# Internal Audit of the Zambia Country Office

September 2015

Office of Internal Audit
and Investigations (OIAI)
Report 2015/30

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# Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Zambia country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 15 June to 9 July 2015, and the audit covered the period from January 2014 to June 2015.

The 2011-2015 country programme was revised following a mid-term review in 2013, and now consists of eight outcomes: *Health*; *Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome* (HIV/AIDS); *Water, sanitation and hygiene* (WASH); *Nutrition*; *Education*; *Child protection*; *Social inclusion*; and a cross-sectoral programme.

The country office is based in Lusaka, with no zone offices. The total approved budget for the country programme 2011-2015 (as revised in 2013) was US$ 242.6 million, of which US$ 42.8 million was Regular Resources (RR) and US$ 199.8 million 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 OR), up to the approved ceiling. The total country office budget was US$ 58 million in 2014 and, as of June, the budget for 2015 was US$ 68 million.

As of June 2015, the country office had 95 approved posts, of which 22 were international professional; 38 were national officers; 33 were general service; and two were UN Volunteers.

## 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 by the country office as high priority – that is, to address issues that require immediate management attention. These are as follows:

- The office agrees to strengthen oversight of implementation of the Harmonized Approach to Cash Transfers (HACT), and to: review the results of the planned macro-assessment; arrange for micro-assessments to be carried out by qualified contractors; update its 2015 HACT plan to be risk-informed and implement it accordingly, including scheduled audits of partners planned to receive more than US$ 500,000; include urgent recommendations from scheduled audits are included in the assurance plan, and systematically followed up; and develop a strategy and plan to train partners including Government implementing partners on HACT.
- The office agrees to take several steps to strengthen controls over the procurement of programme supplies and services, including: application of the correct criteria in the award of contracts to individual consultants; better use of the competitive selection process; strengthening of planning for procurement of programme supplies; ensuring adequate segregation of duties in procurement; systematic evaluation of the performance of suppliers; and provision of guidance to staff on the maintenance of procurement information and closure of contracts in VISION.

## 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 Zambia country office, the Regional Office and OIAI intend to work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) September 2015

# 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 reviewed 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.
- **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 areas above were covered in this audit. Where appropriate, the audit also reviews an office’s participation in UN inter-agency activities and application of the UN coherence principles under Delivering as One (DaO). This was relevant in the case of Zambia, and was covered (see observation *UN Coherence*, p11 below).

The audit found a number of controls functioning well. The office had supervisory structures and governance advisory committees with adequate terms of reference and appropriate memberships. There were also effective mediation, conflict resolution and staff support mechanisms through the staff association and joint consultative committees.

The office managed, measured and reported staff performance in accordance with the organizational cycle of planning, mid-term review and year-end evaluation. It also promoted ethical behaviour through training activities on UN and UNICEF values, conflicts of interest, fraud and misconduct.

However, the audit also noted the following.

## Annual priorities

Offices are expected to establish annual programme and operations priorities, and assign staff responsibilities for them. They should also define a set of management indicators and targets to monitor progress in achievement of those priorities. These processes are carried out through preparation of an Annual Management Plan (AMP). The audit reviewed the office's 2014 and 2015 AMPs and 2015, and noted the following.

***Setting of priorities and staff responsibilities:*** The office had identified its priorities for 2014 and 2015 in its AMPs. For each priority, it had set the expected results/targets, timelines and performance indicators. However, the office' annual priority setting for 2014 was not fully risk-informed, as the office had not conducted risk assessment for the year (see observation *Risk management*, p8 below).

There were also some priorities for which the office had not assigned responsibility to specific staff members. For example, the office had set partnership with donors, and innovation and knowledge management, as priorities for 2015; however, these priorities were not assigned to staff members. Where priorities had been assigned to staff members, they were not always clearly included in those individuals' 2014 and 2015 performance plans.

The audit also noted that the Country Management Team (CMT) did not consistently follow up implementation of the office priorities (see following observation).

**Agreed action 1 (medium priority):** The office agrees to increase oversight of the application of expected controls; and to:

i. Ensure management priorities are assigned to specific staff members who will be accountable for their implementation by including them in their ePas/PER.
ii. Regularly monitor and report results of the follow up of implementation of management priorities to the CMT.

Staff responsible for taking action: Representative, Planning Officer, and Human Resources Specialist
Date by which action will be taken: May 2016

## Country Management Team (CMT)

An office's CMT consists of senior staff from Programme and Operations sections, and staff representatives. It advises the Representative on the management of the country programme and on strategic programme and operations matters. It also monitors progress on the annual programme and operations priorities in the AMP (see previous observation).

The office had a functioning CMT that held 10 meetings in 2014, and five meetings in 2015 as of the time of the audit. The CMT had clearly defined terms of reference and had fair representation from the programme and operations staff, including the staff association and the general service staff.

However, the audit reviewed minutes from a sample of six of the meetings held in 2014 and 2015 and noted that they had not consistently reviewed key office priorities and management indicators. For example, subnational presence, innovation, risk management and quality assurance were amongst the office priorities in 2014, but there was no evidence in minutes of 2014 CMT meetings that they had been discussed in them. Neither were fundraising and HACT[1] implementation, which were specifically set in the AMP as management indicators to be reviewed in the CMT meetings. (However, HACT implementation was methodically included for discussion in the 2015 CMT meetings).

The action points were not always followed up and the CMT was not always kept abreast of the status of their implementation. For example, the CMT agreed in February 2015 that sections prepare HACT assurance plan by March 2015. The same meeting agreed that development and testing of field-monitoring tools would be finalized by March 2015. However, subsequent CMT meeting minutes from March 2015 did not review progress on these action points (the HACT assurance plans had in fact been completed). The office had recently brought in a system to monitor implementation of assigned CMT action points.

Insufficient follow-up of action points stemming from CMT meetings would reduce the CMT's effectiveness in ensuring achievement of results.

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

i. Ensure office priorities and key management indicators are reviewed regularly and monitored in the country management team (CMT) meetings.
ii. Implement the tracking tools the office has developed to follow up implementation of the assigned action points of the CMT meetings and share their update status with the CMT.

Staff responsible for taking action: Representative and Planning Officer
Date by which action will be taken: December 2015

## Risk management

UNICEF's Enterprise Risk Management (ERM) policy requires offices to have processes for periodic and ongoing identification and assessment of risks that may have an impact on their objectives. This is done partly through conducting Risk and Control Self-Assessment (RCSA), and the incorporation of action to manage the risks it identifies in a risk and control library and an action plan to implement risk-mitigation activities.

According to the ERM guidelines, offices should regularly monitor the status of actions defined to manage significant risks, and update its RCSA annually – or more often if required for emerging and declining significant risks. This can be done by including the significant risks and relevant action plans in the annual management plan and involving the office management team in periodic monitoring. However, the office did not conduct the RCSA exercise in 2014 and as a result did not update its risk and control profile during the year. The office said it had not conducted an RCSA in 2014 due to other competing priorities.

The office did make a systematic risk assessment and draw up an action plan in 2015, and assigned the action points to staff members. The 2015 assessment had identified risks in 11 risk categories. One was assessed as high, under the risk category of fraud and misuse of resources; and one was assessed as high to very high, under the risk category of fundraising

[1] HACT is the Harmonized Approach to Cash Transfers. See observation on HACT, p15 below.

and external stakeholder relations.

However, the action plan to mitigate the risks identified was not adequately followed up. For example, to mitigate the high risk of fraud and misuse of resources, the office had planned to raise awareness of the staff on UNICEF anti-fraud policy by March 2015. However, only 11 of the 84 staff had received the training. To mitigate the same risk, the office had planned to develop local HACT guidelines for the implementing partners and conduct training sessions by March 2015; however, neither had been done at the time of the audit.

**Agreed action 3 (medium priority):** The office agrees to increase oversight of the application of expected controls defined in UNICEF ERM policy, and to:

i. Conduct a Risk and Control Self-Assessment at least once a year and regularly update the office risk profile for emerging and declining significant risks.
ii. Institute systematic follow-up of implementation of the planned actions to mitigate the risks identified.

Staff responsible for taking action: Chief of Operations
Date by which action will be taken: July 2016

## Delegation of authorities and assignment of roles

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. Staff are required to acknowledge in writing the authorities delegated to them.

The ToA should be reflected in the roles assigned within UNICEF's management system, VISION (from Virtual Integrated System of Information). 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 and mapped these roles in VISION in 2014 and 2015. In addition, the Representative had delegated authorities to staff as authorizing, purchase-order releasing, receiving, certifying, approving and paying officers. However, the audit noted the following.

***Delegation of roles:*** The audit reviewed a sample of 15 invoices to see if the approving role was being exercised by staff to whom it had been delegated. The audit review noted that six of the sampled 15 invoices were approved by staff members who were on stretch assignments and had not formally signed for the delegated approving role. The office stated that the staff affected were on stretch assignments from other UNICEF offices. The audit also checked a sample of 10 invoices to confirm that the certifying role was being exercised by the staff to whom it had been delegated, and found two invoices had been manually certified by the staff to whom the authority had not been delegated by the Representative.

***Accuracy of recording roles in VISION:*** Some roles registered in VISION did not correspond with the approved ToA. For example, a staff member had been assigned the certifying role in VISION although it had not been delegated to them in the ToA. Conversely, the receiving officer role had been delegated to three staff members although it was not assigned for them in VISION. This increased the risk of unauthorized transactions recorded in VISION.

***Bank signatory panel:*** The authority to amend signatories for the UNICEF bank account is vested in the Comptroller, Division of Finance and Administrative Management (DFAM), and delegated to the Deputy Director Finance and the Heads of UNICEF offices. However, the office sent letters of amendment, effecting changes to the signatory panel, signed jointly by two signatories; but they did not include the Representative and neither he nor DFAM had endorsed them. In addition, none of the signatory panel or paying officers (except one) who signed cheques and bank transfer letters had formally acknowledged awareness of accountability and acceptance of delegation for the paying officer role.

The office also did not update the signatory panel for changes on time. For example, a staff member was a signatory for seven months after retirement. The staff member had also been issued the token (electronic banking device) to execute payments electronically from UNICEF bank accounts and the office could not confirm if the token had been returned. Another staff member, whose post had been abolished, remained a signatory to the UNICEF bank account for five months after leaving.

Not updating the signatory panel promptly increased the risk of unauthorized and fraudulent transactions from UNICEF bank accounts – and the office's RCSA in 2015 had highlighted fraud and misuse of resources as high risk. (The audit did not identify any fraudulent activities regarding the management of bank accounts).

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

i. Establish a mechanism to ensure that only staff with delegated authorities exercise key financial roles.
ii. Formalize accountability of bank signatories through letter of delegation and acceptance for the paying officer role.
iii. Review registration of the Table of Authority and the functional roles in VISION to ensure consistency between the delegated authorities and the assigned roles.
iv. Update the bank signatory panel promptly and ensure that amendment letters to the signatory panel are signed by the authorized staff.
v. Maintain a register for the tokens issued by the bank to staff members and track them, particularly when staff leave the office.

Staff responsible for taking action: Chief of Operations
Date by which action will be taken: March 2016

## Recruitment

Country offices should conduct recruitment according to UNICEF executive directive CF/EXD/2013-004, which sets out provisions for staff selection that places the right person in the right job in the quickest possible time.

In June 2015, the office had 95 established posts – 22 international professional (IP), 38 national professional (NO), two UN Volunteers (VOL) and 33 general service staff (GS). The office completed 30 recruitments between January 2014 and June 2015. Selection panel members were duly appointed and there was a Central Review Body (CRB). However, the audit noted the following.

***Vacancies:*** At the time of the audit (June 2015), 10 of the 95 established posts were vacant, six of them for more than one year – including key posts like human resources officer (which had been vacant since January 2014), emergency specialist, and supply specialist, among others. The office said it had made a conscious decision not to fill them due to lack of adequate funding. It further stated that five of the 10 vacant posts were likely be abolished in the new country programme starting 2016 and it had put proper mitigation measures in place. However, the office also acknowledged that the delay of over 18 months in filling the human resources post had contributed to the delays in the recruitment process.

This process was quite lengthy. The audit reviewed a sample of 10 recruitment cases (seven national and three international posts) and found that it took an average of 126 days, with only three meeting the UNICEF standard of 90 days. From the closing date for applications to the interview took an average of 60 days, and another 66 days from interview to offer letter. Delays were caused by a combination of factors including lack of qualified candidates, and non-availability of selection panel members (including the subject matter experts, who are normally assigned by the Regional Office), and inadequate planning.

The protracted process would put strain on the existing staff (in particular, it would affect the monitoring roles of the programme staff); there was also a risk it could undermine donors' confidence, especially with regard to the key positions. The office said it made use of temporary assistants and consultants to fill staffing gaps.

***Selection process:*** From the sample of 10 recruitments reviewed, the audit noted that there were insufficient controls to ensure a fair and transparent recruitment process. For instance, in three of the 10 cases, the selection panel matrix did not sufficiently enlarge upon the highly proficient (HP) ratings the candidates had received in their interviews, making comparison of candidates difficult.

In another two cases, candidates' applications were received after the closing dates of the vacancy announcement, without recorded justification. The office also did not apply consistent cut-off mark for administering written tests as part of the assessment process. In one case, the cut-off mark was 65 percent, but candidates that scored 64 and 61 percent were also considered for further review. In a second case, the pass mark was 45 percent and yet in another case it was set at 35 out of 50 points. The audit was not provided with sufficient evidence to confirm if these criteria had been established prior to the administration of the written tests, as required by UNICEF selection policy.

Insufficient controls to ensure the selection process in accordance with UNICEF policies and procedures increased the risk of errors and reputational risk.

**Agreed action 5 (medium priority):** The office agrees to strengthen oversight of the application of expected controls, and to take the following specific measures:

i. Prioritize filling of vacant posts that may still be needed in the new country programme.
ii. Identify the causes of delays in recruiting staff and take corrective measures to ensure it is done within the established timeline.
iii. Develop and implement standard operating procedures to guide selection panels in

ensuring the selection process is carried out in compliance with UNICEF policies and procedures.

Staff responsible for taking action: Human Resources Specialist
Date by which action will be taken: January 2016

## Dependency allowance

UNICEF is expected to pay dependency allowance to staff only for children under the age of 21 years for whom the staff member provides the main source of support. The audit review found that staff members (national staff) were being paid dependency allowance for three children who were not eligible according to UNICEF guidance (CF/AI/2001-003). The children for the staff members in question were over the age limit of 21.

One of the staff members had been in receipt of entitlements for which they were ineligible for more than three years, while another had received them for two years. The office was unaware of these cases and stated that it would initiate recovery of the overpayments from the staff members' payrolls. At the time of the audit, the office was establishing the amounts of overpayments to be recovered.

The above control weakness was mainly due to insufficient oversight of the application of expected controls defined in UNICEF policies and procedures. This led to overpayments of entitlements, and associated administrative costs.

**Agreed action 6 (medium priority):** The office agrees to rigorously monitor provision of dependency allowances so that it is in accordance with UNICEF policies and procedures, keep staff members aware of the current policy, and recover from staff members any dependency benefits that have been paid in excess of their entitlements.

Staff responsible for taking action: Human Resources Specialist and Budget and Finance Officer
Date by which action will be taken: March 2016

## UN Coherence

Following the World Summit of 2005, UN reform was given a new push. A high-level panel established by the Secretary General on System-wide Coherence in 2006 recommended that the UN should accelerate reforms to establish unified UN country teams to provide a coherent approach to cross-cutting issues. The approach, Delivering as One (DaO), 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 was to reduce duplication, competition and transaction costs.

Originally launched in 2007 in eight pilot countries, DaO has also been adopted voluntarily by UN agencies in a number of others. In several cases, the host governments themselves have asked the UN development system to adopt the DaO approach; this was the case in Zambia, which did so in 2011.

UNICEF and other specialized UN agencies operating in Zambia had jointly signed the United Nations Development Assistance Framework (UNDAF) with the government of Zambia for its 2011-2015 programme. An UNDAF is a broad agreement between the UN as a whole and a national Government, setting out the latter's chosen development path, and how the UN will assist. In this case, there were five outcomes in the UNDAF: *HIV and AIDS*, *Sustainable Livelihoods and Food Security*, *Human Development*, *Climate Change*, *Environment and Disaster Risk Reduction and Response*, and *Good Governance and Gender Equality*.

To operationalize UNDAF outcomes, UN specialized agencies should together plan joint workplans. In some countries, joint workplans have been translated into a United Nations Development Action Plan (UNDAP). Joint workplans/UNDAP should clearly set out responsibilities and accountabilities of each UN agency in the implementation of UNDAF outcomes, particularly where overlap exists in cross-cutting programmatic interventions. However, the UNICEF office had not established joint workplans for 2014 and 2015, except for some selected joint UN programmes.

By the end of 2014 the office had reviewed progress of the UNICEF programme against its own CPAP, and against the UNDAF outcomes. The office, and the other UN agencies involved, had also conducted evaluation of the 2011-2015 UNDAF and used results of the evaluation in the preparation of 2016-2021 UNDAF. However, there were no targets or performance indicators established for each UN agency, which made it difficult for the office to measure whether UNICEF's performance in achieving the UNDAF results was on track. This also reduced capacity to report on the fulfilment of accountabilities and the effectiveness of the joint UN programme.

**Agreed action 7 (medium priority):** The office agrees to support the Resident Coordinator's Office as the latter establishes and leads a process for developing joint workplans with other UN agencies for the next country programme, which starts in 2016. The process should clearly set out the responsibilities and accountabilities of each UN agency in the development and monitoring of joint workplans. It should also establish targets and performance indicators for the contribution of each UN agency to the 2016-2021 UN Sustainable Goals Partnership Framework outcomes.

Staff responsible for taking action: Representative and Deputy Representative
Date by which action will be taken: March 2016

## Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control processes over governance, as defined above, were generally established and functioning during the period under audit.

# 2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and 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 found that controls were functioning well in some areas. The office held meetings for programme staff to monitor indicators and progress against the annual workplan, and review strategies. The objectives in the personal evaluation reports (PERs) of Section Chiefs were SMART[2] and were linked to the annual workplan and annual management plan (AMP) key results areas. There was also a quality-assurance process for the Country Office Annual Report, both in narrative (written) form and in the Results Assessment Module in VISION. However, the audit also noted the following.

## Results-based management

UNICEF adheres to results-based management (RBM). According to the UN Development Group, this is a strategy in which: "actors …use information and evidence on actual results to inform decision-making on the design, resourcing and delivery of programmes and activities as well as for accountability and reporting." This implies that both outcomes and outputs[3] should have a measurable target against which real achievement can be assessed (rather than

[2] Specific, measurable, achievable, relevant and time-bound.

[3] UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

a vaguely-stated objective). This in turn means that there must be baseline data for the start-point of any intervention as well as for its end, and indicators for which such data can be compiled.

The audit noted the following.

***Outputs:*** Sampled outputs were not sufficiently specific and measurable. They included use of words such as “strengthened”, or “improved capacity” (for example, output 1.2: “national and sub-national levels have strengthened capacity”; output 2.1: “…sectors have the capacity to formulate policies, mobilize resources, coordinate and monitor”). These are not conducive to measurement.

***Baseline data and targets:*** Targets and baselines were not correctly stated in some instances, and in a few samples reviewed they were either incomplete or missing. For instance, the Education programme had one of its indicators as “completion rate for grade 7 with baseline of 107 percent” in 2012, and yet the target for 2015 was 97 percent. In another example, the Health programme had one of its indicators as “percentage of maternity units in target districts with staff trained in essential newborn care” with baseline of 2013 and value of 60 percent. However, the target to be achieved in 2015 was set at 50 percent, which was below the baseline value. The baseline and targets for two sampled output indicators for HIV/AIDS (“effective national coordination mechanisms for integrated HIV/MNCH programs in place” and “annual PMTCT and pediatric HIV plan in place”) were missing. Also, baselines and targets were missing in the *Education*, *Social inclusion* and *Child protection* programmes.

The above weaknesses were mainly due to insufficient guidance and training to staff on results-based management and lack of a quality assurance process to ensure adequate preparation and recording of data in the results matrix. This reduced the office’s capacity to properly measure and report on achievements.

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

i. Develop guidance and provide refresher training to staff on formulating outcome and outputs results that are specific and measurable.
ii. Establish a quality assurance process over the preparation and the recording of data in the results matrix.

Staff responsible for taking action: Deputy Representative; Planning Officer; and Planning Monitoring and Evaluation Specialist
Date by which action will be taken: December 2015

## Millennium Development Goal initiative (MDGi)

The MDGi goal is to accelerate progress on maternal and child health in Lusaka and Copperbelt provinces (health, nutrition, WASH, and HIV/AIDS sectors). UNICEF Zambia had entered into an agreement with a major donor and the Government of Zambia to implement the MDGi programme, with a focus on 11 districts; these were in the two provinces that together comprise approximately 30 percent of the population of the country. The total grant was about US$ 63.5 million, and under this arrangement UNICEF was acting as the technical UN agency.

The duration of the programme is 48 months (May 2013 to April 2017). It was planned to have two phases, inception and implementation. The inception phase includes setting up of programmatic structures, conducting baseline assessments to determine the needs of users and state of health services and governance structures, and setting up of monitoring and evaluation arrangements for the programme. The inception phase was planned to end in May 2014, at which point the implementation phase would begin.

The inception phase was delayed and could not be completed until October 2014. This delay of five months exposed UNICEF to significant reputational risk, as the donor expressed concern on the progress of implementation of the programme. The delays were mainly due to inadequate planning and insufficient risk assessment prior to signing the agreement with the donor and the Government of Zambia. The office did not also undertake proper pre-planning or assessment of the internal human resources and technical expertise it would require to implement the programme on time. Further, it did not anticipate challenges posed by differences between UNICEF's financial reporting structure and that of the donor with a view to planning remedial action. A change in the entire office management team had not helped, contributing also to delays.

The new management team had sought support from the Regional Office and headquarters, including upgrading of two of its senior management posts, and had introduced changes in the staffing structure in order to strengthen its staff capacity. These recent actions will contribute to increasing the office's capacity to implement the programme within the established timeline set in the agreement and thereby responding to concerns raised by the donor.

**Agreed action 9 (medium priority):** The country office agrees to:

i. Prioritize the Millennium Development Goal initiative by ensuring that all personnel needed for it are in place.
ii. Conduct a comprehensive risk assessment of the current programme and ensure adequate mitigation measures are in place to address potential delays.
iii. For future major project/programmes, establish a standard operating procedure to ensure an adequate risk assessment is carried out, including potential challenges and threats.

Staff responsible for taking action: Chief, Health and Nutrition; Human Resources Specialist; Deputy Representative; Chief of Operations; and Representative
Date by which action will be taken: March 2016

## Harmonized Approach to Cash Transfers

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

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure.

At country level, HACT involves 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 should include spot checks, programme monitoring, scheduled audit and special audits. There should be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. HACT is also required for UNDP and UNFPA and the agencies are meant to work together to implement it.

The office had established a HACT task force, chaired by the Deputy Representative. The terms of reference (ToR) required the members to meet once every two months or as and when required to monitor the HACT implementation plan.

The audit noted the following.

***Macro-assessment:*** A macro-assessment, commissioned by UNDP, had been done in May 2012. The objective of the assessment was to assess the key risks of Zambia's public financial management (PFM) system regarding cash transfers; and to determine whether the Office of the Auditor General (OAG) had the capacity to undertake required audits, and outline opportunities for capacity development. The assessment noted the risk to the external oversight functions of OAG from a lack of financial and political independence, as well as the weaknesses in external audit coverage of central government expenditures. The office stated that the macro-assessment report was reviewed in May 2013 during the update of the office risk assessment. However, the office did not record its interpretation of the assessment, recognition of the identified risks and understanding of their specific effects on UNICEF, including its programme design.

The office told the audit that it planned to conduct a new macro-assessment with other UN agencies by the end of 2015, to prepare for the new programme cycle starting in January 2016. A new macro-assessment will increase the office's capacity to identify and address specific risks and capacity gaps associated with management of cash transfers through the public financial management system, and to review the possibility of using the Office of the Auditor General.

***Micro-assessment:*** HACT requires that micro-assessments are undertaken at least once per programme cycle on partners expected to receive US$ 100,000 or more per year from UNICEF. The results of these assessments are used to determine the type of cash transfer that will be used, and the frequency of assurance activities, for that partner.

In 2015, the country office planned to conduct 12 micro-assessments. At the time of the audit in June, one had been completed, seven were in progress and four had not yet been started. However, the office did not plan for any micro-assessments in 2014, though it did in fact conduct 13 of them. According to the HACT framework, the micro-assessment process consists of both planning and execution phases. By not planning the micro-assessments for 2014 in advance, the office missed the opportunity to make a risk-based decision as to which partners required them, and which should have priority. Furthermore, if a partner is not micro-assessed, it is deemed to be high risk and therefore subject to more frequent assurance activities. For instance, one of the key ministries (the Ministry of Education) had received US$ 1.8 million, but had not been micro-assessed as of June 2015, and was therefore considered high risk.

Further, the audit reviewed five of the 13 micro-assessments and noted that they were all done by staff members. The HACT guidelines recommend that they be done by a qualified third-party contractor, to ensure objectivity and independence and the required technical expertise.

***Assurance plan:*** The office planned 61 programmatic visits and the same number of spot checks in 2014. However, only 18 and 27 respectively of these had been done. In 2015, it planned 154 programme visits and 80 spot checks and as of the audit (June 2015) the implementation rates were 24 and five respectively. The office said that a larger number had in fact been carried out in 2015, but did not have documentation to hand to confirm this.

The audit also noted that the 2014 and 2015 assurance plans were not sufficiently risk-based. The frequency of spot checks and programmatic visits were not clearly linked to risk profile of partners; the expected total cash transfers paid annually or during the programme cycle; and the occurrence or otherwise of an audit.

For instance, the audit compared two different partners that were expected to receive about US$ 100,000 each from UNICEF in 2015; both were rated high risk, but while one had four planned programmatic visits planned for in 2015, the other had only one planned. According to UNICEF guidance, the number of programmatic visits to high-risk partners receiving more than US$ 100,000 but less than US$ 350,000 per year should be two or more. Conversely, another partner that was expected to receive US$ 20,000 in 2015 had two planned programme visits. Moreover, although spot checks are not mandatory for partners receiving less than US$ 50,000 in a year, the office had planned for one spot check each for three partners with planned cash transfer of US$ 20,000 each in 2015. Finally, spot checks are not required for partners in a year in which they are being audited, but some partners had both spot checks and an audit planned for them in 2015.

Insufficient assurance activities, particularly for high and significant risk partners, reduced the office's assurance on the use of funds. On the other hand, an excessive number of assurance activities for low risk partners risks inefficient use of resources.

***Scheduled audits:*** HACT policy requires partners receiving US$ 500,000 or more during the country programme cycle to be audited once during that cycle. The office reported in its 2015 assurance plan that 40 partners were expected to receive more than US$ 500,000. As of the end of June 2015, however, the audit noted that the office only two of the 40 partners had been audited, and the country programme ends by 31 December 2015.

***Capacity-building of partners and staff:*** The types and timing of capacity-building activities of partners were not included in the 2014 assurance plan. For example, the office did not prepare a financial management capacity development plan. The office said that NGO partners, as well as all staff that were in the office as of March 2015, had been trained on HACT. However, the two NGO partners visited in the course of the audit confirmed that they had not received HACT training; neither were HACT guidelines made available to them. The audit also noted that government partners had not received HACT training.

Further, although the office said that its own staff has been trained on HACT, only two out of the total of 84 staff had completed the specific HACT online training course that is mandatory for all UNICEF programme and operations staff responsible for managing results, resources and partnerships in relation to cash transfers to partners.

***Follow-up on recommendations:*** The 2014 assurance plans did not include information on the status of implementation of recommendations stemming from assurance activities. However, the 2015 assurance plan included a summary of recommendations raised from programme visits and spot checks, and tracks action on these as necessary.

The spot-check template requires follow-up of recommendations from micro-assessments and prior spot-check reports (but not for audits). Two sampled spot-check reports did not show that recommendations stemming from previous spot-check and micro-assessment reports had been followed up. Recommendations from field visits were recorded in trip reports. For programme visits, follow-up of critical/urgent recommendations was done by each programme section but not systematically documented. There was no overall mechanism to track implementation of critical/urgent recommendations arising from assurance activities in 2014.

***Recent actions by management:*** The office was aware of the above shortcomings and had begun taking actions to strengthen implementation of HACT. For example, the office had employed a fulltime HACT Specialist to coordinate HACT activities in the office.

**Agreed action 10 (high priority):** The office agrees to strengthen oversight of the Harmonized Approach to Cash Transfers (HACT) and to take the following specific steps:

i. Ensure that results of the planned macro-assessment are reviewed and recorded, including acknowledgement in writing of the risks identified and the office's understanding of their specific implications for UNICEF programme design.
ii. Arrange for micro-assessments to be carried out by qualified contractors.
iii. Update its 2015 HACT plan to be risk-informed and implement it accordingly, including scheduled audits of partners planned to receive more than US$ 500,000.
iv. Ensure critical/urgent recommendations from scheduled audits are included in the assurance plan, and systematically followed up.
v. Develop a strategy and plan to train partners including Government implementing partners on HACT.

Staff responsible for taking action: Representative; Deputy Representative and Programme Manager (HACT)
Date by which action will be taken: June 2016

## Programme monitoring

The audit reviewed whether the office had mechanisms to monitor progress against planned outputs and targets established in the results framework. Systems used by UNICEF offices for this purpose include mid-year and annual programme reviews held jointly with government and NGO partners so as to review progress, and identify constraints and lessons learned. They also include regular programme field visits jointly with implementing partners. Programme monitoring is also an assurance activity for HACT purposes (see previous observation).

The office regularly monitored progress through CMT, programme management team and Heads of Section meetings. Each section has a monitoring and evaluation focal point to increase monitoring capacity. The MDGi had its own governance bodies, composed of the donor, UNICEF, WHO, UNFPA and government partners, to monitor programme implementation.

***Field-monitoring tools***: The office had issued guidance and a template for reporting on field monitoring visits, but the audit noted that this was not being consistently followed. Further, the template could have been improved to specifically require that staff members review the status or the effectiveness of programme inputs such as programme supplies and consultants, and indicate critical/urgent actions with assigned responsibilities and timelines. The office had also not issued guidance to be used by staff during field visits for reviewing the accuracy of progress against indicators and targets reported by partners.

***Analysis of trip reports***: Travel expenditures for 2014 and 2015 amounted to US$ 2.1 million and (as of June 2015) US$ 626,000 respectively. The office informed the audit that it had completed a total of 85 programme visits in 2014 and 72 out of 154 planned for 2015. However, the audit noted that the office had not conducted a detailed analysis of trips by classifying them according to purpose, programme section, programme outcome or output, location, staff and duration. This kind of analysis would help the office in assessing the cost-effectiveness of field-monitoring visits as well as constraints and areas for improvement.

***Mid-year and annual reviews*****:** In 2014, the office carried out mid-year reviews of its programme and also annual reviews with major implementing partners for each of its programmes.

The 2014 mid-year and annual reviews included a review of operations support. However, there was no record of any comparison of achievements against plan and priorities. Also, the annual review of the implementation of the 2014 Operations section workplan did not include the key risks and mitigation actions for the operations functions. For instance, there was no review of the timeliness and quality of supply procurement and contracts for services; the timeliness of cash transfers and delivery of supplies to end-users; the effectiveness of assurance activities; the constraints or risks to financial management and related mitigating actions; and areas for improvement.

The analysis of risks/constraints to programme implementation by outputs was also insufficient. There were inconsistencies in this respect between programme components of the rolling workplan during mid-year and annual reviews. For instance, the analysis of anticipated risks and mitigation actions was done for only one programme (WASH), plus one component of another programme (child justice reform). Similarly, the annual review included specific recommendations for some programme components but not for others. There were also no specific recommendations for the whole country programme.

***Monitoring visits by OIAI***: The audit visited four implementing partners in Lusaka, and also projects covering three major programmes in three districts (Katete, Chadiza and Mumbwa) of two provinces of Eastern and Lusaka. The activities visited included the School Level Improvement Plan (SLIP) in two schools, a health facility and a sanitation project.

During the visits, the partners confirmed good collaboration and support from UNICEF staff. However, due to ongoing decentralization in the country, the districts felt inadequately involved in programme design and planning; this could jeopardize ownership at the district level. For instance, in Katete district, officials thought there was inadequate involvement of the district in the SLIP project.

***Field-monitoring visits by staff***: Assurance activities under HACT include programme monitoring. The office had prepared quarterly travel plans by sections in 2014 and monthly plan in 2015. However, the 2014 travel plan did not include field-monitoring visits undertaken jointly with implementing partners, and the 2015 plans did not do so consistently. There was no clear linkage with the HACT assurance plan for 2014 (but this had been done for 2015).

The audit reviewed 10 trip reports (five for each year). Six did not include clear reference to rolling/annual workplan outputs, or to the programme cooperation agreement (PCA) outputs (including indicators and targets) and planned activities. Eight did not indicate the kind of programme input (cash or programme supplies or consultant services) given to partners. For instance, during the monitoring visits undertaken by the audit team, it was noted that the incubator supplied to Chadiza district health facility was faulty and could not be installed. Partners in the same district said that motorbikes delivered were of a type unsuited to the terrain and to carriage of vaccine boxes. These issues had not been identified during field-monitoring visits by the office as there was no requirement in the field-monitoring template to review programme inputs. Further, although all 10 sampled reports included recommendations, two lacked assigned responsibilities and timelines for completion.

Four of the sampled trip reports were not prepared within 15 days of completion of field visits. In two cases, the supervisor signed the trip reports 90 days after the field trip and in another three cases the supervisors had not done so at all.

**Agreed action 11 (medium priority):** The office agrees to increase its oversight of the application of expected controls; and to:

i. Update the trip-reporting tool and include a requirement to review the effectiveness of major programme inputs such as programme supplies and cash transfers, including a template to be used by staff in reviewing the accuracy of progress against indicators and targets as reported by partners.
ii. Undertake periodic review of travel costs to assess cost-effectiveness of field-monitoring activities, the adequacy of technical support provided to partners, the constraints to field monitoring and the areas for its improvement.
iii. During mid-year and annual reviews, carry out systematic risk and constraint analysis for the operations functions that support the office and programme partners; and assess achievement against the plan and priorities for the operations support functions.
iv. Ensure that mid-year and annual programme reviews include systematic risk and constraint analysis and recommendations to address areas for improvement.
v. Train programme staff on how to conduct programme spot checks so as to ensure results reported by partners against the indicators and targets, in their activity reports or quarterly narrative progress reports, are credible and supported.
vi. Establish a central repository for trip reports and assign staff responsibility for monitoring their preparation and approval within 15 days after completion of travel.

Staff responsible for taking action: Planning Monitoring and Evaluation Specialist; Programme Manager (HACT); Chief of Operations; and Deputy Representative
Date by which action will be taken: June 2016

## Programme Cooperation Agreement review process

The office had established a Programme Cooperation Agreement Review Committee (PCARC) with appropriate terms of reference and membership. It also had standard operating procedures (SOPs) for the development of project document and the conclusion of PCAs with

NGOs. From January 2014 to June 2015, the office had about 45 PCAs with different NGOs with a total value of US $19.3 million. The audit review noted the following:

***PCARC:*** The office had set no standard for timelines for completing the review process. The audit reviewed a sample of 11 PCAs and noted that it took an average of 38 days from the date of submission to the PCARC to signature of the PCA, ranging from 10 days to 92 days. Without setting a standard, the office was unable to assess the performance of the review committee and ensure timely processing of PCAs. UNICEF's new Civil Society Organizations guidelines, introduced in 2015,[4] include a standard of 45 days. As of the time of the audit, the office had not set up a process to measure performance against the standard.

***Quality of results frameworks:*** The audit's review of 11 sampled PCAs revealed that the quality of some results logical framework could have been enhanced. For instance, in nine of the 11 cases, the baselines were not included although performance targets had been set against them. This could be due to inadequate oversight and quality assurance by the PCARC and weak training of partners.

***PCA over US$ 1 million:*** During the period under audit, country offices are expected to inform the Regional Director before entering into any financial commitments above US$ 1million. The audit reviewed five PCAs signed with NGOs between January 2014 and May 2015 with values over US$ 1 million and noted that in three of these cases, the office had not done this. (The new guidelines do not include this requirement.)

***Compliance with UN resolution 1267***: None of the 11 submissions to the PCARC sampled by the audit included evidence of verification that neither the organization nor any of its members were on the consolidated list of individuals and entities belonging to, or associated with, terrorist organizations, in compliance with UN Security Council Resolution 1267. This was partly because the PCA submission checklist did not include this requirement.

**Agreed action 12 (medium priority):** The office agrees to increase its oversight of the partnership review process, and to take the following specific steps:

i. Update the terms of reference and standard operating procedures for the Programme Cooperation Agreement Review Committee to include timelines for review of submissions as part of the key performance indicators; and establish a process to assess the performance of the Committee against the standard.
ii. Train implementing partners on the new UNICEF *Procedure For Country And Regional Office Transfer Of Resources To Civil Society Organizations* (FRG/PROCEDURE/2015/001), which took effect from 1 April 2015; and take that opportunity to underline the importance of the programme document, including the results log frame.
iii. Establish a mechanism for ensuring compliance with UN Security Council Resolution 1267.

[4] The regulations for the period under audit were set out in the *Guidelines for Programme Cooperation Agreements and Small Scale Funding Agreements* (CF/EXD/2009-011), With effect from 1 April 2015 these guidelines have been superseded by UNICEF *Procedure For Country And Regional Office Transfer Of Resources To Civil Society Organizations* (FRG/PROCEDURE/2015/001), which introduces a number of changes. However, the former guidelines were in force for most of the period under audit (January 2014-June 2015), and offices were not required to adopt the new guidelines until 1 June.

Staff responsible for taking action: Deputy Representative; Planning Monitoring and Evaluation Specialist; and Programme Manager (HACT)
Date by which action will be taken: June 2016

## Programme evaluations

According to UNICEF's Programme Policy and Procedure Manual (PPPM), UNICEF country offices should establish an integrated monitoring and evaluation plan (IMEP) for the country programme.[5] The IMEP should cover all major aspects of monitoring and evaluation (M&E), such as programme evaluations, studies, surveys, research, assessment and capacity building. It should also define the planned activities, assigned responsibilities, estimated budget and timelines. Offices should allocate sufficient resources for IMEP activities and follow-up recommendations stemming from them.

The audit review noted the following.

***M&E task force:*** This task force was expected to provide the oversight and quality assurance to help the office effectively manage evaluations and ensure their use in evidence-based decision-making. It was also meant to monitor and review IMEP implementation at its quarterly meetings. However, it had met only twice in 2014 and had not met in 2015 (as of June).

In the meetings that did take place (in January and August 2014), the task force did not oversee and review the quality of programme evaluations as expected. Neither did it review and monitor the implementation progress of the 2014 IMEP, status of management response to evaluations and proposed 2015 IMEP priorities. These shortcomings were mainly caused by insufficient oversight of the effectiveness of the taskforce by the CMT.

***Implementation of IMEP:*** The 2014-2015 IMEP included a total of 68 activities: 29 surveys, studies and researches; six evaluations; 12 major data-collection activities; 14 capacity-building activities for evaluation; and seven publications.

There was insufficient and irregular monitoring of implementation. Although the office prepared a mid-year IMEP progress report for 2014, it did not identify constraints as well as lessons learned and propose action accordingly. Further, the office prepared a year-end status report of IMEP implementation in 2014. According to the office, implementation of the IMEP was as planned, but the status report was incomplete. For instance, it did not analyze actual expenditures against the estimated budget.

***Programme evaluations:*** The audit found that the office had completed seven evaluations from 2011 to 2015 (one in 2011, two each in 2012 and 2013, none in 2014 and two in 2015). For the purposes of accountability, the PPPM recommends that each programme component be evaluated at least once during the country programme cycle. However, the audit noted that less than six months from the end of current programme the office did not plan to evaluate all significant components of its programme. For instance, education components had not been evaluated despite their significance (expenditures of US$ 6 million in 2014; and total budget of US$ 38 million in 2011-2015 country programme).

***Quality of IMEP outputs:*** The office had issued a standard operating procedure (SOP) on

[5] Guidelines for IMEPs are set out in section 5.6.4 of the Manual.

management of the IMEP in 2014 which required it to set up a committee for the management and governance of research and evaluation activities. It was to carry out a quality assurance technical review of: development of terms of reference (ToRs); design and methodology; and final report writing and dissemination of studies, researches and evaluations. As of June 2015, the office had not yet established this committee. Further, staff had not recently received training on quality assurance technical review of ToRs, interim and final reports. However, the office stated it had issued guidance on development of ToRs, inception reports and management response.

The above shortcomings were due to competing priorities, inadequate planning and limited oversight.

**Agreed action 13 (medium priority):** The office agrees to review and strengthen its planning and oversight of the integrated monitoring and evaluation plan (IMEP) activities, including programme evaluations. Specifically, it agrees to:

i. Use the Country Management Team (CMT) to oversee the effectiveness of the monitoring and evaluation (M&E) taskforce so that the taskforce meets regularly and fulfils its responsibilities as set out in its terms of reference.
ii. Review progress in implementing IMEP activities against plan, including identification of constraints as well as lessons learned, and propose mitigation measures at mid-year and end year.
iii. Ensure the IMEP for the next country programme provides for programme evaluations of all key programme components within a programme cycle.
iv. Establish a committee for the management and governance of research and evaluation activities.

Staff responsible for taking action: Planning Monitoring and Evaluation Specialist; Planning Monitoring and Evaluation Officer; and Chief of Social Policy
Date by which action will be taken: March 2016

## Resource mobilization[6] and donor reporting

Country offices should have a clear and comprehensive fundraising strategy for securing approved Other Resources (OR)[7] in support of the country programme. The audit reviewed the office's resource mobilization activities and noted the following shortcomings:

***Resource mobilization strategy:*** The office had developed a resource mobilization strategy in 2010 for the 2011-2015 country programme, but had not established annual targets and performance indicators to monitor fundraising activities, or drawn up an action plan for their implementation. The office had also not updated its 2010-2015 fundraising strategy during the country programme to incorporate challenges and emerging opportunities.

However, the office had established a fundraising strategy for its next (2015-2020) country programme. It had noted challenges in fundraising and lessons learned from 2011-2015,

[6] 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.
[7] For an explanation of regular resources (RR) and other resources (OR), please see Summary on p2 above.

identified potential donors by section, and established a process for quality assurance of donor proposals and donor reporting. But it had not established annual fundraising targets, or produced an action plan to implement the strategy.

***Donor proposals:*** The audit reviewed a sample of four funding proposals submitted to donors in 2014. All four sampled proposals listed the key implementing partners for the implementation of proposed project activities. However, none of the sampled proposals included a brief description of implementing partners' capacity, experience and skills to successfully implement proposed activities. Neither did they explain how the proposed activities related to UNICEF CPAP and UNDAF outcomes, or include an exit strategy to build confidence of the donors that the activities would not be continuously dependent on donor funding.

The proposals also omitted M&E plans, describe results reporting to donors or include baseline information and targets for the proposed interventions. Three of the four sampled proposals also lacked information on the risk assessment and corresponding mitigation plan.

***Donor reports:*** The office submitted 48 donor reports in 2014 and 25 in 2015. Further, two out of the 48 reports submitted in 2014 and one out of 25 submitted in 2015 were sent late. Based on audit visits to two major donors and review of documents, including correspondence between UNICEF and donors, it was noted that donors had concerns on the quality of some of the reports, such as editing errors. This was confirmed when the audit visited two of the donors.

**Agreed action 14 (medium priority):** The office agrees to:

i. Set annual fundraising targets, establish key performance indicators and develop an action plan with assigned responsibilities and timelines, for implementing its resource mobilization strategy, which can be incorporated in the annual management plan.
ii. Provide guidance on, and establish an oversight mechanism for, the development of funding proposals.
iii. Provide guidance on the quality assurance process for donor reporting and ensure that all reports are submitted promptly.

Staff responsible for taking action: Deputy Representative; Chief of Communications; and Reports Specialist
Date by which action will be taken: February 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 the 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 (PPE) as well as management of records. 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 areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. For example, the general ledger accounts were properly used in processing financial transactions. Direct cash transfer (DCT) liquidation documents were adequately supported. Monthly bank reconciliations were completed on time.

The office had adequately accounted for property, plant and equipment in VISION.

However, the audit noted the following.

## Management of cash transfers

Country offices should have systems and controls to ensure that financial transactions and records are regularly monitored for accuracy and timely processing. The audit noted the following.

***Documentation in VISION***: In 13 out of 15 cases reviewed by the audit, the office did not attach scanned copies of the certified FACE forms[8] to the corresponding funds commitments in VISION in accordance with UNICEF Financial and Administrative Policy 5: *Cash Disbursements*. Similarly, for liquidations, the office did not attach scanned copies of the approved FACE forms to the funds commitments in VISION in any of the 15 cases reviewed.

***Direct payments:*** The audit noted that in six out of the sampled 13 cases, the relevant annual

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[8] 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.

workplans (AWPs) were not attached to requests for direct payments.[9] Further, activity reports were not included in four cases. The office issued a standard operating procedure in 2015 to address these shortcomings.

***Down-payment processing:*** The Eastern and Southern Africa Regional Office (ESARO) had an established benchmark of two business days for processing down-payment requests. The audit reviewed a sample of 13 such requests and noted that none were completed within two days (the delays ranged from five to 21 days); this could delay programme implementation.

***Timeliness of cash transfers***: Delays in requesting and disbursement of cash transfers were noted in 12 of 13 cases reviewed, with delays ranging from 26 days to almost four months after the planned start date of activities in the approved workplans. The delays were caused by a combination of factors, including partners not submitting the requests for cash transfers on time – which on average caused 15 days' delay. However, there were also delays between request and disbursement of about 30 days (ranging from three to 82 days). Further, two partners visited reported receiving cash transfers late. Untimely disbursement of cash transfers can delay programme implementation.

***Liquidation of DCTs:*** Activity reports were attached to liquidation documents. In five out of 15 liquidations sampled, however, it was noted that the periods of activity were either not consistent with the activity reports and FACE form or were not indicated on the FACE form. For instance, the period indicated in the FACE form for one liquidation was April to June 2014 whereas the activity was reported to have taken place between July and August 2014. This could lead to the liquidation of advances given for activities not carried out.

**Agreed action 15 (medium priority):** The office agrees to increase oversight of management of cash transfers, and to take the following specific steps:

i. Ensure implementing partners reference request for inputs to the agreed annual workplan (AWP) or Programme Cooperation Agreement (PCA).
ii. Ensure that relevant portion of the AWP is included when requesting direct payments and reimbursements.
iii. Ensure that relevant documents relating to funds commitments are scanned and uploaded in VISION.
iv. Review its processes for processing cash transfers, assist partners in timely submission of requests for cash transfers, and ensure that cash transfers are disbursed to partners promptly and in accordance with workplans, including completing the payment process within two business days of posting of a down-payment request.
v. Review its liquidation procedures to ensure consistency between activity report periods and periods indicated on the Funding Authorization Certificate of Expenditure form prior to completing liquidation process.

Staff responsible for taking action: Chief of Operations; Programme Manager (HACT); and Budget and Finance Officer
Date by which action will be taken: March 2016

[9] Direct payments are those made by UNICEF directly to vendors and other third parties who have provided goods or services on behalf of the implementing partner, for agreed-upon programme activities. The payments are made upon request and following completion of the activities.

## Vendor master records

UNICEF's Supply Manual and the relevant VISION guidance notes provide guidance on the creation, maintenance, and use of, and access to, vendor records in VISION. The creation of vendor master records by an office should be done centrally by the designated staff member(s). The office is also expected to 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.

The office 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. Duplicate records may also allow implementing partners to receive DCTs despite having previous cash transfers outstanding for more than six months.

The office had an established process for the creation and maintenance of vendor master records in VISION, and had assigned the vendor master role in VISION to two staff members. New vendor registration in VISION required certification of the requesting section/unit and approval of the chief of operations. It was also noted that the process systematically required vendors and implementing partners to submit details of their bank accounts to the office for the registration.

However, the audit review noted that vendor accounts had been duplicated in vendor master records for 37 vendors, totaling 80 of the total 1,011 vendor master records. The office had blocked 24 of the 37 duplicate vendors for posting, but not the remaining 13, so that transactions could still be posted to these vendor accounts.[10] Though the audit found duplicate vendor master records, it did not identify any duplicate payments or irregularities.

The office had also identified inactive implementing partners and suppliers. However, although it had added "blocked" to the names of 121 vendors pertaining to implementing partners and suppliers, they had not actually blocked them; one could still post transactions to the accounts. In addition, the office had marked two vendors for deletion even though transactions had been posted to these vendor master record accounts. To maintain an audit trail, vendor master record accounts with posted transactions should not be marked for deletion.

**Agreed action 16 (medium priority):** The office agrees to increase oversight of the application of controls over vendor master data, and to take the following steps:

i. Establish Standard Operating Procedures to ensure completeness and accuracy of records, including a procedure to avoid duplicate vendor master records.
ii. 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.

Staff responsible for taking action: Chief of Operations
Date by which action will be taken: March 2016

[10] Deletion of vendor 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.

## Procurement of supplies and services

The country office had procured programme supplies locally valued at US$ 4.5 million. It had also procured services locally valued at US$ 9.4 million during the period from January 2014 to May 2015. Of this, US$ 6.8 million was for institutional services and US$ 2.6 million for individual services. The audit reviewed whether the office had effective processes so that the procurement of programme supplies and services was properly planned, implemented and monitored.

The office had drawn up a plan for procurement of supplies and services in 2014 and 2015. It had last conducted market survey in 2010, but had issued an expression of interest in 2014 to source suppliers for a market survey in order to keep its supplier database up-to-date. The office also had an innovative project to qualify new potential suppliers using web-based sourcing.

The audit reviewed a sample of four individual contracts, five purchase orders (POs) and six institutional contracts released in 2014-2015. The sample reviewed represented 29 percent of the contracts awarded by dollar value during the period under audit. The audit noted the following.

***Quality of partners' request for inputs:*** The audit reviewed the quality of partners' request for supply inputs to confirm that they were aligned with the AWPs or PCAs. It was noted that in eight of 11 (73 percent) sampled cases, there was no reference made to the relevant AWP or PCAs; the activity start dates were also not indicated in those eight cases. If partners' requests do not reference the AWP or PCA with relevant activity start dates, there could be a risk of procuring items not planned for. The office said it had issued a standard operating procedure (SOP) in 2015 to address this.

***Individual contracts:*** The office had not always followed established procedures to select the most appropriate candidate for a consultancy. For example, in one case the office had not recorded the reasons for its decision not to award a contract to a candidate who had a stronger educational background, more experience of the UN agencies and a closer match for the tasks in the ToR. In another case, also, the office had not documented the reasons to award the contract to a candidate who did not hold the minimum educational qualifications specified, although there had been a candidate who did. In addition, the office had not verified the academic credentials of consultants in any of the three applicable cases (UNICEF procedures require this).

According to UNICEF's policies for individual contracts, consultants are responsible for the arrangement and cost of any visas they might need. However, in one case, the office reimbursed a visa processing fee to a consultant though it had not been agreed in the contract. In another case, the office agreed a visa processing fee in the contract (although in the event it was not paid, as the consultant did not require a visa for Zambia). The office also paid daily subsistence allowance (DSA) to a consultant although it had not been agreed in the contract.

***Programme supplies:*** In some cases, the office had underestimated some important elements of the programme supplies, which caused delay in the delivery of supplies to end users. Thus 10 motorbikes procured for partners to implement programme activities were promised by the supplier for January 2015 but were delayed for two months, as the office had not allowed time to brand these motorbikes with the UNICEF logo and deliver them to the partner. In other cases the delays were the fault of the suppliers, but might have been mitigated by closer monitoring and follow-up by the office. For example, the supplier agreed to deliver Mama &

Baby Kits in March 2015, but these had yet to be delivered at the time of audit (June 2015). Printed teachers' guides that were to have been delivered in December 2014 had also yet to arrive.

In one of the sampled cases, the office issued an invitation to bid (ITB) for the purchase of mobile phones that had been requested by implementing partner for data collection at the community level. The partner wanted a specific model for its battery life and ease of use. The office stated that this old model of mobile phone was no longer in demand locally, and therefore none of the suppliers had responded to the ITB. As a result, the office contacted a supplier who had supplied a similar model the previous year and prepared a note for record (NFR) for single-source procurement. However, the NFR was prepared and signed by the staff member who had released the purchase order; they had also been involved in the procurement process.

***Institutional contracts:*** In one of five cases reviewed, the lowest bidder (of those technically qualified) offered US$ 1.33 million for borehole siting, drilling and installation of hand-pumps, but the office awarded the contract to the second lowest bidder at US$ 1.42 million. The contract review committee (CRC) reasoned that the lowest bidder had already been engaged in other components of the work and awarding this contract would overburden it. However, from the NFR, there was no evidence the lowest bidder had been assessed to see if it did have the capacity.

The audit also noted that, in 2015, the office awarded a contract for ancillary services valued at US$ 45,700 based on single-source selection. The contractor had provided such services to the office since 2006 and the volume of business with the contractor in 2014-2015 alone totaled at US$ 200,000. The CRC based its recommendation on satisfactory past provision of services without exploring competitive options in the market. There was also no NFR justifying single-sourcing.

***Performance evaluation:*** The office did not always adequately evaluate and justify the performance of contractors and suppliers. For example, a supplier delayed delivery of programme supplies by more than three months, but the office evaluated its performance as "satisfactory" without sufficient justification. In another case, the office evaluated performance of the supplier almost one month before the delivery. In a third case, the CRC recommended a rigorous progress-monitoring mechanism for a contract valued at US$ 5.3 million which ran from 2010 to 2015. However, while the contractor had submitted quarterly progress reports, the office had not evaluated the performance of the contractor until December 2014. In a fourth case, performance of an ancillary service provider was satisfactorily evaluated by a staff member in administration without seeking feedback on the satisfaction of the recipients of the services (staff and consultants). Without such feedback, the performance of a contractor might not be properly evaluated and the office may continue paying for poor-quality services.

***Recording in VISION:*** Key information related to each procurement action (such as the CRC submission, the selection process, and performance evaluation) was not reflected in VISION as expected. In addition, the office had yet to close 74 contracts and POs that had been completed, and had remained open for more than five months. These contracts and POs included 16 that had been open since 2012 and 28 since 2013. If contracts and POs are not closed in VISION when they are fulfilled, any unspent commitments related to them (in these cases, amounting to US$ 70,000) cannot be released for other activities.

**Agreed action 17 (high priority):** The office agrees to increase its oversight of the procurement of supplies and services, and to take the following specific steps:

i. Award individual contracts to the most appropriate candidates, giving due consideration to the criteria established in the terms of reference.
ii. Negotiate consultancy fees and, if applicable, daily subsistence allowance to individual consultants, and discontinue payment of visa processing fees to consultants.
iii. Verify academic credentials of consultants before signing contracts; and ensure that consultants are responsible for obtaining, and paying for, any visas they might need.
iv. Enhance planning of programme supplies, including elements such as branding; and ensure timely delivery of programme supplies to end users.
v. Ensure that the procurement function is adequately segregated by separating authorization and documentation of single-source selection from purchase-order release function.
vi. Obtain value for money through the competitive selection process, and award contracts to the lowest qualified bidders, or document in full the reasons for not doing so, ensuring that those reasons provide sufficient justification in line with the relevant UNICEF guidelines.
vii. Systematically evaluate performance of suppliers and contactors, getting feedback from users of the supplies or services when relevant, and record any weaknesses.
viii. Provide guidance for the maintenance of procurement information in VISION, and the closure of completed contracts and purchased orders in VISION.

Staff responsible for taking action: Human Resources Specialist and Supply and Logistics Specialist
Date by which action will be taken: March 2016

## Information and communication technology (ICT)

Offices should have procedures to ensure access to ICT systems and data is restricted to authorized users. The office had a procedure for providing users with access to core UNICEF information and communication technology (ICT) resources, such as the network, email, Intranet and VISION transaction management system components. It had assigned provisioning and de-provisioning of access to ICT resources to the human resources unit.

The audit noted the following.

***Access management:*** As of 19 June 2015, the office had 103 active user accounts, including staff and consultants. A review of the access of all 103 users at the time of the audit noted that 38 users' access did not match their contract expiry dates. In nine of these 38 cases, the users had access to UNICEF ICT resources beyond their contract expiry dates (ranging from 10 days to more than 450 days). One of them had no expiry date. Conversely, 29 users had their access rights set to expire before their contracts.

These errors were caused by weak oversight and absence of periodic reconciliation between the expiry dates of contracts and user accounts. The office stated that all users did have valid contracts. However, users having access beyond their contracts increased risks of unauthorized access and/or inappropriate transactions, resulting in potential loss of resources and data integrity.

***Non-disclosure agreement for consultants:*** The office had eight consultants as of June 2015, and they had been given access to the office's ICT resources without their signing a non-disclosure agreement (NDA) or Memorandum of Understanding (MoU) as required by UNICEF policy. The office was not aware that these should be obtained and placed on file prior to approval of account creation.

***Disaster Recovery Plan (DRP):*** The office had a DRP and was backing up its local files daily and monthly; however, the backup files were being stored not off-site but within the UN compound.

***Business Continuity Plan (BCP):*** The office prepared a BCP in 2011 and updated it in May 2015. However, it had not conducted a comprehensive simulation of the BCP after the implementation of VISION in January 2012, to confirm that the UNICEF Zambia office could continue to perform essential programme operations under all conditions.

**Agreed action 18 (medium priority):** The office agrees to strengthen oversight over ICT access management and business continuity, and to take the following specific steps:

i. Review users' access to ICT resources, together with their respective contract expiry dates, and ensure that they are matched in VISION and in the system for provisioning and de-provisioning of access to ICT resources.
ii. Periodically reconcile the active directory with the users' contracts maintained by human resources unit.
iii. Ensure that the backup files are stored off-site.
iv. Train staff on the Business Continuity Plan (BCP) and conduct a comprehensive BCP simulation at least once a year.

Staff responsible for taking action: Chief of Operations, ICT Officer, and Human Resources Specialist
Date by which action will be taken: March 2016

## Records management

Country offices should have systems and processes to ensure that records of daily transactions, contractual obligations and organizational commitments are appropriately maintained and retained for future review. Records management should include periodic review and classification of records, and decisions regarding retention if needed, or, if not, disposal to reduce storage costs.

The office did not maintain a central archiving system but had assigned the responsibility of managing documents to focal points in various sections. The office did not periodically review its financial records with a view to classifying them as permanent, non-permanent or routine. (This is necessary in order to apply the proper retention period as defined in UNICEF Financial and Administrative Policy 1, Supplement 3.) For instance, payment and deposit vouchers of more than 14 years were stored in the archive. Neither did the office maintain a system such as a register or database of references of archived documents indicating filing dates, locations and closure status.

The office had no mechanism for ensuring that documents and reports were adequately filed and their supporting documents easily located. For example, the signature specimen of those authorized to issue funds requests from implementing partners could not be easily retrieved. Similarly, the means of verification for donor reports and bid-opening sheets for four out of six sampled POs could not be retrieved. The audit noted that the section focal points for archiving had not been trained on records management. Also, the documents and files were not uniformly structured and organized, using assigned identification codes.

The audit also noted that confidential and sensitive documents were not adequately stored in the archive and access was not restricted to only authorized personnel. Further, non-UNICEF staff had access to UNICEF documents and files stored in the archives.

**Agreed action 19 (medium priority):** The office agrees to strengthen oversight of records management, and to take the following specific steps:

i. Ensure records are reviewed periodically with a view to classifying them as permanent, non-permanent or routine.
ii. Establish a tracking system that maintains references of archived documents indicating filing dates, locations and closure status.
iii. Establish a process to ensure that documents are adequately stored to enable easy retrieval.
iv. Restrict access to confidential and sensitive documents.
v. Conduct training on archive management for staff responsible for archiving.

Staff responsible for taking action: Chief of Operations and Administrative Officer
Date by which action will be taken: June 2016

## Operations support: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control 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. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

## Priorities attached to agreed actions

**High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

**Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

**Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

## Conclusions

The conclusions presented at the end of each audit area fall into four categories:

***[Unqualified (satisfactory) conclusion]***

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

***[Qualified conclusion, moderate]***
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

***[Qualified conclusion, strong]***
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

***[Adverse conclusion]***
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

***[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]***

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware 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.