

# Internal Audit of the El Salvador Country Office

February 2015



Office of Internal Audit  
and Investigations (OIAI)  
Report 2015/02

## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the El Salvador country office. The audit sought to assess the office's governance, programme management and operations support. The audit was performed in October - November 2014. The audit covered the period from January 2013 to November 2014.

The 2012-2015 country programme has three main programme components: *Capacity development for inclusion, equity and poverty reduction among children and adolescents; Prevention of violence and assistance to children and adolescents affected by violence; and Advocacy, knowledge development, and monitoring of policies based on the rights on children and adolescents.*

The total approved budget for the country programme is US\$ 11.5 million, of which US\$ 3 million is regular resources (RR) and US\$ 8.5 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 the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling.

The country office is in the capital, San Salvador; there are no zone offices. As of November 2014, the country office had a total of 18 approved posts, of which three were for international professionals, six for national officers and nine for general service staff. At the time of the audit, two established posts were vacant. The office will be joining UNICEF's Global Shared Service Centre (GSSC) for common financial transaction processing in 2016, and three operations posts have been abolished and one new post established with effect from April 2016.

### 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 issues that require immediate management attention. It concerned the following:

- The office had yet to be fully compliant with the Harmonized Approach to Cash Transfers (HACT) framework. There was no up-to-date macro-assessment of the public financial management systems, and no micro-assessments of partners receiving over US\$ 100,000 annually. Also, the office had not established a risk-based plan for assurance activities, which were being conducted on an *ad hoc* basis without adequate documentation. The office has agreed to take a number of steps to ensure implementation of HACT in accordance with the revised 2014 guidelines and procedures.

### 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 El Salvador country office as defined above, were generally established and functioning during the period

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under audit. El Salvador country office has prepared an action plan to address the issues noted.

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

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## Objectives

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

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

## Audit observations

### 1 Governance

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

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

All the areas listed above were covered, with two exceptions that presented a low level of risk. Risk management was excluded, as the office's risk and control self-assessment has been updated annually based on a participatory exercise. Ethics was also excluded, as adequate measures appeared to have been implemented, with all staff participating in the ethics training in September 2014.

The audit found that controls were functioning well over a number of areas. The office had established adequate supervisory structures, including advisory teams and statutory committees, such as the country management team (CMT), contract review committee (CRC) and programme cooperation agreement review committee (PCARC). These committees had defined terms of reference and memberships. The Staff Association was also demonstrated to be effective in providing a forum to discuss matters of joint interest between the management and staff.

The Annual Management Plan (AMP) identified key management and programme priorities,

with accountable staff and performance indicators. Performance was measured against these priorities using the established indicators, and progress was recorded and shared with the CMT.

The office had adequate mechanisms to hold staff accountable for results through staff performance evaluations. Based on a sample review, the audit confirmed that staff performance was generally being measured against planned actual results (as opposed to against activities). At the time of audit, the office's completion rates for staff performance evaluations were 100 percent for 2013 finalization and 2014 planning.

El Salvador is a "Delivering as One" (DaO) country. Originally launched in 2007 in eight pilot countries, DaO has also been adopted voluntarily by UN agencies in a number of others. It aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs. The office, as part of the UNCT,<sup>1</sup> had contributed to DaO since 2013. Based on the documents review and discussions with staff, the office was actively engaged as the leader in one of the five priorities and also led multiple inter-agency groups.

There was a UN Development Assistance Framework (UNDAF)<sup>2</sup> for the period 2012-2015; this was signed by all the UN agencies in El Salvador with the Government. Complementing the UNDAF, the office also had a UNICEF-specific CPAP<sup>3</sup> signed with the Government.

However, the audit also noted the following.

### Staffing structure

The office had 18 approved staff positions (excluding volunteer posts), of which 10 pertained to programme. The office found this number small for meeting the challenges of working in a middle-income environment, with tight fiscal situations due to relatively low donor interest, and the pressure to achieve high-quality programme results. To supplement the established posts, the office hired consultants, and at the time of the audit there were 10 of these on board.

Contracts and professional services expenditures were US\$ 480,000, or 12 percent of annual expenditures, in 2013; this was the second largest programme input after direct cash transfers. From January 2013 up to August 2014, there were 109 contracts raised, of which 76 were individual consultancy contracts and the remaining 33 were institutional contracts.

The audit reviewed seven high-value consultancy contracts (for four individuals) with a total value of US\$ 156,360 and found that four of the seven contracts assumed some staff

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

functions. These activities were noted in the Terms of Reference and in the contracts. For example the responsibilities listed included “support implement and monitor programme activities; support in procurement process; systemize global UNICEF practices”. These are functions expected of established staff posts. Furthermore, some payments were linked only to the timeline instead of specific products/outputs as deliverables.

The office indicated that though most consultants were recruited for their technical expertise, some consultants had ended up supporting programme staff in staff functions as well due to resource limitations. The management had acknowledged this issue. In a CMT meeting in July 2014, it discussed the need to assess its use of consultants supporting staff functions as part of a Mid-Term Management Review before the end of 2014, to inform the next Programme Budget Review.<sup>4</sup> The management had told staff that such consultancies should not be extended beyond December 2014 before such an assessment. However, at the completion of the audit in November 2014, this assessment had not yet been done.

**Agreed action 1 (medium priority):** The office agrees to strengthen the staffing structure by conducting an analysis of its human resources gaps; designing a structure that meets its needs and limits the use of consultants in performing regular staff tasks; and submitting the results of its review to the Programme Budget Review.

Staff responsible for taking action: Representative, Deputy Representative, Operations Manager

Date by which action will be taken: June 2015

**Agreed action 2 (medium priority):** The office agrees to strengthen contract management by ensuring that contract payments are based on specific deliverables.

Staff responsible for taking action: Representative, Deputy Representative, Operations Manager, Project Officers/Specialists

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

## Governance area: Conclusion

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

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<sup>4</sup> 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.

## 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.
- **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.

The audit found that controls were functioning well over a number of areas. The office had established an adequate Integrated Monitoring and Evaluation Plan (IMEP) with progress monitoring and annual review mechanisms.

The office has adequately documented its preparation for an emergency in Early Warning Early Action (EWEA), UNICEF's emergency preparedness and response system. The country office has been recognized by the Regional Office as one of the top 10 offices in quality of emergency preparedness.

However, the audit also noted the following.

### Harmonized Approach to Cash Transfers

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

HACT makes this possible by requiring offices to systematically assess the financial management capacity and level of risk of a given partner before making cash transfers to it, and to adjust their method of funding and assurance practices with that partner accordingly. HACT therefore includes micro-assessments of the individual implementing partners, whether government entities or NGOs. There should also be a macro-assessment of the country's



public financial management system.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include programme monitoring, programmatic visits, spot checks, scheduled audit for implementing partners expected to receive more than US\$ 500,000 during the programme cycle, and special audits when specific issues or concerns arise.

The audit reviewed the office's implementation of HACT and noted the following.

**Macro-assessment:** The latest macro-assessment of public financial systems had been conducted by the Inter-American Development Bank in 2006. The office stated that it had not been updated since because HACT had not been a priority for the UNCT. The office added that it was currently initiating the process of collecting assessments of public financial systems by other relevant agencies (i.e. World Bank) to prepare for a new macro-assessment.

**Micro-assessments:** There were three partners that received over US\$ 100,000 annually during 2013-2014; however, they had not been micro-assessed since 2008. In October 2014, the office hired a consultant with funds provided by the Regional Office to conduct micro-assessments of implementing partners; these were planned to be completed in December 2014.

**Assurance activities:** HACT procedures require an office to have an assurance plan that includes programmatic activities, spot-checks and audits (periodic audit if the partner receives US\$ 500,000 during the programme cycle, or special audit as needed). However, the office had not prepared a risk-informed assurance plan for 2013 and 2014. Although the office had recorded the dates of the meetings with partners, these meetings were not linked to an assurance plan, and the audit could not establish how many partners had been subject to assurance visits as envisioned in the guidelines. For the visits made, there was no documented evidence of financial review of the cash transfers (i.e. spot checks).

The audit reviewed assurance activities in connection with five implementing partners, with total cash transfers per partner ranging from approximately US\$ 62,740 to US\$ 326,400 during 2013 and 2014 up to October. The office stated that the Programme Assistant accompanied the Programme Specialists/Officers to the partner meetings on *ad hoc* basis to verify financial documents; however, as indicated above, there was no documented evidence of this exercise for these partners. Also, the frequency of the meetings or visits to the partners were not linked to the partner's risk rating. For example, in 2013 there was no meeting with/visit to one partner whose risk rating was significant, while there were 10 meetings with/visits to one whose risk rating was low.

It should be noted that the Regional Office provided support to the office for compliance with the HACT framework by contracting a consultant to conduct training for staff and partners, which was completed in November 2014. The Regional Office also provided funds to hire a consultant to undertake the pending micro-assessments noted above, and to update the HACT manual for partners.

**Agreed action 3 (high priority):** The office agrees to implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2014 HACT guidelines and procedures by:

- i. Conducting a 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).

Staff responsible for taking action: Representative, Deputy Representative, HACT focal point, Project Officers/Specialists, Project Assistants

Date by which action will be taken: July 2015

## Results reporting

Information reported by a country office in its annual report should be accurate and reliable, especially since one of its overall purposes is to provide input to organization-wide reporting on results for children and women, and to contribute to organizational learning. This strict standard on accuracy and on reliability of data is applied to donor reports, in which an office informs donors of the results achieved against planned objectives, as established by agreement.

The audit reviewed the accuracy of nine results reported in donor reports and in the results assessment module (RAM) of UNICEF's management system, VISION, which feeds into the annual report based on the supporting documentation. It noted that two of six results reported in RAM were not fully supported. Also, two out of three results reported in donor reports were not fully supported.

For the above four cases, there was either a discrepancy in the data given as supporting evidence – or the results were estimates due to unavailability of data at the time of reporting, but this was not indicated in the donor report, which presented it as fact.

The office had established a quality assurance process for both types of report, and they were reviewed by the Deputy Representative. However, this quality assurance process did not include reviewing the integrity of the data, accountability for which was with Programme Specialists/Officers.

**Agreed action 4 (medium priority):** The office agrees to strengthen the quality assurance process for reporting to ensure that all key results reported are supported by reliable documented evidence. As part of the process, the office will assign staff responsibilities to monitor data integrity for key reports, such as the donor reports and the country office annual report.

Staff responsible for taking action: Deputy Representative, M&E Officer

Date by which action will be taken: May 2015

## 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, 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 of the above areas were covered in this audit, with the exception of asset management and inventory management that presented a low level of risk. Asset management was excluded as the office had few assets to manage. Inventory management was also excluded, as the office procured limited supply inputs and did not maintain a warehouse.

The audit found that controls were functioning well over a number of areas. The office had adequately managed the documentation of staff dependency entitlements. It had established controls for managing staff training, and a functioning Learning and Development Committee. The office's learning and development plans were adequately developed and periodically monitored for implementation.

However, the audit also noted the following.

#### Travel processing

For travel costs, the office expended US\$ 110,840 in 2013, and US\$ 30,740 in 2014 up to September.

The audit selected five Travel Authorizations (TAs) of different natures, including training, home leave and programme travel, with a total value of US\$ 22,600. In three of the five TAs, there was inadequate segregation of duties. In these cases, the staff member who approved the travel as budget owner also signed the checks as paying officer, or a single staff member both created and approved the TA.

Also, in two of the five TAs, the travel costs were inaccurately processed. In one of the cases, a staff member was overpaid by US\$ 1,700 in May 2013 and the overpayment was only

recovered in 2015 following an observation from this audit. In the other case, home leave payment was made to a family member (registered as a consultant in the vendor database), instead of to the staff member themselves.

The office responded that these cases of inaccurate calculation of costs and registration of the family member were due to mistakes.

**Agreed action 5 (medium priority):** The office agrees to strengthen oversight over the processing of travel transactions, and establish adequate segregation of duties so that a budget owner is not a paying officer for the same transaction (i.e. assigning an alternate, or another staff on the bank signatory panel to act as paying officer).

Staff responsible for taking action: Operations Manager, Finance/Administration Assistant  
Date by which action will be taken: June 2015

### Direct cash transfers (DCTs)

Cash transfers amounted to US\$ 1.1 million in 2013, and were the largest programme input expenditure. In 2014 up to September, the office had expended US\$ 785,700 in cash transfers.

**Timeliness of DCTs:** The audit reviewed a sample of five cash transfers to five implementing partners that had received DCTs of between US\$ 62,740 and US\$ 326,400 during 2013 and 2014 up to October. The audit found that in three of the five payments reviewed, there were delays in payment of 20 to 30 days from the date of the payment requests by the implementing partners. Although the office explained that these were due to staff absence and other competing priorities, the audit noted that there was only one staff member designated to certify DCTs and no alternate had been assigned.

**Liquidations:** The audit reviewed 12 liquidations from the same five implementing partners noted above and found that eight liquidations were incorrectly recorded. For example, a partner would use the same Funding Authorization Certificate of Expenditure (FACE)<sup>5</sup> form to partially liquidate multiple DCTs, which resulted in the office recording some liquidations against the incorrect DCT and inaccurate aging of DCTs.

In some cases, when reporting the expenditure incurred, the implementing partners used budget line categories that were not the same as those included in the work plans or in the programme cooperation agreements. In other cases, they did not distinguish between activities on the FACE forms, which made it difficult to match the expenditure against the agreed activities. Further, some partners were submitting the payment requests on the FACE forms without indicating the DCT amounts that remained outstanding. This occurred because partners were not properly trained on submission of FACE forms.

**Agreed action 6 (medium priority):** The office agrees to strengthen processing of direct cash transfers (DCTs) by:

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<sup>5</sup> 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.

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- i. Reviewing office practices to ensure that DCT processing is not halted during staff absences.
  - ii. Analyzing the Funding Authorization Certificate of Expenditure (FACE) form submissions from the implementing partners and identifying areas of weakness, and conducting additional training for partners to address them, or informing the partners of the need for improvement.
  - iii. Ensuring that the liquidations of DCTs are accurately processed based on originally approved payments and activity description/categories.

Staff responsible for taking action: Deputy Representative, Operations Manager, Programme Assistant

Date by which action will be taken: July 2015 and then ongoing

### **Operations support: Conclusion**

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over 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, 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.