

Internal Audit of the Costa Rica Country Office

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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 Costa Rica country office. The audit sought to assess the office's governance, programme management and operations support. The audit covered the period from January 2013 to December 2014.

The country programme for 2013-2017 consists of two main programme components and an inter-sectorial component with a total budget of US\$ 9.7 million. The two programme components are: *Development and comprehensive protection of children and adolescents*; and *Monitoring and analysis of respect for children's rights*. The country programme budget is approximately US\$ 9.75 million, of which US\$ 3.75 million is regular resources (RR) and UIS\$ 6 million is 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 donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country office is located in the capital, San José; there are no zone offices. The country office had a total workforce of 12 posts (one international professional, four national officers, six general service and one junior professional officer).

Action agreed following the audit

In discussion with the audit team, the country office has agreed to take a number of measures. One is being implemented as high priority – that is, to address an issue that requires immediate management attention. It is as follows:

- The office agrees to fully implement the Harmonized Approach to Cash Transfers (HACT), including conduct of a new macro-assessment, micro-assessments of all eligible partners, implementation of an appropriate assurance plan and providing staff and partners with HACT training as needed.

Conclusion

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 the Costa Rica country office were generally established and functioning during the period under audit. The office has prepared an action plan to address the issues noted.

The country office, with support from Latin America and Caribbean Regional Office (LACRO), and OIAI will work together to monitor implementation of these measures.

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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 the audit.

The audit noted a number of areas where controls were functioning well. Office priorities, their indicators and expected results had been included in the Annual Management Plan (AMP), and communicated to staff. Priorities were reviewed annually. The office had documented agreements reached by the Country Management Team (CMT) regarding the overall office priorities, and then assigned those priorities to each of the programme sections.

The staffing structure was reviewed in February 2014, and changes were proposed and approved by the PBR.¹ As a result of this review several posts were abolished, reflecting the

¹ The programme budget review (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.

fact that the office had joined UNICEF's transactions-processing hub in Panama; meanwhile some new posts were established to support the current needs of the office. Also, a consultant was hired to help with fundraising, including finding the best avenues to reach the private sector and the civil society, getting local government to be a key partner in this new challenge.

The office had a standard ethics presentation for staff and consultants. In addition, three staff members had started a training course on ethics given by the Global Ethics office, to be trained as facilitators for future training sessions.

However, the audit noted the following.

Functioning of advisory teams

UNICEF offices have various governance teams and committees that guide a country office's operations and the implementation of the country programme. The office had terms of reference (ToRs) that specified, among other things, the purpose and functions, and the composition of the teams and committees. However, the ToRs had not been signed off by the Representative as approved. Also, the minutes of the CMT did not record approval of minutes from previous meetings.

The CMT is expected to monitor various programme and operations indicators, but the minutes did not reflect this, or record follow-up actions from previous meetings. The CMT also did not document follow-up of the implementation of the priorities included in the AMP (and no review of them was recorded in any other forum).

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

- i. The terms of reference of the country management team (CMT) are approved and that each meeting of the CMT records approval of minutes of previous meeting.
- ii. The CMT monitors programme and operations indicators, and documents follow-up of implementation of priorities included in the Annual Management Plan.

Staff responsible for taking action: Representative and the Country Management Team

Date by which action will be taken: December 2015

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA 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.

In 2010, the Costa Rica office performed its first comprehensive RCSA using UNICEF's ERM Guidelines. This risk assessment included a broad and systematic analysis of risks and development of an action plan to mitigate the risks identified in the key programme, operations, and fundraising functions. Further reviews of key risks took place in 2013 and again in 2014.

The latest assessment, in 2014, had identified 20 risks, one of which (related to funding

alternatives) was rated high, and eight as medium-high. The latter include risks related to the country environment, neutrality, partner relations, ability to change, governance and accountability, IT infrastructure, talent management, and natural disasters. Comprehensive action plans for mitigation were developed for the key risks; accountabilities were assigned, and target dates fixed for further review.

However, the audit noted that in 2014 the office had not populated the RCSA in inSight² (though it did so in 2013). At the time of the audit, the RCSA had not yet been updated to reflect the results from the review that had been completed in 2014.

In 2014, the office prepared a document titled “UNICEF priorities and communication strategy” that included a list of key priorities, and analysis of issues and risks related to the completion of the programmes in the country. However, some of the key risks identified, the related mitigating activities, and the staff responsible for monitoring, were not included in the ERM framework of the office. Such risks related to the need to operate with less staff members, lack of programme synergies, potential duplication of efforts, resistance to evaluations, etc.

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

- i. Ensure that all the risks of operating in Costa Rica are included in the country’s risk assessment.
- ii. Update the Risk and Control Self-Assessment in inSight so that it accurately reflects all the risks from its risk and control library based on the most recent country office risk assessment.

Staff responsible for taking action: Representative

Date by which action will be taken: May 2015

Performance appraisals

Staff performance in UNICEF is managed, measured and reported through the Performance Appraisal System (PAS), using a paper-based system or electronic PAS (e-PAS), depending on staff grade.

The status of PAS/e-PAS completion was reported regularly to the CMT. However, as of November 2014, staff priorities for six staff members had not been established. Further, the office did not assess staff progress in meeting agreed priorities, and areas for improvement were not identified in the course of the year. This happened because the office’s management indicators only included monitoring of completion of prior year performance evaluations of staff, and did not include such indicators as meeting annual performance objectives, or performing the mid-year performance assessment on time. For a staff performance system to be effective, regular and timely discussions with the staff are needed.

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

² inSight (sic) is the performance component in UNICEF's management system, VISION. It streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

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- i. Ensure staff members' annual performance objectives are established in the first quarter, and that timely mid- and end-year assessments of staff performance are carried out as required.
 - ii. Include the timely completion of performance appraisals as one of the management indicators in the Annual Management Plan, to be monitored and reviewed by the Country Management Team.

Staff responsible for taking action: Representative and the country management team

Date by which action will be taken: December 2015

Governance area: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office governance 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 time bound (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.
- **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.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the above areas were covered in this audit.

The audit noted a number of areas where controls were functioning well. The office had mechanisms (such as weekly discussions with programme officers and partners) to ensure that information reported in inSight was accurate and reliable. The office had established an adequate Integrated Monitoring and Evaluation Plan (IMEP) with progress monitoring and annual review mechanisms, and IMEP activities were also entered in inSight.

CMT meetings were mostly devoted to detailed review and discussion of progress made by each of the programme officers in their respective areas.

Resource mobilization

The Representative commented to the audit that traditionally, National Committees for UNICEF (NatComs) and traditional donors will not invest in upper-middle-income countries like Costa Rica, particularly when they can fund neighbouring countries with more needs. The Representative informed audit that the office was labelled as an “orphan” country, and so was given priority at a regional level in allocation of resources mobilized through the Regional Office. For Costa Rica, the main source of OR funding had been from UNICEF headquarters and Regional Office allocations to fund its programme. The 2013-2017 country programme includes other resources (OR) totalling US\$ 6 million, which is 62 percent of the country office’s US\$ 9.7 million budget. In 2013 alone, the office received an amount of US\$ 863,000 in OR for thematic funds from HQ and the Regional Office to support its programme.

Given that the office needed additional resources to fund its programmes, the most recent

PBR had approved the hiring of a consultant to find new ways to raise additional funding.

To address this over-reliance on OR funding from HQ and the Regional Office, the office, in coordination with other country offices from the region, had hired a consulting company to develop a comprehensive annual resource mobilization strategy,³ which it had discussed with the Regional Office. The office planned to implement the new strategy in 2015.

The strategy was to target corporations and not individuals. This represents a shift in strategy that entails substantial risks, having implications for office structure, staffing, risk of loss of funds, etc.; if not properly managed, it could have a negative impact on the country programme. Despite this, the office had not sought the input of the Private Fundraising and Partnership (PFP) office in the development of the strategy.

Agreed action 4 (medium priority): The office agrees to ensure that the resource mobilization strategy is finalized and implemented promptly, and its implementation is monitored regularly.

Staff responsible for taking action: Representative and the Communications Officer

Date by which action will be taken: September 2015

Planning

UNICEF offices are expected to plan their country programmes with concrete outcomes for children, and progress towards them should be measured against baselines, using indicators that are SMART (specific, measurable, achievable, relevant and time-bound). The audit reviewed whether the country programme was planned in such a way as to make this possible, starting with the Country Programme Document (CPD) itself. The CPD is the basic description of the programme that is approved by UNICEF's Executive Board.

The office had developed the 2013-2014 rolling workplans (RWPs) jointly with its implementing partners.⁴ The RWPs were linked to the UNDAF⁵ outcomes. The workplans, which outlined the expected results and planned activities, plus budgets, timeframes and implementing partners for each activity, had been endorsed by the implementing partners.

However, the audit reviewed three outcomes (PCRs)⁶ in the workplans, and noted that they

³ While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

⁴ According to UNICEF's Programme Policy and Procedure Manual (PPPM), workplans can be developed on an annual or multi-year basis, or as rolling workplans. In the latter case, the workplan is subject to interim review.

⁵ The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

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. It consists of a change in the situation of children and women. 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.

were not specific and measurable and, in some cases, only expressed activities and not results. For example “1.1. By 2017, children will have greater access to pertinent and quality education and integrated early childhood development care leading to a reduction of social disparities and inequalities.” The output results were generally broad, and included the use of words like “greater”, “increased” and “prioritized” that were difficult to measure. In addition, while there were indicators for the outputs, some of them did not have baselines against which progress could be measured; this raised questions as to how the targets were set and whether the targets were realistic.

The above weaknesses occurred because the office had not established an adequate process for quality review of the workplans before they were finalized.

Agreed action 5 (medium priority): The office agrees to establish a quality review process for the programme results included in the workplans to ensure that they are specific, measurable, achievable, realistic, and time-bound (SMART), and that they have appropriate indicators and baselines. The office will request the input of the Regional Office in the review of the programme results.

Staff responsible for taking action: Representative, Programme Specialist, Monitoring and Evaluation Officer and Chief of Planning

Date by which action will be taken: January 2016

Harmonized Approach to Cash Transfers (HACT)

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, both government entities and NGOs. 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 based on an approved plan covering a period of time, regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle.

The implementation of HACT had not been finalized in the country office. The audit noted the following.

Macro-assessment: The last macro-assessment had been made in 2008, for the previous country programme. In this assessment, it was recommended that funds not be directly transferred to implementing partners because all funds meant for Government partners went into a single government bank account. The UN had been late in commissioning a new macro-assessment for the UNDAF/country programme document and so the former

Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

recommendations remained in force.

Micro-assessments: At the time of the audit in November 2014, the office stated that it was in the process of performing its first two micro-assessments, as part of the first steps to implement HACT in the country office based on the action plan described below. The office had 17 implementing partners, none of which had received cash transfers exceeding US\$ 100,000.

Assurance plan: The office had not prepared an assurance plan that set out activities over a specific time period, including spot checks and scheduled audits. Programme monitoring activities, although often done, were not always included in an assurance plan.

Training activities: With the support of the Regional Office, the office staff and key partners had received HACT training for the first time on 23 and 24 September 2014. This was confirmed by key partners interviewed by the audit. However, these partners also mentioned the need for further training, and for assistance regarding the preparation of FACE forms⁷ and the liquidation process.

During the audit, the office developed a document labelled “2014 HACT Report”, which amongst other issues, presents an implementation plan for HACT, including the details of partners to be micro-assessed and a timeline. This was then transmitted to the Regional Office. The audit reviewed this document, which covered a number of topics including implementation to date, a list of existing contracts with third parties and an action plan for 2015. The latter included all key components – estimated micro-assessments, audits and spot checks to be conducted in 2015, estimated availability of funds for these activities, and any additional funds that might be required.

Overall, the plan addressed all of the weaknesses in the HACT process that the audit had identified during its review. If fully implemented, it should significantly strengthen the HACT process. At the end of the audit the office was in the early stages of implementing it.

Agreed action 6 (high priority): The office agrees to fully implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2014 HACT guidelines and procedures that are highlighted in the action plan for HACT developed in 2014. This will include:

- i. Conducting a new macro-assessment.
- ii. Completing micro-assessments of all eligible implementing partners;
- iii. Developing and implementing an assurance plan that combines programmatic monitoring and spot checks (and audits if any partners receive over US\$ 500,000 during the programme cycle).
- iv. Providing staff and implementing partners with HACT training as necessary based on identified needs, specifically on Funding Authorization Certificate of Expenditure forms and liquidations.

⁷ 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.

Staff responsible for taking action: HACT focal point and the Country Management Team
Date by which action will be taken: July 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over programme, 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, Regulations, 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 above areas were covered in this audit, with the exception of inventory management as the office does not have a warehouse for supplies, and safety and security (the UN Division of Safety and Security had reviewed the UN building in 2013 and had made only minor recommendations).

The processing of some operations transactions had been transferred to UNICEF's Panama transactions-processing Hub based in Panama in July 2014. The Hub is now in charge of most of the financial operations, including payment of direct cash transfers (DCTs), processing payments, general ledger, travel, bank reconciliations, and human resources management. An Operations Assistant in the country office interacts with the Hub for this activities. The Hub is also in charge of coordinating advisory committees such as Contract Review Committee (CRC), Property Survey Board (PSB), and Central Review Board (CRB).⁸ Roles and responsibilities between the country office and the Hub are documented in a Service Level Agreement (SLA).

The audit found some areas in which controls were functioning well. The office's total cash transfers to nine implementing partners amounted to about US\$ 162,293, representing 7 percent of the total expenditures during 2013, and US\$ 280,794 as of the end of October 2014, which represented 13 percent of the total expenditure during 2014. The audit reviewed a sample of four DCTs and liquidation transactions, totalling approximately US\$ 117,569, with four implementing partners during 2014. The payments and liquidations reviewed were all made in compliance with current policies and procedures.

⁸ The CRC reviews proposed contracts above a certain value threshold, the PSB makes decisions regarding assets and their disposal, and the CRB reviews recruitment decisions.

Procurement and contracts

Based on the report that the audit obtained from UNICEF's management system, VISION, the office issued 57 individual contracts for consultants during 2013, totalling US\$ 644,728. Of these, 12 were single-source selection, 39 were through competitive selection, and for six the information was not given. During 2014, 47 individual contracts for consultants totalling US\$ 680,835 were issued, of which 17 were single-sourced, 25 were competitive, and four lacked the information.

The office accepted that it had a high rate of single-sourced contracts, and stated that there were several reasons. First, due to the size of the country, it was hard to find enough consultants locally with expertise in certain areas, and in several cases, they worked with consultants that had already worked for them in the past and who they knew produced quality outputs. Also, in a number of cases, the implementing partners might recommend a consultant that is well known, and had the expertise in the programme area in which they were working. In this regard, the audit found two different examples where the consultants were recommended in writing by the partner, and the office then attached this letter to the note for the record (NFR) justifying the single source.

The Representative also stated that for contracts in the Communications area, they were in the process of moving the consultants, who were single-sourced, under a long-term agreement (LTA), since they were always the same. She added that other consultants were single-sourced for the programme on disabilities because of their known performance and ability to deliver on previous projects. Further, due to short notice from the Government partner when starting a new project, they did not have sufficient time to perform a competitive selection. The office also said it obtained recommendations from other country offices for consultants that had the expertise it needed (for example, the consultancy group that developed the fundraising strategy – see observation on *Resource mobilization* above).

Notwithstanding the office's explanations, UNICEF's Administrative Instruction CF/AI/2013-001 states that the "competitive selection process requirement may not be waived unless it can be demonstrated that an emergency situation prevents a competitive selection process." The audit did not establish that the contracts issued by the office met this criteria. Hiring of contactors on a single-source basis because there was inadequate time for competitive selection indicates inadequate planning, and risks ineffective use of funds.

The audit tested a sample of five contracts with an approximate amount of US\$ 165,000 and noted that the contracting processes were documented and approved at the appropriate level, and that key supporting documents were then uploaded to VISION.

Of the 46 contracts that were issued in 2014, audit noted 31 contracts with amounts over US\$ 20,000. However, as the office had established a threshold of US\$ 50,000 before a contract was presented to the CRC, only two contracts were presented to and reviewed by the CRC in 2014. Although the audit acknowledges that the current threshold of US\$ 50,000 is the one approved to be used by country offices, the controls over procurement could be strengthened if the office opted to reduce the threshold to increase the number of contracts that are reviewed by the CRC before they are approved.

Agreed action 7 (medium priority): The office agrees to ensure:

- i. Contracts are issued on a competitive basis following established UNICEF guidelines.

- ii. VISION is fully updated on the type of contract issued and how the contractor was selected (single source or competitive selection).
- iii. There is a review and if necessary revision of the threshold for review of proposed contracts by the contracts review committee.

Staff responsible for taking action: Representative and the Operations Assistant

Date by which action will be taken: December 2015

Property Plant & Equipment (PP&E)

The PP&E report retrieved from VISION as of 28 October 2014 showed that the office had recorded a total of 68 items with an acquisition value of US\$ 126,732. The audit noted the following.

Physical inventory: The physical inventory performed by the office in October 2014 had not been reconciled to the PP&E information in VISION. Of the 68 items, 20, with an acquisition value of an amount of US\$ 46,849, did not have an inventory number in the system. Among those 20 were five notebook computers that were not included in VISION in the “last count” column corresponding to the inventory performed in October 2014.

Vehicle value: The office had purchased a vehicle, a Honda CRV, in 2008. It was recorded in VISION as an asset with a value of US\$ 0. In June 2014, the PSB issued a recommendation to the Representative to sell the vehicle, and to use the money to pay part of a new vehicle. Based on this, in September 2014 the office sold the Honda to the dealer for US\$ 17,250, and then paid an additional amount of US\$ 12,926 to buy a new 2015 Toyota RAV4. However, the value of the vehicle was posted in VISION as US\$ 12,926 only, when the total value of the vehicle was actually US\$ 30,176. A similar situation had happened in 2013 when the office purchased a Mitsubishi for US\$ 28,528; it was posted in VISION at US\$ 6,120.22.

This trading-in of an older car for a new one was not a standard procedure for a country office, so when the Mitsubishi was purchased, the office had sought instructions from the IPSAS⁹ Specialist in the Division of Financial and Administrative Management as to how the asset should be valued in VISION. However, the office made errors in posting the values of the two vehicles in VISION that were not identified until this audit.

Agreed action 8 (medium priority): The office agrees to strengthen the management of plant property and equipment (PP&E) by:

- i. Reconciling the physical inventory of property, plant & equipment (PP&E) to the information recorded in VISION.
- ii. Ensuring that all PP&E items have inventory numbers.
- iii. Correct the values of the two vehicles posted in VISION.

Staff responsible for taking action: Operations Assistant

Date by which action will be taken: April 2015

⁹ IPSAS stands for International Public Sector Accounting Standards; these have been adopted by UNICEF and a number of other international public bodies, and govern (among other things) how assets should be valued and depreciated.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office's operations support 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, and testing samples of transactions. 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 report is issued in final. 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.