emergency response to the Syria crisis, the office had significantly scaled up its partnerships, particularly with NGOs. Since January 2014, the office had established 38 new PCAs amounting to US\$ 31 million. As of the end of June 2014, it had 40 ongoing PCAs with a value of US\$ 68 million.

PCA amendments: The UNICEF simplified standard operating procedures (SSOP) on partnership with NGOs for a Level 3 emergency allow for shorter-duration PCAs (such as one or two months) that can be amended as needed. However, the audit noted a high number of PCA amendments – a total of 53 since January 2013, with an average extension of 7.5 months. The types (such as no-cost extension; increase in total financial commitment; realignment of more than 20 percent of any budget line; and modifications of programmatic components of PCAs) and causes (such as insufficient capacity of partners; unrealistic assumptions, weak planning, etc.) of amendments had not been analysed, thereby preventing the office from identifying lessons learned and acting accordingly.

The audit visited four NGOs partners, and interviews showed that PCA development took from one to three months. A review of 10 sampled PCA submissions showed that though all sampled partners had previous PCAs with UNICEF, the NGOs' performance (such as percentage expected results achieved, and timeliness of implementation) was not assessed prior to renewing PCAs in any of the cases sampled. Further, the office had not developed standard costs for recurring items, which would have assisted PCA budget reviews. This had reduced the office's capacity to review the reasonableness of PCA budgets submitted by NGOs.

Agreed action 9 (medium priority): The office agrees to:

- i. Assess the types of programme cooperation agreement (PCA) amendments and causes, identify lessons learned and establish corrective measures to reduce the number of PCA amendments needed.
- ii. Develop procedures and tools to ensure past NGO performance is reviewed and submitted to the PCA Review Committee prior to renewing PCAs.
- iii. Establish standard costs for recurring items for PCA budget review to enable assessment of reasonableness of PCA budgets.
- iv. Establish mechanisms to monitor and reduce the period of time it takes to develop PCAs with partners.

Staff responsible for taking action: Deputy Representative and Chief of Operations

Date by which action will be taken: January 2015 and ongoing

Reporting on results

Country offices are expected to adequately report on the use of funds and achievement of results to the Executive Director and to donors.

Donor reports: The office had assigned a dedicated staff for managing donor reports and had established a process for their preparation and quality assurance. From January 2013 to end

of June 2014, the office issued 48 donor reports, of which seven (six in 2013 and one for the first half of 2014) were submitted late. Delays varied from one to 19 days.

The audit reviewed a sample of five donor reports submitted to donors during 2013 -2014 and noted that the sampled programme achievements disclosed in sampled donor reports were not corroborated with sufficient supporting documentation. The audit tested a sample of two reported achievements from the five sampled donor reports. The sampled programme achievements were supported by partners' reports. However, the office was unable to provide evidence of its own to support them through field monitoring visits or other means.

The audit also noted the following:

- Four of the five sampled reports did not include human-interest stories to highlight situation of children and the impact of donor funds on changes in their lives.
- None of the sampled reports disclosed UNICEF's comparative advantage for implementing donor funds.
- None of the sampled reports had visualized data.
- No donor feedback forms were submitted to donors for the five sampled reports.

Timely submission of donor reports and sufficient documentation to support reported achievements would reduce the risks of inaccurate and incomplete reporting that could hurt donor confidence and future fundraising.

Annual report: The audit also tested two programme achievements reported in the 2013 annual report submitted to the Executive Director. The documentation provided by the office, though substantial, was insufficient to corroborate the programme through direct correlation with source documents.

Agreed action 10 (medium priority): The office agrees to establish mechanisms to:

- i. Provide guidance to programme sections on the means of verification, nature and extent of quality assurance testing needed to ensure achievements reported by partners are adequately supported.
- ii. Validate results achieved at field level and confirm sources of information before finalizing reports to donors and annual reports to the Executive Director.
- iii. Train programme staff to include human-interest stories, UNICEF's comparative advantage, data visualization and donor feedback forms in reports to donors; and ensure submission of donor reports in line with the donor reporting schedule and UNICEF donor reporting standards.

Staff responsible for taking action: Chief of Field Operations, Chief of SPPME, Chief of Communication

Date by which action will be taken: January 2015 and ongoing

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over programme management, as defined above, needed improvement to be adequately established and functioning.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The financial transactions were authorized in accordance with the Table of Authority approved by the Representative. The 2013 year-end accounts closure reports were submitted on time to the Division of Financial and Administrative Management (DFAM).

The learning and training committee met regularly in 2013 and 2014. The office, together with the Regional Office, provided several training sessions for staff in 2013 and 2014. The recruitment process was adequately managed. For example, sampled recruitment files were properly maintained and contained all the documents required to support recruitment decisions.

The office contracted warehousing services to a third party. The audit visited one warehouse and found that programme supplies were adequately managed. The contractor had used standard warehousing arrangements effectively in terms of storage location, tracking, accessibility, temperature and physical security.

However, the audit noted the following.

Transactions processing

The office had processed approximately 2,600 financial transactions during the audit period. The audit reviewed a sample of 80 chosen, across all programme areas, for their relevance in terms of frequency and materiality (smaller transactions were also included, to ensure a representative sample). The objective was to determine whether they were adequately

processed, justified and recorded in accordance with UNICEF Regulations and Rules. The review noted the following.

Disbursements of cash transfers: Direct cash transfers (DCTs) to partners were not processed and released on time. The audit sampled 15 requests for cash transfers and found they had taken an average 20 days (ranging from nine to 57 days) from the date of receipt of the requests to the release of payments to partners. The protracted processing exacerbated delays already caused by late submission of requests by the implementing partners – an average of 24 days after the planned start dates of the activities. None of the 15 sampled DCTs was disbursed before the planned start dates of the activities in the workplans. Timely disbursement of funds would reduce delays in the implementation of related programme activities.

The audit also noted that the office did not request official letters from the partners identifying the officials authorized to sign the cash requests, liquidate the DCT payments or sign the PCAs. In some cases, the PCAs had wrong information or statements, or the FACE forms⁸ were not filled out properly and signed by an authorized UNICEF staff member – or the second tranche was paid instead of the first one, or the tranche period was for four months instead of quarterly.

Liquidation of DCTs: DCTs are expected to be liquidated within six months of their release. Total cash transfers outstanding by partners as of the end of June 2014 was US\$ 13.3 million, of which US\$ 399,000 had been outstanding for over six months, but none for over nine months. The FACE forms for three out of 15 liquidations sampled were not signed by authorized UNICEF staff. In one case, some information on the FACE Form and the statement of expenditures did not agree with the authorized budget details. With respect to cash transfer reimbursements, the FACE form was not signed by an authorized UNICEF staff in one out of five sampled cases.

The office had not set targets for the prompt processing of liquidations and cash-transfer reimbursements. The audit noted that processing of liquidations took a long time – an average of 16 days (and up to 27 days) to approve and verify a liquidation following receipt of the liquidation documents from the implementing partners. This was in addition to time taken for partners to submit the DCT for liquidation, the longest being 132 days (with an average of 33 days). The protracted process of approval and verification also affected subsequent releases, as UNICEF policy is not to release DCTs to implementing partners with previous cash transfers outstanding for over six months. Reimbursements also took time, varying from 17 to 111 days (average 49 days) between request and payment.

The above shortcomings related to the release and liquidation of cash transfers were generally due to insufficient training on, and understanding of, the guidance on HACT, particularly on the release and liquidation of cash transfers. (See also observation *Harmonized Approach to Cash Transfers*, p15 above.)

Contracts for services: There were no service certifications or evaluation reports attached to the payment documents for any of the 10 contracts for services sampled. Payments were

⁸ The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

made without invoices in two sampled contracts. Further, in two cases, payments were processed using fund commitments rather than as purchase orders, without a note for the record. In an additional seven sampled contracts and purchase orders, some important information had not been updated in VISION – such as the selection process and CRC review,⁹ counter-signature of the contract, and performance evaluation of the supplier. Most of the contracts with zero balance (including 36 contracts from 2012 and 72 from 2013) were open in VISION, for more than a year in some cases; this can obstruct reallocation of any funds that may have been committed to a contract but not spent.

Cash receipts: Proceeds from refunds of unspent DCTs and VAT refunds were not deposited and recorded promptly. In six out of seven sampled transactions, funds were deposited and recorded up to 25 days after their receipt. In one case, a donor contribution was recorded with the wrong donor name in VISION.

Travel: In one case, a travel transaction was charged to the office for an amount of US\$ 80,000 with no clear reason or note for the record. The office explained that the accounting entry was subsequently reversed to adjust the accounting records. In another case, an outstanding balance amounting to US\$ 15,979 should have been cancelled and cleared. The office informed audit that these two transactions had been initiated by other offices.

Bank reconciliations: Payment advices to the bank were submitted late in two cases, with delays of 19 and 20 days. The audit also noted inadequate segregation of duties (see observation *Delegation of authorities*, p6 above).

Payments to suppliers: Invoices were not always paid on time. The average delay from the date of the receipt of the invoices to payments to suppliers varied from nine to 126 days, with an average of 50.

Rigorous oversight and sound understanding of policies and procedures by staff would improve the timeliness and accuracy of processing of transactions.

Agreed action 11 (medium priority): The office agrees to improve oversight, and provide training to responsible staff members, regarding transactions processing. It also agrees to take the following steps:

- i. Disburse direct cash transfers (DCTs) in accordance with the planned implementation schedule of activities, and process DCTs and reimbursements, and release them to partners, within the standard time.
- ii. Review and speed up the process for timely receipt of request for liquidation of cash transfers by partners, and ensure approval and verification by the office within six months of release of DCT to partners.
- iii. Conduct interim evaluation of performance of individual consultants upon completion of six months on contracts, and ensure payments for contracts are adequately supported with original certified invoices and signed contracts.
- iv. Establish and monitor standards for timely processing of cash transfers, cash receipts, invoices for supplies and contracts for services.

⁹ The CRC (Contract Review Committee) reviews all contracts above a fixed value and makes a recommendation to the Representative as to whether it should be signed. The threshold for CRC review varies between offices.

- v. Ensure proper segregation of duties between: posting documents; clearing open items; approving bank reconciliations; and memberships of the signatory panel (see also observation *Delegation of authorities*, p6 above).
- vi. Outstanding balances of travel expenditures are reviewed and adjusted.

Staff responsible for taking action: Finance and Administrative Specialist

Date by which action will be taken: January 2015

Property, Plant and Equipment (PP&E)

The office had conducted physical inventory counts of its PP&E in both 2013 and 2014. The value amounted to US\$ 1.5 million as of June 2014. The audit reviewed the recording, management, disposal and physical inventory count and noted the following:

Recording: Following a review of VISION reports, the audit found that:

- The purchase price of asset items valued at US\$ 437,000 was recorded at zero in VISION. For example, the original value for one asset item purchased in 2012, 27 asset items purchased in 2013 and 26 asset items purchased in 2014 were recorded at zero in VISION while their carrying value¹⁰ averaged more than US\$ 8,000.
- Of total assets recorded in VISION, there were 211 asset items, valued at a total of US\$ 214,000, that did not have tag numbers and could not therefore be easily tracked and their existence confirmed.
- The location of more than 700 asset items, including vehicles, motorbikes, laptops, projectors and other information and communication (ICT) equipment, was not clearly indicated in VISION.
- The property survey board (PSB) status for three Samsung Galaxy S4 smartphones was showing as “not found” in VISION, although they were in fact in the custody of UNICEF staff.
- The office had raised a purchase order (PO) to purchase two vehicles. The PO had been cancelled, but the assets were recorded with the PSB status “donated” by the office, though it had never in fact possessed them.
- Assets that had been disposed of based on PSB recommendations had not been updated in VISION and still appeared as assets in use.

Physical count: Following a review of the office’s physical asset count recorded in VISION, the audit found the following:

- Seven Blackberry smartphones had been disposed of following a PSB recommendation in December 2013. However, they were still shown in VISION as of 19 June 2014.
- A physical asset count in December 2013 identified 52 asset items that were not listed in VISION, including two armoured vehicles, valued at US\$ 385,000. However, having been identified in the physical count, these 52 items were not then entered in VISION as required.

Audit review of assets: The audit reviewed a sample of 10 assets recorded in VISION to confirm their physical existence, and a similar sample of physically-located assets to test their

¹⁰ The purchase cost (sometimes referred to as its book value) is obviously what an asset cost when acquired; the carrying value, crudely stated, is what it is worth now. This will take into account not only depreciation but also any loss of value due to damage.

recording in VISION. The audit could not locate one photocopier with an original value of US\$ 7,400 recorded in VISION. In contrast, another photocopier was located physically but not found in VISION.

Agreed action 12 (medium priority): The office agrees to establish mechanisms to:

- i. Update the asset master record on a timely basis to ensure assets are accurately and completely recorded.
- ii. Tag all assets so that they are easily tracked in VISION.
- iii. Accurately record the results of physical asset count and reconcile them with the records in VISION, and vice-versa.

Staff responsible for taking action: Finance and Administrative Specialist

Date by which action will be taken: January 2015

Vendor master records

The creation of vendor master records is expected to be done by designated staff member(s). The office is also expected to ensure the completeness of the vendor's details in the master record – especially the payment transaction and the banking details, as this information is required for processing of payments.

The office had established a standard process and documentation for the maintenance of vendor master records that included creation and modification of vendor accounts and banking details. It also required the supplier/vendor to provide banking details in writing to UNICEF, and any changes to the vendor information required the same procedures. The role of maintaining vendor master records was properly segregated from transaction processing.

A total of 726 vendor records had been created for the office as of June 2014. The audit found 39 duplicate vendors totaling 84 records, or 12 per cent of all vendor accounts. Nine of these duplicate vendors were blocked for payment but none of them were marked for deletion. While the audit observed no duplicate payment due to duplicate vendor master records, the risk of duplicate payment or incorrect charges exists.

Agreed action 13 (medium priority): The office agrees to:

- i. Review and update the process for, and provide guidance on, requesting, creating and deleting vendor master records.
- ii. Identify vendors with multiple master records, verify their validity, and block and mark for deletion any invalid or duplicate master records.
- iii. Periodically review the vendor master records in order to prevent duplications, and ensure completeness and accuracy of vendor records.

Staff responsible for taking action: Finance and Administrative Specialist

Date by which action will be taken: February 2015

Information and communication technology (ICT)

The office managed data backup and security of the server room adequately, and had tested its disaster recovery plan in 2013. It used the electronic standard application form (eSAF) to request provisioning and de-provisioning for users' access to core UNICEF ICT systems. It also

embedded ICT in the business continuity plan. The audit reviewed access, security and in-house developed ICT tools and noted the following.

Access and security: The office did not adequately manage staff access to ICT systems. Three out of 10 sampled staff contracts showed that staff had been provided with access that ran beyond the expiry date of their contracts. Further, the office provided access, including unlimited access to share drive, to non-staff (consultants) without obtaining a signed Memorandum of Understanding or Non-Disclosure Agreement, which is intended to protect information security. For emergency reasons, the office also provided access to the server room to a staff member from a contracted security company (this access was revoked when the audit informed the office that non-UNICEF staff should not have access to UNICEF systems.)

In-house developed ICT tools: The office had developed a tool named “Equitrack” to monitor the implementation of Programme Cooperation Agreements (PCAs). The tool was accessible and used by UNICEF and partners’ staff. It was developed by a consultant. However, the office had not sought endorsement for this from either the Regional Office or ITSS headquarters; UNICEF policies specify that approval should be sought from both. In addition, the tool was hosted by a third party without any assessment of third-party hosting risks.

The above shortcomings increased the risks of unauthorized access and/or inappropriate transactions, resulting in potential loss of resources and data integrity.

Agreed action 14 (medium priority): The office agrees to:

- i. Establish procedures to ensure that consultants sign a non-disclosure agreement ahead of provisioning access to UNICEF systems.
- ii. Regularly reconcile period of access to UNICEF systems with the expiry dates of staff contracts.
- iii. Obtain endorsement of the Regional Office and/or ITSS for online monitoring tools developed in-house, and for third-party hosting, to ensure efficient use of resources and protection of confidential information.

Staff responsible for taking action: ICT Officer, Chief of Operations and Chief of SPPME

Date by which action will be taken: The office reports the action as having been taken prior to December 2014

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over *[audit area]*, as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an **unqualified** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware of the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a **qualified** conclusion will be issued for the audit area.

An **adverse** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.