Internal Audit of the Republic of Azerbaijan Country Office

March 2015

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 Azerbaijan country office. The audit sought to assess the office's governance, programme management and operations support. The audit was conducted between 18 November 2014 and 8 December 2014, and covered the period from January 2013 to the end of the audit.

The 2011-2015 country programme has two main programme components: *Responsive child-friendly services,* and *Improved attitudes towards fulfillment of child rights*. There is also a cross-sectoral component. The total approved budget for the country programme is US$ 17.1 million, of which US$ 4.6 million is Regular Resources (RR) and US$ 12.5 million is Other Resources (OR). Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources 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 Other Resources), up to the approved ceiling.

The country office is located in the capital, Baku; there are no zone offices. As of November 2014, the country office had a total of 22 approved posts: five international professionals, six national officers and 11 general service staff. The total budgets were US$ 4 million in 2013 and US$ 4.3 million in 2014. Total expenditure was US$ 2.5 million in 2013 and US$ 2.2 million as of end of December 2014.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. One of them is being implemented as high priority; that is, addressing matters that require immediate management attention:

- The office agrees to:
    - Establish a process to ensure that contracts are awarded based on competitive selection and appropriately document justification for single-sourced selections.
    - Provide guidance for the maintenance of procurement action information in VISION and for the closure of completed purchased orders and contracts in VISION.
    - Identify vendors with multiple master records, and verify their validity; and block and mark for deletion the master records that are invalid or considered duplicate.
    - Periodically review the vendor master records in order to prevent duplications and ensure completeness and accuracy of vendor records.

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 country office were generally established and functioning during the period under audit.

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

Contents

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 behavior, 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 2011-2015 country programme management plan (CPMP)[1] had set out a clear organizational structure. The office had comprehensive staff training plans for both 2013 and 2014.

However, the audit also noted the following.

Management priorities

An office's annual management plan (AMP) helps to ensure that the human, material and financial resources of the country office remain focused on the planned strategic results for children. The AMP should define the annual programme and management priorities, and also assign staff responsibilities for those priorities; these should be reflected in staff performance

[1] When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

evaluation reports.

Number of priorities: The guidelines on preparation of AMPs recommend the number of key priorities to be limited to 10 or fewer, so as to increase the office's capacity to focus on critical strategic issues. However, the 2014 AMP included 15 priorities. In addition some of the priorities were too broad and unclear, such as "strengthen accountability of government".

Management priorities and corresponding indicators: The Country Management Team (CMT) reviewed certain performance indicators, but there were none for monitoring the status of implementation of management priorities and key results as identified in the AMP. Furthermore some management priorities were difficult to measure, as they were not specific and measurable; for example, "Increase EU partnership on social inclusion and human rights and better joint communication, especially for and with young people" or "Strengthen accountability of government".

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

i. Key annual priorities are specific and measurable.
ii. The number of priorities are kept at a reasonable level so as to focus on critical strategic issues.
iii. The Country Management Team monitors the status of implementation of key annual priorities and key expected results as set out in the annual management plan, by developing relevant performance indicators as needed.

Target date for completion: March 2015
Responsible staff members: Representative, Deputy Representative and Operations Manager

Supervisory bodies

Country offices are expected to establish statutory committees to ensure effective and efficient management of programme and operations. These committees are also expected to have clear terms of reference (ToR) and relevant membership. The committees usually include the CMT, which is responsible for strategic decision-making and overall oversight of the office, and the Programme Management Team (PMT), responsible for monitoring the implementation of the country programme. The audit noted the following.

Terms of reference: The office had a CMT, Programme Team Meeting (PTM), Contract Review Committee (CRC), Property Survey Board (PSB) and others. The office had prepared terms of reference (ToRs) for each of the committees/teams. However, the frequency of meetings was not in accordance with the ToRs. For example, the CMT was expected to meet on the second Wednesday of each month. In practice, it met six times in 2013, and twice in 2014.

Functioning of the CMT: According to its ToRs, the CMT is expected to monitor programme implementation, performance and results. However, the audit's review of the CMT minutes showed that discussion on programme issues was very limited. The CMT mostly covered routine matters rather than strategic issues, thereby not completely fulfilling its mandate. Also, the minutes lacked a clear agenda, action points and follow-up of previously agreed action points. There was also no evidence that the office's performance indicators were discussed and reviewed.

Functioning of PMT: The audit noted that, during the audited period, the office did not follow programme monitoring as prescribed in the AMP, and was not monitoring its programmes in a structured way. The PMT was expected to oversee the implementation of rolling workplans,[2] budget implementation, and contribution to United Nations Development and Assistance Framework (UNDAF)[3] and to the United Nations Country Team (UNCT).[4] There was no evidence that it was doing this. Further, the PMT was expected to meet every other Tuesday, but had not done so; instead the office's policy was to hold sectorial meetings every other Monday, because programme meetings were considered lengthy. In practice, however, the office held only two sectorial meetings in 2014, and they were unstructured and without any clear objectives. One of these meetings had focused on low-level issues, and the minutes of both were incomplete or missing.

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

i. The frequency of meetings of statutory committees is in accordance with the terms of reference, and scheduled meetings include agenda, action points and assigned responsibilities for follow-up of action points.
ii. The Country Management Team (CMT) focuses on strategic issues rather than routine and administrative matters, so as to better inform management decisions.
iii. The Programme Management Team (PMT) focuses on and systematically reviews programme implementation in accordance with its terms of reference, and minutes of meetings are well kept and relevant key issues brought to the attention of the CMT.

Target date for completion: Office reports the action as having been taken in February 2015
Responsible staff members: Representative, Deputy Representative and Operations Manager

Delegation of authorities and assignment of roles

Country offices delegate authorities to staff members in a Table of Authorities (ToA). They also assign roles to staff members in UNICEF's management system, VISION. In so doing, they are expected to assign roles that are commensurate with a staff member's functions and with the authorities delegated to them in the ToA; and ensure adequate segregation of duties in the assignment of roles.

The audit reviewed the roles assigned to staff in VISION and noted that they were not aligned with their functional responsibilities. For example, two staff members – the planning, monitoring and evaluation specialist, and the youth and development officer – were assigned paying officer roles not delegated to them in the ToA. Further, this was a conflict in segregation of duties between programmatic and operational roles.

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[2] A UNICEF office can draw up workplans on an annual or multi-year basis, or as rolling workplans. In the latter case, the workplan is subject to interim review – for instance, it may be for 18 months – and the Government and UNICEF will agree to periodic technical review of its outputs, say every six months, with an adjustment based on the review of the remaining 12 months. At the same time, an additional six months will be added on to the rolling workplan to make up a new 18-month cycle.
[3] 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.
[4] UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference, and division of responsibilities with individual agencies, vary from country to country.

Agreed action 3 (medium priority): The office should:

i. Review the roles assigned to staff members in VISION to ensure that roles are assigned and segregated appropriately, and are in line with the delegation approved by the Representative.
ii. Reconcile the delegated authorities in the Table of Authorities with the roles assigned in VISION.

Target date for completion: March 2015
Responsible staff members: Operations Manager

Risk management

UNICEF adopted its Enterprise Risk Management (ERM) policy in 2009. ERM is a systematic and proactive approach to identifying, assessing, and managing risks and opportunities across UNICEF using a common language and framework. As part of the ERM, offices are expected to conduct 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.

Offices are also expected to summarize their significant risks in two to three paragraphs in the CPMP and AMP, and should enter their significant risks in the risk assessment section of the performance management dashboard in VISION.

The office had not conducted a Risk and Control Self-Assessment (RCSA) since December 2010. At that time, it had identified four risks. Three were rated medium-high and related to knowledge management, unpredictability in funding and natural disasters. The remaining, medium-rated, risk related to business models for small UNICEF offices working in middle-income countries.

However, though the office had developed an action plan to mitigate the risks, the risk profile of the office was not recorded in the risk assessment module of the performance management dashboard. The audit also noted that the risks identified were not included in and considered by the CPMP and AMP. Further, the CMT did not monitor the implementation of the action plan to mitigate risks.

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

i. Conduct a new risk and control self-assessment, and ensure that the significant risks are included in the 2015 country management plan and annual management plan, and in the risk assessment module of the performance management dashboard.
ii. Ensure that the identified risks are systematically monitored by the Country Management Team.

Target date for completion: Office reports the action as having been taken in February 2015
Responsible staff members: Country Management Team, Representative and Operations Manager

Governance: 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 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 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 areas above were covered in this audit.

The audit noted areas in which controls were working well. An updated Situation Analysis (SitAn) of the situation of children and women in the country had been produced in consultation with government and civil society partners. The office had also established adequate funds-management processes, and funds were allocated and monitored by the responsible staff member in consultation with the budget owner.

The office had an evaluation committee, and criteria for evaluating key programme components. There was also a process to ensure effective participation of government and NGO partners in programme evaluations. Final agreed actions stemming from evaluations were shared with partners.

However, the audit also noted the following.

Resource mobilization

Country offices are expected to develop a clear and comprehensive fundraising[5] strategy for securing approved other resources (OR) in support of the country programme. The audit reviewed the office's resource mobilization/fundraising activities and noted the following:

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[5] 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.

Strategy: The office had drawn up a funding and advocacy strategy in 2012 and had identified potential funding opportunities. However, it had not updated the strategy. It had also not established an action plan for its implementation that would include assignment of responsibilities and timelines for action.

The funding gap of the office for the current programme cycle (2011-2015) was US$ 6 million (33 percent of the approved budget for the five-year programme cycle). The office's response to an audit questionnaire highlighted difficulties in fundraising due to decreased funding from international donors; this had not been compensated for by an increase in private-sector fundraising. An updated strategy, and appropriate action plan to implement it, could help the office leverage adequate financial resources.

Donor proposals: The audit reviewed a sample of two proposals submitted to donors in 2013 and 2014 and found the following:

- None of the sampled proposals listed key implementing partners or briefly described their capacity, experience and skills to successfully implement proposed activities.
- Submitted proposals did not have monitoring and evaluation plans, or a description of how results would be reported.
- One of the two sampled proposals lacked a budget breakdown, and the budget was not results-based to link with the achievement of planned results.
- Project summaries and tables of contents were also missing, and neither of the two sampled proposals included information on the risk assessment and mitigation plan.

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

i. Update the fundraising strategy and develop an action plan, including assigning responsibilities and establishing timelines for its implementation.
ii. Ensure funding proposals meet the UNICEF quality standards outlined by the Policy and Planning Division on resource development with public-sector resource partners.

Target date for completion: March 2015
Responsible staff members: Country Management Team, Representative, Deputy Representative and Communication and Partnership Specialist

Programme planning

The programme planning approach of country offices should be results-based. Country offices are also expected to develop annual or rolling workplans that include planned activities to be implemented during specific time periods.

Workplans: The office had jointly developed workplans with implementing partners. The 2014-2015 rolling workplan was signed by the office with line ministries for various programmatic interventions. However, some planned results were not specific and measurable. For example, the workplan for education included the use of words like "reduction of the equity gap" and "improve access" that would be difficult to measure. Further, there were no targets to monitor progress.

The workplans also lacked timelines for implementation of planned activities. Further, the signed workplans were unclear as to the corresponding resources that each implementing partner was expected to receive.

Registration of country programme and workplans in VISION: The country programme and signed rolling workplans should be accurately registered in VISION. However, some activities registered in VISION did not correspond with and/or were not included in the signed workplans. For example, “map and assess the CP system” was recorded as an activity in VISION but not in the signed workplans; and the activity “school readiness in remote districts” was in the signed workplans but not in VISION.

Inaccurate and incomplete registration of workplan activities in VISION increased the risk of signing activities for which resources were not allocated, and/or reduced the office’s capacity to adequately monitor the implementation of workplan activities and achievement of results.

Agreed action 6 (medium priority): The office agrees to provide guidance and institute an oversight mechanism to ensure:

i. The annual or rolling workplans include expected results that are specific, measurable and time-bound; and the estimated budget for each planned activity.
ii. The intermediate results (outputs) and activities of the signed workplans of the country programme are accurately and correctly registered in VISION.

Target date for completion: March 2015
Responsible staff members: Deputy Representative and Programme Specialists

Harmonized Approach to Cash Transfers

Country 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, while maintaining sufficient assurance on the use of funds. 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 regarding the proper use of cash transfers. Assurance activities are expected, at a minimum, to include spot checks, programme monitoring and scheduled audits.

For the period covered by the audit, the office’s total cash transfers to implementing partners amounted to US$ 1 million, representing 21 percent of the office’s total expenditure during the period. The office micro-assessed those partners who were expected to receive the annual cash transfers of US$ 100,000 and more. However, the vast majority of partners received less than that. The office therefore used the partners’ financial assessment simplified checklist (as set out in the latest HACT guidelines) to identify the partnership risks and determine the level of appropriate assurance activities. The office had an assurance plan to monitor the use of funds transferred to partners. It conducted spot checks and field visits as key assurance activities. It did not carry out scheduled audits, because none of the partners received more than US$ 500,000 during the recent country programme cycle.

However, the audit review noted the following.

Spot checks: The audit reviewed four sampled spot check reports and noted the results of the spot checks were inadequately documented. There was insufficient information on each transaction tested to ensure the funds were used for intended purposes. The spot check documents also did not explain the sampling methodology and criteria used. Further, one sampled spot check did not address a control weakness related to the signatory for bank transfer letters and checks.

Field visits: The office conducted annual reviews with implementing partners and made several field-monitoring visits. The audit reviewed a sample of trip reports and noted that they adequately described project implementation, interaction with beneficiaries, constraints and follow-up actions. However, the field-monitoring plan was not risk-based, i.e. linked to the level of risk associated with the specific partners. Further, the field-monitoring plan was not included in the HACT assurance plan. This reduced the office's capacity to maintain awareness of the status of implementation of all assurance activities.

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

i. Ensure spot checks meet the quality standards established in the simplified financial spot-check instructions included in the Harmonized Approach to Cash Transfers (HACT) framework.
ii. Develop a field-monitoring plan that is risk-based, to systematically monitor progress and achievement of results; and incorporate field-monitoring activities in the HACT assurance plan to assist the monitoring of all HACT assurance activities.

Target date for completion: March 2015
Responsible staff members: Deputy Representative and Operations Manager

Partnership management

Country offices are expected to work closely with the government and non-government partners. The audit noted the following.

Partnership with NGOs: The office signed seven programme cooperation agreements (PCAs) with NGOs in 2013 and 2014. The audit reviewed a sample of three partnerships and noted that the office had not conducted financial assessment of the partners prior to signing PCAs in 2013. In all sampled cases, though the partners had entered into previous PCAs with UNICEF, the performance of the NGOs under those PCAs (such as percentage of results achieved, and timely implementation of activities) was not assessed prior to the renewal of the PCAs.

Capacity building of partners: The audit interviewed two NGO partners to discuss partnership and UNICEF support. Both partners acknowledged receiving training on HACT and reporting. However, none of them had clear understanding of results-based planning and none had received training to strengthen their capacity in that area. Insufficient knowledge of results-based planning and results-based budgeting reduced partners' capacity to effectively report on progress and results.

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

i. Establish a process to ensure PCAs submissions confirm whether partners are micro-assessed and simplified financial and programmatic assessment is conducted where applicable.
ii. Develop a procedure and tools to ensure that partners' past performance is reviewed and submitted to the PCA Review Committee prior to renewal of PCAs.
iii. Provide additional training to partners in results-based planning and results-based budgeting.

Target date for completion: March 2015
Responsible staff members: PCA Review Committee, Deputy Representative, Operations Manager and Programme Officers

Donor reporting

The office had submitted eight donor reports in 2013 and 2014. The audit reviewed two donor reports submitted by the office during 2013-2014 and noted the following shortcomings that could undermine the credibility of UNICEF in leveraging resources.

Financial utilization reports: One of the two donor reports submitted by the office did not include information on the financial utilization of funds against established budgets. The donors were thus not informed whether their financial contributions were used in accordance with the agreed budgets. The other donor report did include relevant information on financial utilization, but did not specify reported utilization as "provisional" in order to notify the donor that the final certified financial statements would be released later by the Comptroller`s office.

Reported achievements: The audit tested two sampled donor reports for reported achievements such as "25,285 young people in all the five project districts have improved their knowledge on environmental safety through peer education" and "all together 100 officials/health care professionals and 140 NGO partners and young volunteers have been trained". The audit noted that the reported achievements were inadequately corroborated by supporting documentation or field visits (see also observation *Harmonized Approach to Cash Transfers*, p11 above).

Key attributes of donor reports: One of the two donor reports included broad result statements such as "several innovative approaches for behavioural change to promote nutrition and hygiene practices at individual, family and community levels have been piloted"; this could not be clearly ascribed to UNICEF work.

None of the donor reports included human interest stories to highlight situation of children and the impact of donor funds on changes in their lives. The sampled donor reports also did not present UNICEF comparative advantage or highlight future priorities of the office. Further, none of the reports included a feedback form for donors to provide feedback on quality and timeliness of reporting.

Timeliness of donor reports: The office submitted one of the eight donor reports after the due date for submission. The office explained that the donor report was prepared by a consultant who did not perform as expected, leading to delays.

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

i. Information on financial utilization of funds is disclosed to donors in accordance with the grant agreements.
ii. Achievements disclosed in donor reports are properly supported with sufficient and appropriate documentation.
iii. Donor reports cover key attributes of reporting in accordance with the guidance issued by Public Partnership Division.
iv. Consultants hired to prepare donor reports are properly supervised to enable timely submission of donor reports.

Target date for completion: Office reports the action as having been taken in January 2015
Responsible staff members: Deputy Representative and Programme Officers

Programme management: 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 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 property, plant and equipment (PP&E). 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 office complied with minimum operating security standards (MOSS) and all the agreed actions stemming from a security risk assessment had been implemented by the office. The office had also put in place appropriate controls over access to ICT physical infrastructure.

However, the audit also noted the following.

Procurement of programme supplies and services

Country offices are expected to establish effective processes so that the procurement of programme supplies and services is properly planned, implemented and monitored. The country office had locally procured over US$ 1.2 million of programme supplies and services during the period from January 2013 to November 2014. The audit noted the following:

Single-source selection: Based on the VISION report for single-sourced contracts, the office did not follow competitive procurement process for 30 of the 117 contracts released in 2013 and 2014. The office informed the audit that 20 contracts were single-sourced and that the remaining 10 were inaccurately recorded as single-sourced in VISION. Two of the 20 single-sourced contracts did not have justification for single-source selection registered in VISION.

The audit sampled five of the 18 justification documents and noted that none were adequate to appropriately justify single-source selection. For instance, past satisfactory performance of the consultants was documented as justification for the single-source selection; this is not a valid reason.

Recording in VISION: The office did not sufficiently record procurement actions in VISION. For instance, key information related to each procurement, such as the CRC submission, the selection process, and performance evaluation, was not reflected in VISION. In addition, the country office had yet to close 107 contracts and purchase orders (POs) that had been completed and had remained open for more than three months. These included 44 contracts and POs that had been open since 2012, and 43 open since 2013. As such, the unspent commitments of these contracts and POs (amounting to US$ 16,000) had not been released and made available to fund other activities.

Vendor master record: The UNICEF Supply Manual provides guidance for the creation, maintenance, use and access to vendor records in VISION to ensure detection and avoid errors or inappropriate actions. The creation of vendor master records is expected to be done centrally by the designated staff member(s). The country office is also expected to ensure the completeness of the vendor's details in the master record – particularly the banking details, as this information is required for processing payments. The office had assigned the role of maintaining vendor master records in VISION to a staff member who was not involved in procurement, payment and transaction processing, and had therefore secured appropriate segregation.

A total of 557 vendor records had been created for Azerbaijan country office as of November 2014. The audit noted that vendor master records were duplicated for 22 vendors, totalling 46 of the 557 vendor accounts (8 percent). Two of the 22 vendors had even more than two duplicated accounts each. These duplicate vendors included suppliers and consultants with duplicate accounts as implementing partners. Out of these duplicate vendors, only one was marked for deletion. While the audit observed no duplicate payments, the risk had increased because of duplicate vendor master records.

The audit also noted that some vendors were inappropriately grouped. For example, 14 consultants, nine institutional contractors and one supplier were grouped as partners. In contrast, one partner was grouped as a consultant. In addition, UNHCR and UNDP were grouped as field-office vendors instead of UN agencies. Inaccurate grouping of the vendors had reduced the office's capacity to categorize budgeting, and analyse expenditure and perform accurate reporting.

Agreed action 10 (high priority): The office agrees to:

i. Establish a process to ensure that contracts are awarded based on competitive selection and appropriately document justification for single-sourced selections.
ii. Provide guidance for the maintenance of procurement action information in VISION and for the closure of completed purchased orders and contracts in VISION.
iii. Identify vendors with multiple master records, and verify their validity; and block and mark for deletion the master records that are invalid or considered duplicate.
iv. Periodically review the vendor master records in order to prevent duplications and ensure completeness and accuracy of vendor records.

Target date for completion: March 2015
Responsible staff members: Representative and Operations Manager

Inventory management

Property, plant and equipment (PP&E) is expected to be adequately maintained, identified and recorded, and to be used for authorized purposes in accordance with UNICEF policy and procedures. PP&E is normally understood as assets worth more than US$ 1,500, but items under this threshold that are considered "attractive" (laptops, for example, or cameras) should normally be recorded and maintained to the same standard. Country offices are also expected to put in place a process to dispose of assets that are obsolete or no longer required.

The last annual physical count of PP&E items was conducted in August 2014. As of the time of the audit, the total value of PP&E items was US$ 330,000, and the inventory list included 116 items. The audit noted that serial numbers of some information and communication technology (ICT) related equipment (desktop computers, and mobile phones) were not recorded in the inventory list. For instance, seven items were not marked as to whose control they were under (i.e. UNICEF, or non-UNICEF; the latter could apply if an item had been given on loan to a partner). Also, five items had no inventory number.

The office had a functioning property survey board (PSB) committee with appropriate terms of reference and membership. It had met once in 2013 and once in 2014. The audit reviewed the disposal of assets, and noted that none of the nine items proposed and approved by the PSB for disposal in August 2013 could be found in the inventory list. Further, the minutes of the PSB held on 11 July 2014 confirmed that 12 ICT-related items, and one Toyota Land Cruiser, were approved for subsequent disposal and donation. However, some items on the list were marked as scrapped but were not marked as such on the inventory list, and some items mentioned in the PSB minutes could not be found on the inventory list that included deactivated items.

Agreed action 11 (medium priority): The office agrees to ensure that the property plant and equipment (PP&E) in VISION is reconciled with the PP&E items on the inventory list.

Target date for completion: Office reports the action as having been taken in February 2015
Responsible staff members: Inventory focal point and IT assistant

Business Continuity Plan

Country offices are expected to maintain continuity of critical functions during and following a disaster and/or crisis event, and to have a Business Continuity Plan (BCP). Testing and simulation of the BCP is essential to ensure that an office maintains the capacity to function in an emergency. A further key activity is performance of a drill to test a single emergency response function or action (e.g. notification, data recovery, etc.). In addition, country offices are required to establish a disaster recovery plan (DRP) that should be regularly tested.

The office had finalized its BCP in August 2011 but had not updated it since then. Further, the BCP test, conducted for the last time in 2013 with the assistance from the Regional Emergency Adviser, was not comprehensive as it required working from an alternate location, which the office had already identified as an area for improvement. Further, although the disaster recovery plan (DRP), a critical component of the BCP, had been developed at the same time as the BCP, the office had not conducted a comprehensive simulation exercise.

Agreed action 12 (medium priority): The office agrees to perform a full simulation testing of the Business Continuity Plan and the Disaster Recovery Plan that includes testing and work from alternate location; document the results of testing; and develop an action plan to address any weaknesses.

Target date for completion: April 2015
Responsible staff members: Representative and Operations Manager

Operations support: 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 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. 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 Agreed action 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.