

Internal Audit of the Sultanate of Oman Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Oman country office. The audit sought to assess the office's governance, programme management and operations support. The audit was conducted from 20 July to 7 August 2015 and covered the period from January 2014 to 20 July 2015.

The Oman office was not involved in service delivery; it concentrated on advocacy regarding the rights of children at policy and strategy level. The 2012-2015 country programme consists of three main programme components: *Early childhood development and health*; *Child protection*; and *Data and knowledge management*. There was also a cross-sectoral component. The total approved budget for the country programme was US\$ 4.4 million. The office did not have regular resources (RR); its total programme budget was 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 have been made for a specific purpose, 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. In the case of Oman, the UNICEF programme was wholly funded by the Government.

The country office is in the capital, Muscat. At the time of the audit (July 2015), it had a total workforce of six posts (one international professional, two national officers, and three general service) in addition to the five Government-seconded project officers. Total expenditures were US\$ 3.5 million during the period of January 2014 to July 2015.

Action agreed following the audit

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

- Define the role of UNICEF in the process of identifying and selecting potential secondees; clarify the expectations of the Government of Oman for developing capacity of secondees; and, with support from the Division of Human Resources, clearly define the mechanisms for assessing and reporting on the performance of secondees and agree them with the Government of Oman.
- Establish a competitive procurement process for requisitioning institutional services; review the efficiency of the procurement process; ensure the contract review committee reviews contractual risks associated with each contract, and recommends adequate and specific mitigation measures; ensure that consultants bear any costs associated with obtaining visas, and confirm that they have made arrangements for their health and life insurance; and ensure proper maintenance of procurement information.

Conclusion

Based on the audit work performed, OIAI concluded 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 Oman country office, the Middle East and North Africa Regional Office (MENARO), Division of Human Resource (DHR) 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.
- **Human resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management:** the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The annual management plan (AMP)¹ presented the management priorities with their respective expected results/targets and performance indicators, and assigned staff responsibility accordingly. The office had established terms of reference for the Country Management Team (CMT), with appropriate membership; it discussed progress on office priorities, assigned action to staff members and followed it up.

¹ An office's Annual Management Plan ensures that office's human, financial and other resources remain focused on the country programme and its hoped-for outcomes for children and women. To this end, it defines management mechanisms and the related staff accountabilities, so that everyone understands their roles and responsibilities.

The office planned and evaluated performance of the staff during the period under audit. It also prepared a training plan in 2014 and 2015 and monitored its implementation.

However, the audit also noted the following.

Assignment of authorities

Each office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. The Representative should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. The ToA should be reflected in the roles assigned within UNICEF's management system, VISION (from Virtual Integrated System of Information). Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with much else.

Representatives approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls and its supplements*. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments. A key requirement is to ensure, as far as possible, adequate segregation of duties, so that no single staff member can carry out a whole process (for example ordering, receiving and payment) without checks and balances.

The office had assigned roles to staff members, mapped these roles in VISION in 2014 and updated them in 2015 as and when needed. In addition, the representative had properly delegated authorities to staff as authorizing, purchase-orders releasing, receiving, certifying, approving and paying officers. The office had formally notified staff members on the delegated authorities and staff members had acknowledged awareness of the accountabilities associated with delegated roles.

However, the audit noted that the following.

Assignment of roles: The office did not adequately segregate some roles. For example, the asset accounting L2 role was assigned to a staff member who had also been assigned the physical inventory role. Hence assets acquisitions could remain unrecorded, and subsequently be adjusted by the same individual.

It was also noted that roles assigned to staff members did not always align with their functional responsibilities. For example, non-programme staff could perform programme functions in VISION. The audit noted that having only six staff members did make it harder to ensure adequate segregation of duties.

Bank signatory panel: Bank signatories are usually the designated paying officers in their office, and sign cheques and bank transfer letters to effect payments from UNICEF bank account. They should formally acknowledge their awareness and understanding of the responsibilities associated with the paying role. However, with one exception, they had not done so. In addition, the letter submitted to the bank, to add the new Representative to the signatory list, was signed by the Representative himself, instead of the Comptroller or the Deputy Director of Finance in accordance with UNICEF policy.

Agreed action 1 (medium priority): The office agrees to increase oversight over delegation of authorities and assignment of roles, and to take the following specific steps:

- i. Review the delegation of authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties and alignment of roles with staff functions.
- ii. Formalize accountability to bank signatories through letters of delegation and acceptance for the paying officer role; and establish a process to ensure that future requests for adding a new Representative as a bank signatory are signed by the Comptroller or Deputy Director of Finance, in accordance with UNICEF policy.

Staff responsible for taking action: Representative and Operations Officer

Date by which action will be taken: January 2016

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 risks to an office's objectives and planned results and it incorporates the action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

The office had conducted systematic risk assessments in both 2014 and 2015, developing action plans to manage the risks identified. The office ensured the participation of all staff in the RCSA process. However, the RCSA omitted review of some of the 12 UNICEF risk areas, including some key risk areas such as fraud and misuse of resources; budget and cash management; results-based management and reporting; and information and communication (ICT) systems and information security.

The 2015 RCSA identified five risk areas – including funding and external stakeholder relations, which was rated as high risk. However, the office had not assigned mitigation actions to staff members and, for some mitigation actions, it had not established timelines for implementation. In addition, there were some key mitigation actions for which the office did not monitor implementation in 2014 and 2015.

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

- i. Conduct a brainstorming session with all staff to review all risk areas, taking into account the office's context; assess the causes and impacts of risks on the achievement of objectives; and update the risk library as appropriate
- ii. Assign mitigation actions to staff members by reflecting them in their performance plan; and establish timelines for, and monitor the implementation of mitigation actions.

Staff responsible for taking action: Operations Officer

Date by which action will be taken: June 2016

Human resources management

The office followed UNICEF policy and guidelines in the recruitment of new UNICEF staff in 2014 and 2015. However, five of the office's 11 staff are seconded from the Government of Oman for the implementation of the 2012-2015 country programme, in accordance with a framework agreement for secondment of staff signed with UNICEF in 2012. These staff members were introduced by the Government and assigned as project officers for health, education, child protection, monitoring and evaluation, and social policy.

The rationale for the secondment arrangement as stipulated in the framework agreement, apart from implementing programmes, was capacity development of the seconded Government staff, to enable them learn new skills and gain experience that will help the Government of Oman effectively replicate good practices and enhance their systems for delivering results for children. The audit noted the following regarding this arrangement.

Selection: These seconded Government staff were nominated by the Government of Oman and UNICEF was not involved in their selection. For instance, the office could not review academic profiles and experience of the potential secondees to assure that they had the capacity to implement programmes and the potential for learning new tools and systems.

Reporting: According to the framework agreement, the secondees were expected to prepare monthly progress programme implementation reports comprised of financial utilization and results achieved, in addition to the quarterly narrative progress reports. However, the accountability frameworks and reporting mechanisms of these secondees to UNICEF and the Government respectively were not clearly set out in the framework agreement. This reduced UNICEF's ability to take action should programme implementation be hampered due to inadequate planning, monitoring or oversight.

Performance management of secondees: The framework agreement stated that performance of the secondees would be evaluated jointly by the Government of Oman and UNICEF. The framework agreement signed in 2012 stated that the immediate supervisor of these secondees in UNICEF would provide feedback on the quality of their performance to the Government of Oman. However, the role of UNICEF in the evaluation of the performance of these secondees was not clearly defined, and there was no assurance that the Government of Oman would give due consideration to UNICEF concerns on any performance issues stemming from the evaluation.

Standards for secondment agreement: The office had agreed on terms and conditions for the secondment arrangements with the Government of Oman. However, the Division of Human Resources has no policy and guidance on Governmental and non-Governmental secondment arrangements and has not provided instructions to help country offices ensure UNICEF independence and protect organizational interests. In addition, the framework agreement did not clearly embrace the expectations of the Government of Oman with regard to the capacity development of the secondees to evaluate the effectiveness of the arrangement.

The country office evaluated the effectiveness of the current secondment arrangements as part of its Mid-term Review (MTR), and proposed two options. One option was to provide direct funding to UNICEF in order to follow its regular recruitment system and the other option was to improve the secondment system by clarifying roles, responsibilities, obligations for each party and manage expectations. Though the Ministry of Social Development (MoSD) had appointed a focal point to coordinate this discussion, the agreement of the Government of Oman had yet to be obtained.

At the time of the audit, the Division of Human Resources told the audit that it had started drafting a policy on secondment of government personnel, and was planning to coordinate its work with other headquarters divisions and offices in UNICEF.

Agreed action 3 (high priority): The office agrees to establish oversight mechanisms and to take the following steps:

- i. Define UNICEF's role in the process of identifying and selecting potential secondees and indicate the expectations of the Government of Oman for developing capacity of secondees.
- ii. With support from the Division of Human Resources, clearly define the mechanisms for assessing and reporting on the performance of secondees and agree them with the Government of Oman.

Staff responsible for taking action: Representative and Operations Officer

Date by which action will be taken: March 2016

Agreed action 4 (medium priority): The Division of Human Resources (DHR) agrees to, in coordination with other headquarters divisions and offices, establish policy, procedures and/or guidance to country offices on secondment of government personnel.

Staff responsible for taking action: Director of DHR; Chief, Policy and Administrative Law Section of DHR; Chief, Strategic Planning and Operations Section of DHR; Director of Public Partnership Division; and Principal Legal Adviser of the Office of the Executive Director

Date by which action will be taken: August 2016

Governance area: 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 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 found that controls were functioning well over a number of areas. The office had conducted a situation analysis in 2013 and included updates on the status of children in the area of health, nutrition, care and protection, early childhood development and education.

The office prepared an integrated monitoring and evaluation plans for 2014 and 2015. Following a mid-term programme review in 2014, the office had revised its results and resources matrix to incorporate agreed changes for the remaining period of the country programme.

However, the audit also noted the following.

Planning

Country offices prepare a Country Programme Action Plan (CPAP), which is an agreement with 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. The CPAP is implemented through annual or rolling workplans, which outlined the activities to be undertaken to achieve both the outputs and outcomes identified in the CPAP. The audit reviewed the CPAP and the workplans, and noted the following.

CPAP: For some activities, responsibility for implementation was not clearly established in the CPAP. For instance, it was agreed in the CPAP that a total amount of US\$ 400,000, representing

10 percent of the total amount committed by the Government of Oman for the country programme, would be raised locally through fundraising initiatives. However, responsibility for this was not clearly assigned, and the funds had not been raised as of the date of the audit (see also observation *Resource mobilization*, p12 below).

Further, the results and resources matrix originally prepared in relation to the CPAP did not always incorporate the baseline and targets, nor had targets but without baseline information. Also, it did not always assign timelines for the implementation of some planned results. However, the audit noted that the office, together with the Government of Oman, had revised the results and resources matrix in the mid-term review in 2014 and had addressed identified weaknesses.

Annual work planning: Workplans provide detailed activity planning and set out what would be accomplished during specific time periods. To the extent possible, they should be aligned to Government planning cycles. Workplans outline how outputs will be achieved over a period of one or more years, the activities to be carried out by the implementing partners, the timeframe for the provision of inputs and implementation of interventions, and the support to be provided by UNICEF. Endorsement of the workplans should be obtained not more than two months after the start date of the workplan to enable timely implementation of planned activities.

The country office had signed annual workplans with Government partners in 2014 and 2015. However, the delays in signing both were substantial. Those for 2014 were signed with the Ministry of Social Development, Ministry of Education and Ministry of Health in May, July and August respectively. For 2015, they were signed with the Ministry of Education and Ministry of Health in June and July respectively. They had still to be signed with the Ministry of Social Development at the time of audit (August 2015), although activities had begun based on the exchange of official letters and agreement of the Ministry on a case-by-case basis. The office said this was an ongoing problem in Oman and had reported it to the Government during the 2014 annual review.

The annual workplan is the document that outlines outputs and activities to be implemented in a year, and should outline roles and responsibilities of the respective partners regarding the planned activities. However, in the 2014 annual workplan with the Ministry of Education, there was no responsible partner for seven of the 21 agreed activities. Similarly, the 2014 annual workplan with the Ministry of Social Development did not state which partner was responsible for three activities. In the 2015 annual workplans with the Ministries of Education and of Health, the office did not incorporate the responsible partner for the implementation of any of planned activities. The audit also noted that there were no performance indicators in any of the annual workplans.

Unclear roles and responsibilities of the partners in the CPAP and annual workplans are a risk to the timely implementation of the country programme. A lack of performance indicators makes it harder to monitor progress of the planned outputs and outcomes.

Agreed action 5 (medium priority): The office agrees to increase oversight of the planning process, and take the following specific steps:

- i. Clarify responsibilities for the implementation of planned activities in both the Country Programme Action Plan and the annual workplans, and assign timeframes for the implementation of planned outputs in the annual workplans.

- ii. Sign workplans on time.
- iii. Establish performance indicators for planned activities in the workplans.

Staff responsible for taking action: Programme Manager

Date by which action will be taken: March 2016

Resource mobilization²

UNICEF's Programme Policy and Procedure Manual (PPPM) specifies that country offices should have a clear and comprehensive resource mobilization strategy for securing OR³ funding in support of the country programme, up to the ceiling approved by UNICEF's Executive Board for that particular country. According to section 4.7.1 of the PPPM, the strategy should outline the main existing and potential Government funding sources and opportunities in the private sector.

UNICEF's country programme in Oman is fully funded by the Government. Having the Government of Oman as the only donor exposes the office to the risk of dependence and non-availability of sufficient financial resources. The office did not have a fundraising strategy to explore funding opportunities in the private sector in Oman.

In this context the office realized there might be funding constraints when responding to future programme needs, and as such had identified funding and external stakeholder relations as a high risk (see observation *Risk management*, p7 above). Further, the office indicated that current level of budget pledged by the Government of Oman did not meet the anticipated demand in the high-income country context. To mitigate this risk, the office planned to request a one-year extension of its current country programme in order to try to obtain an increased Government contribution for its new country programme.

Agreed action 6 (medium priority): The office agrees to develop a fundraising strategy in consultation with regional office; consider fundraising with the private sector in Oman; and establish an action plan to monitor the implementation of its strategy.

Staff responsible for taking action: Programme Manager

Date by which action will be taken: June 2016

Donor reporting

Donors are demanding greater accountability and transparency in the use of financial resources. Country offices therefore need to monitor quality of donor reports, which should clearly set out the results achieved. The donor reports should correspond to the grant agreement document, which underlines roles and responsibilities of both parties (the donor and UNICEF), specifies the types of expenditures eligible, and sets schedules to report progress of implementation and financial utilization.

In this case the office only had one donor (the Government of Oman). However, the office did

² 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.

³ See Summary on p2 above for an explanation of OR and RR.

not have a copy of the grant agreement against which to prepare donor reports. Lack of a grant agreement reduced the office's capacity to ensure compliance with donor conditions and thereby increased risk to UNICEF's credibility.

The 2014 donor report was delayed by 12 days. The office said that it had deliberately delayed it for efficiency reasons, preparing the report together with the annual report.

The role of UNICEF in achieving reported results should be specified in donor reports. However, the office reported broad results statements and did not highlight UNICEF's specific role. For example, the office reported that "UNICEF Oman was instrumental in facilitating extensive consultations with partners to strengthen the process of developing Early Childhood Education Action Plan". However, it did not clearly highlight role of UNICEF in the process. The office told the audit that UNICEF Oman was involved in upstream programming and advocacy with the Government of Oman, and that results were mostly long-term in nature and could not easily be described on the annual basis for submission of the Oman donor report.

Finally, the office did not accurately report financial utilization to the donor. According to VISION, the financial utilization for the reported period totalled US\$ 1,619,986. This amount represented commitments and expenditures for the period. However, in the donor report for 2014, the office reported US\$ 1,073,103 for the same period. The difference occurred because the office reported actual expenditures excluding commitments in the donor report for the period.

Agreed action 7 (medium priority): The office agrees to increase oversight over preparation of donor reports, and to take the following specific steps:

- i. Obtain a copy of the grant agreement and ascertain that donor conditions are adhered to in the donor reports.
- ii. Report results with specificity, highlight the role and contribution of UNICEF in their achievement, and institute quality assurance review mechanisms to accurately report financial utilization to donors.

Staff responsible for taking action: Programme Manager

Date by which action will be taken: June 2016

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.
- **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, except inventory management; the office had been involved in upstream programming and had not procured or warehoused programme supplies during the period under audit.

The audit found that controls were functioning well over a number of areas. The office conducted and accurately recorded the results of a physical asset count in 2014. It also properly evaluated performance of contractors upon completion of a contracted assignment.

The office ensured compliance with minimum operating security standards (MOSS) and minimum operating residential security standards (MORSS). The office had updated and tested its business continuity plan (BCP) in December 2014 and backed up ICT data daily during the period under audit.

However, the audit also noted the following.

Vendor master records

UNICEF's Supply Manual and the relevant VISION guidance notes provide guidance for the creation, maintenance, and use of, and access to, vendor records in VISION. Their creation should be done centrally by designated staff member(s). An office should also ensure the completeness of the vendor's details in the master record – especially the payment method and the banking details, as this information is required for processing of payments. It should also avoid creation of duplicate vendor master records, as these could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or double payments.

The office had an adequate process for the creation and maintenance of vendor master records in VISION, and assigned responsibilities for registering new vendors and making changes to existing records. However, the audit found that vendor master records had been

duplicated for five vendors, totalling 10 of the 265 vendor master records. The office had not marked them for deletion and blocked them from posting financial transactions in the meantime.⁴ Though the audit observed no duplicate payment due to duplicate vendor master records, the risk of duplicate payment or incorrect charges exists.

In addition, the office did not always group vendors correctly at the time of vendor registration. For example, it had grouped UNFPA as global vendor instead of a UN agency; a vendor providing hotel services as partner; and 15 vendors as consultants. The above weaknesses were mainly due to insufficient oversight over the application of expected controls.

Agreed action 8 (medium priority): The office agrees to increase oversight of maintenance of vendor master records, and to take the following specific steps:

- i. Periodically review the vendor master records in order to ascertain validity of vendors with multiple master records, and block and mark for deletion master records considered invalid or duplicate; and prevent duplications and ensure completeness and accuracy of records.
- ii. Review vendor master records for grouping, and ensure that new vendors are correctly grouped at the time of creation of the new master records.

Staff responsible for taking action: Administrative and Finance Assistant and Operations Officer

Date by which action will be taken: January 2016

Processing of financial transactions

The audit reviewed a sample of transactions and noted the following.

Use of general ledger (GL) code: The correct use of the GL code enables the preparation of accurate and timely reports, which serve as inputs for various levels of decision-making within the organization. Also, the accuracy of UNICEF Financial Statements largely depends on the quality of accounting recordings generated through the GL codes. The audit checked a sample of nine transactions for accuracy of the GL codes and found all nine to be incorrect, as the office charged several programme expenditures to the management consultancy fee GL code which is normally used for operating expenses. The office's operating expenses from January 2014 to June 2015 (excluding travel, staff cost and non-cash expenses⁵) were incorrectly reported at 48 percent of total expenditures because of miscoding. This also meant that the operational efficiency of the office appeared lower than it was.

Conducting three-way match: To ensure eligibility of payments and correctness of the amount invoiced by the contractor, an office should do a three-way match, whereby the office reviews the contractor's invoice in relation to the contract and the services received. However, this had not been done in any of a sample of four transactions selected for testing payments against contracts in 2014-2015. This meant that although the office had processed

⁴ Deletion of vendors from the vendor master record is centralized at UNICEF headquarters. Once the vendor master record is marked for deletion by the country office, UNICEF headquarters will delete it centrally at a given time. Meanwhile, if the vendor master record is blocked from posting, transactions can no longer be posted to the account of this vendor.

⁵ A non-cash expense is an income statement expense for which no cash was spent during the reporting period, e.g. amortization or depreciation.

payments to consultants against contracts, the invoices were not certified by the certifying officer to ensure correctness of the invoice amount in relation to both the agreed contract and to services received.

Authorization of official travel: Official travel should be authorized in writing in advance by the Head of Office or a staff member to whom they have delegated this responsibility. Official travel of Heads of Office travelling outside the countries to which they are accredited must be authorized by their Regional Director. The audit reviewed a sample of four cases of official travel undertaken in 2014-2015 and noted that, in one case, the staff member had travelled on official business without obtaining proper authorization of the approving officer to ensure the travel was valid.

The above weaknesses are mainly due to weak oversight over the application of expected controls defined in UNICEF policies and procedures.

Agreed action 9 (medium priority): The office agrees to increase oversight over processing of financial transactions, and to take the following specific steps:

- i. Train staff on use of general ledger codes and to accurately classify the nature of an implemented activity when recording financial transactions.
- ii. Conduct a three-way match before processing financial transactions against contracts and purchase orders.
- iii. Ensure staff members obtain the correct authorization before undertaking official travel.

Staff responsible for taking action: Operations Officer, and Administrative and Finance Assistant

Date by which action will be taken: January 2016

Procurement of services

During the period under audit (January 2014 to June 2015), the office had procured locally services valued at US\$ 1.3 million (of which US\$ 800,000 was institutional services and US\$ 500,000 was individual services). The audit reviewed a sample of four contracts (two institutional and two individual) and noted the following.

Procurement plan: UNICEF in Oman is involved in upstream programming and advocacy at strategy and policy level on behalf of children and women. This requires contracting of technical services. The office had drawn up a procurement plan for this purpose in 2014 and 2015. However, the plans did not include a schedule for implementation as agreed in the annual workplans, so as to ensure timely availability of the services needed.

There were also potential inefficiencies in procurement of technical services. For example, the office awarded nine contracts to individual consultants with different technical skills to contribute to the development of the social development strategy. The office could instead have solicited an institutional contract that could have provided a pool of technical expertise to draw on for the planned activity, and therefore reduce administrative costs.

Contract review committee (CRC): The office had a functioning CRC that reviewed contracts over an established threshold and made recommendations to the Representative in 2014 and 2015. Because of the office's small size, it had appointed additional staff members from the

Gulf Area Office to the Oman CRC.

The audit reviewed a sample of three CRC minutes and noted that the CRC had not recommended appropriate measures to mitigate identified contractual risks. For example, in one sampled contract, the office identified the risk of unclear tasks and responsibilities in the terms of reference. To mitigate the identified risk, the CRC recommended that UNICEF supervisor should work closely with the consultant to meet the deadline. However, this recommendation did not match the contractual risk identified.

This mismatch arose at least in part because the minutes referred to a blanket risk statement that did not appear to relate to that, or any other, specific contract. It stated the risk as: "Tasks and responsibilities are not clear in the ToR, messages not conveyed as adequately as required; tasks agreed are not implemented; and the consultant will not achieve the objective and required results to be implemented". This appeared to be the office's risk statement for all contracts, regardless of the nature of contract and type of activity.

Compliance with UNICEF policies: Individual contractors are responsible for costs of visas and travel insurance. However, the office disbursed visa processing fees for individual contractors. It also did not check whether individual contractors and consultants had obtained adequate coverage for health and life insurance for the duration of the contract.

Selecting contractors: The office did not have an adequate process for competitive selection. The audit sampled two institutional contracts related to the national social development strategy and noted that the office did not issue an invitation to bid (ITB) to potential service providers in either case. An ITB is a written solicitation sent to a number of suppliers sufficient to obtain preferably three valid and acceptable bids. The ITB incorporates UNICEF general terms and conditions, evaluation criteria and guidance for submission of bids. In one case, the office awarded an institutional contract based on the previous experience and a recommendation from the Regional Office without a competitive selection process.

Recording in VISION: Some key information related to each procurement action, such as the CRC submission, the selection process, and performance evaluation, were not reflected in VISION. In addition, the office had yet to close 73 institutional and individual contracts that had been completed but had remained open for more than seven months. These included 18 contracts open since 2012 and 25 contracts since 2013. As such, the unspent commitments of these contracts (amounting to US\$ 144,000) had not been released and made available to fund other activities. Not closing completed contracts and releasing funds on time increased the risk of losing unspent balance, particularly when the grant used for committing contractual obligations has limited time period.

The above weaknesses are mainly due to weak oversight over the application of expected controls defined in UNICEF policies and procedures.

Agreed action 10 (high priority): The office agrees to increase oversight of the application of UNICEF policies and procedures on procurement, and to take the following specific steps:

- i. Establish timelines in its annual procurement plan for services, and review the efficiency of the contracting process.
- ii. Establish mechanisms and train staff to ensure that the contract review committee reviews the contractual risks associated with each contract and recommend adequate specific mitigation measures that address the key risks.

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- iii. Ensure that visa processing fees for consultants are borne by those consultants, and institute a process to obtain confirmation from them that they have made arrangements for their health and life insurance.
 - iv. Implement a competitive procurement process for requisitioning institutional services by issuing solicitation documents, to obtain best value for money spent.
 - v. Provide guidance to ensure proper maintenance of procurement information, and timely closure of completed purchased orders and contracts, in VISION.

Staff responsible for taking action: Programme Manager; Operations Officer; and Administrative and Finance Assistant

Date by which action will be taken: March 2016

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 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 final report is issued to the Executive Director. 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.