Internal Audit of the Peru Country Office

December 2014

Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the United Republic of Peru Country Office. The audit was conducted from 3 June to 10 August 2014. The audit sought to assess the governance, programme management and operations support over the office's activities, and covered the period from January 2013 to May 2014.

The 2012-2016 country programme includes four components*: Policy, Social Investment and Knowledge Generation for the Promotion of Children's Rights; Child Survival and Development; Equitable, Quality Basic Education; and Protection of Children and Adolescents.* The country programme has an approved budget ceiling of US$ 47.2 million, comprised of US$ 3.8 million regular resources (RR) and US$ 43.4 million of other resources (OR). 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 Peru country office's fundraising target was US$ 900,000 million for 2014, of which about US$ 303,250 had been raised by July.

The country office is in Lima. There are no zone offices. At the time of the audit, the office had 37 posts.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address the issues raised in this report. None are rated high priority (that is, addressing issues that require immediate management attention).

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the country office were generally established and functioning during the period under audit.

The Peru country office and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) December 2014

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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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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.

The audit found that controls were functioning well over a number of areas. Advisory structures and statutory committees were established and worked well. The office had developed comprehensive annual management plans in 2013 and 2014; these identified both external and internal risks that would affect the office's support to the country programme. Performance indicators were identified and responsibilities for the tasks related to each priority were assigned.

Actual performance against indicators was regularly monitored during technical programme and operations meetings and by the country management team (CMT). Weekly technical meetings served as open fora for sharing of information on internal and external visits and other office-wide issues.

The office's staffing structure had gone through several changes involving the abolition of 18 staff posts, primarily due to closure of zone offices. The latest changes had been in July 2014, in preparation for transfer of some of the day-to-day transactions to UNICEF's regional transaction-processing hub in Panama in 2015, and eventually to the organization's Global Shared Services Centre (GSSC). The office informed the audit that the office structure was generally sufficient to support the achievement of results up to the end of the current country programme.

There was timely discussion of staff priorities and completion of staff performance. The office had prepared a training plan with both group and individual training activities, and the audit was informed that progress would be undertaken during the mid-term annual management review.

The office controls related to risk management functioned well; the office had outlined a risk profile and had developed action plans to mitigate very high- and medium-high risks.

However, the audit noted the following.

Delegation of authorities and assignment of roles

The Representative had delegated authorities to staff as authorizing, purchase-order (PO)-releasing, receiving, certifying, approving and paying officers. The latest Table of Authority (ToA) had been signed on 28 February 2014.

In order to prevent error and/or fraud, the roles assigned to staff should be carried out in such a way that no one individual can have complete control of any transaction. The assigned roles should be included in UNICEF's management system, VISION.

Delegation of authorities: According to information retrieved from Approva, the software used to detect segregation-of-duties conflicts, there were three high-risk and seven medium-risk conflicts. These included four staff members who were delegated receiving-officer functions and were also able to perform functions as approving officers. Two other staff members had been delegated the functions of receiving officer and, at the same time, those of paying officer.

Assignment of roles: 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 approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1 on Internal Controls and its supplements. The assignment of roles should be aligned with the ToA.

The audit noted that some roles were not adequately segregated. For example, a staff member had been assigned both receiving and paying officers roles, as well as paying and approving officer. These roles should be separated to reduce the risk of processing payments for goods or services not received, or the liquidation of direct cash transfers originally approved and paid by the same staff member. The office was not aware of these cases since it depended solely on Approva, in which they were not considered to be violations of segregation of duties. The office was also not undertaking periodic monitoring of the functioning of delegated authorities.

The office informed the audit that it had not established any mitigation actions to prevent the risk of breaches to internal controls.

Agreed action 1 (medium priority): The office has agreed to:

i. Review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.
ii. 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. Institute periodic monitoring of the assignment of roles in VISION and the authorities delegated by the Representative.

Staff responsible for taking action: Representative and representative's assistant
Date by which action will be taken: January 2015

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that 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 above areas were covered in this audit.

The country programme is managed jointly by UNICEF and the National Coordination Committee, chaired by the Peruvian Agency for International Cooperation (*Agencia Peruana de Cooperación Internacional*, or APCI). The programme is shaped by the Foreign Ministry and senior representatives from each of the ministries and regional governments with which UNICEF collaborates.

The audit found that controls were functioning well over a number of areas. The office had conducted annual planning exercises with its sub-national and national level partners. Workplans were completed and signed by mid-November and approved by the Committee during the first week of December.

The office was finalizing a comprehensive analysis of the situation of children and women in the country (known as a SitAn). Country offices are expected to do this at least once during a programme cycle in order to inform the design of the next country programme. In earlier years, the office had conducted annual updates of the situation of children and periodic studies on the status of children, through undertaking desk reviews based on secondary data from various sources.

Advocacy themes were identified on the basis of these annual SitAn updates. Disparity reduction was a major advocacy theme, given that Peru is one of the most unequal countries globally. The office had calculated that between 2011 and 2013, through evidence-based advocacy, capacity development and technical assistance, UNICEF's contribution to the increased allocation of public funds to child- and adolescent-related social budgets had leveraged more than US$ 160 million in public-sector funding. The office also made use of the strategies and tools that are part of MoRES,[1] and had, by 2013, documented four such processes undertaken in collaboration with implementing partners.

The office had implemented the Harmonized Approach to Cash Transfers (HACT). UNICEF was leading a HACT commission that met regularly in order to discuss implementation of HACT between the UN agencies in Peru. The office had carried out micro-assessments for selected implementing partners receiving over US$ 100,000. The audit visited a region where UNICEF supported activities, and confirmed that there were controls to provide assurance that funds were used for intended purposes. The office had developed a framework for assurance activities, and had contracted auditing firms to carry out spot checks of implementing partners.

However, the audit noted the following.

Results-based planning and monitoring

UNICEF programmes plan for results on two levels, the terminology and guidelines 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.

The office was in the process of adjusting its results hierarchy to align with the current guidelines, in terms both of terminology, and of the outcome and output areas. The office informed the audit that the current guidance, which requires only two indicators per programme outcome, was deemed limiting; after providing the quantitative indicators required, there was little scope for the qualitative indicators that could also be appropriate for upstream work (for example, achievement of child-friendly legislation that had been advocated by UNICEF).

The audit noted the following.

Data and information availability: The office used national data collection and information systems to report on progress against identified indicators. However, data collection and analysis were constrained by gaps in the availability of baseline data (for the child protection programme component), insufficient disaggregation of data, and at regional levels, insufficient skills of partners and irregular collection. This affected the office's own reporting on progress of supported interventions, and also hindered verification of progress against some indicators at outcome level.

Monitoring for results: During a visit to one of the regions, the audit heard that there were still data gaps that constrained adequate monitoring and prioritization of region-specific issues related to children. Implementing partners informed the audit that they still required UNICEF's support for systematic collection, analysis, and use of data. This would assist regional governments in their reporting to the Ministry of Finance and Economy at national level on

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[1] MoRES is Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged. It highlights the fact that there are critical conditions or determinants which either constrain or enable the achievement of results for particular groups of children.

indicators on progress towards nationally defined indicators, including those related to children.

The need to support the strengthening of systemic result-based monitoring at all levels was also recommended by the mid-term review that ended in June 2014.

Agreed action 2 (medium priority): The office agrees to continue to seek the best approach to:

i. Ensuring the identification of adequate indicators to assist measurement of progress.
ii. Supporting the strengthening of sub-national administrative systems for data collection, analysis and monitoring, including activities (such as training) and tools that will provide accurate sources of assessment of progress against planned results.

Staff responsible for taking action: Deputy Representative, Senior Programme Assistant, Protection Specialist, Education Officer, Early Childhood Development Officer and Monitoring and Evaluation Officer
Date by which action will be taken: March 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

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 capital equipment. It also includes the identification, security, control, maintenance and disposal of property, plant and equipment (PP&E).
- **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. A Contract Review Committee (CRC) with appropriate membership met to review major contracts above US$ 50,000. The office had established satisfactory key financial controls that included a correct and timely process for bank account reconciliations. The office's 2013 year-end accounts closure reports were processed and submitted on schedule.

The business continuity plan had been updated after a simulation exercise carried out with the participation of Representatives, Emergency focal points and Security focal points from several UN agencies. The office had taken measures to ensure that computer installations, ICT equipment and back-up media were safeguarded against unauthorized access, physical hazards, accidental damage and the impact of power loss.

There were adequate procedures to manage plant, property and equipment (PPE). The office conducted inventory of plant, property and equipment in July 2013. The office held three property survey board (PSB) meetings in 2013 and one meeting in 2014, where cases were reviewed and recommendations made regarding impairments. These recommendations were followed up.

However, the audit also noted the following.

Fundraising database system

The Peru country office had been classed by UNICEF's Private Sector and Partnerships (PFP) division in Geneva as a "Stage 3" country office with an unrestricted local fundraising market.

This means that the office can raise as much money as it wishes, rather than only the needs of its own country programme; the surplus goes to UNICEF globally.

The local fundraising contributions collected by the country office amounted to US$ 968,858.44 in 2013 and US$ 303,250 (as of 31 July) in 2014. The office stated that it had not done an analysis of local fundraising potential until 2013. The office's number of pledge donors at the time of the audit was 700. The fundraising activities included national campaigns aimed at gathering funds from individual donors, corporate partnerships with the national private sector, donations generated by national committees for UNICEF, and funds raised by Geneva PFP Division for global thematic activities.

Global UNICEF guidelines issued in October 2013 require that all contributions collected, as well as all supporter information, be managed through DonorPerfect, a fundraising database system used by not-for-profit organizations. These guidelines also describe the operating procedures for the recording of contributions, including reporting activities and the interaction of finance staff with the PFP section for the reconciliation and recording of data in VISION.

The audit noted that the office's mechanisms for carrying out reconciliations, monitoring and forecast of its fundraising activities were not in accordance with prescribed guidelines, and posed a risk to ensuring accuracy and confidentiality of donor information. The office also used manual forms to register individual donors.

These weaknesses arose from the fact that the office's current version of the DonorPerfect software had not been updated; further, the team lacked knowledge of its use. The audit was informed that the office had failed to get a trainer to come to Peru, and that staff would instead be going to the regional office for training.

Agreed action 3 (medium priority): The office, in coordination with the Regional Office, has agreed to ensure that the DonorPerfect software is updated and is used as an integral part of the management of the local fundraising activities. The office will establish standard operating procedures for its use in accurate recording of contributions and periodic reconciliation of income received.

Staff responsible for taking action: PFP Assistant, Finance assistant, ICT Officer, ICT Assistant supported by Operations Officer, Latin America and Caribbean Regional Office (LACRO) and the Regional Fundraising Specialist in LACRO
Date by which action will be taken: March 2015

Direct cash transfers (DCTs)

The audit reviewed a sample of 41 cash transfer liquidations related to 14 disbursements of funds (the disbursements normally included several amounts that were liquidated separately). The review showed that in 29 out of 41 cases the DCTs were liquidated after over six months.

In 14 of 41 cases, the disbursements of funds had been delayed for a period of over 21 days. The office's standard for processing advances was 15 days (and the same for liquidations). Those delays that arose in the UNICEF office were attributed to mostly internal processes related to implementation of recently assigned territorial or regional responsibilities. Travel was also a cause of some delays. The delays from implementing partners were due to lengthy and centralized processes and the requirement to strictly adhere to procedures for funds disbursement and procurement.

Agreed action 4 (medium priority): The office agrees to review its internal processes to address bottlenecks in processing disbursements and liquidations, and to ensure sub-national level implementing partners understand their own disbursement processes, in order to plan realistically.

Staff responsible for taking action: Deputy Representative, Operations Officer, Senior Programme Assistant, Social Policy Specialist, Child Protection Specialist Education Officer and Early Childhood Development Officer.
Date by which action will be taken: March 2015

Vendor master records

UNICEF's Supply Manual provides guidance on the creation, maintenance and use of, and access to, vendor records in VISION. [2] This guidance explains how to ensure the avoidance and/or identification of errors and the prevention of inappropriate actions, and how to protect staff from any appearance of improper use of UNICEF resources.

The guidance states that in a country office, the creation of vendor master records should be done centrally by the designated staff member(s) and that the office should ensure the completeness of the vendor's details in the master record – especially the payment transaction and banking details, as this information is required for processing payments. In this way, only accredited vendors would be maintained in the system.

The office had assigned two staff members for the maintenance of specific vendor account groups in VISION. According to information retrieved from VISION, at the time of the audit a total number of 1,086 vendor records had been created for Peru country office. A sample review of this vendor master data showed that 39 vendor records were duplicated (although no duplicate payments were observed).

The office stated that duplicate master records were created either during the migration of data from the old management system when VISION was implemented (in January 2012), or because the assigned staff members did not ascertain, as part of the vendor master record creation process, whether a vendor master record had previously been created. The office also indicated that the extraction process for the verification of pre-existing vendors failed to retrieve records matching the selected criteria when the vendor name was split between two fields. Consequently, vendors with duplicate master records had not been identified, blocked from posting and marked for deletion.

Duplication of vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or duplicate payments. In some cases, duplicate records for an implementing partner may allow it to receive cash disbursements despite having advances outstanding for more than six months.

[2] See Chapter 5, Section 3: *Supplier Evaluation - Vendor Master Management*.

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

i. Identify all vendors with multiple master records, and ascertain their validity, blocking and marking for deletion the master records that are considered invalid or duplicate.
ii. Provide guidance and ensure that relevant vendor master records do not already exist in VISION before another vendor master record is created.
iii. Periodically review the vendor master records in order to prevent duplications and ensure completeness and accuracy of records.

Staff responsible for taking action: Vendor Master Records maintainer and Operations Officer
Date by which action will be taken: December 2014

Conclusion: Operations support

Based on the audit work performed, OIAI concluded at the end of the audit that, the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definition 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 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.