Internal Audit of the Afghanistan Country Office

October 2016

Office of Internal Audit and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Afghanistan country office. The audit sought to assess the office’s governance, programme management and operations support. The audit team visited the office from 3-28 April 2016, and the audit covered the period from January 2015 to March 2016.

The 2013-2016 country programme has seven main programme components: Health; Nutrition; Water, sanitation and hygiene; Education; Child protection; Social inclusion; and Humanitarian response. There is also a cross-sectoral component. The country programme emphasises 10 focus provinces, in the Central, South and Western regions. In the remaining two regions, East and North, the country programme supports implementation of specific programme components in districts and areas with high levels of disparities. It also assists with the monitoring of nationwide high-priority interventions such as immunization, nutrition, education and gender equality.

The total approved budget for the 2015-2019 country programme is US$ 665.5 million, of which US$ 210 million is regular resources (RR) and US$ 455 million is Other Resources (OR). These totals do not include any emergency budget that may be raised for the Humanitarian Response component. Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor’s agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The country office has five zone offices, in Kabul (for the Central region); Mazar-I-Sharif; Herat; Jalalabad; and Kandahar.

As of 20 April 2016, the office had 377 established posts. The staff had been working in a very complex and challenging operating environment, with a significant deterioration in security, an unstable political situation and weak government capacity. Given the security environment, staff rotation was high, and the office faced significant challenges in filling vacant posts and in monitoring programme implementation in hard-to-reach areas of the country.

The audit interviewed several key implementing partners and donors. It also visited projects in Kabul and Mazar-I-Sharif, but was unable to see programme implementation in hard-to-reach areas for security reasons.

Action agreed following the audit

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

- Implement third-party monitoring in all focus provinces; train staff on spot checks and audits, and increase oversight over their quality; ensure all staff with HACT-related responsibilities have completed the HACT online course and FACE e-courses; and monitor follow-up of high-priority recommendations stemming from assurance activities.
• Increase oversight over monitoring of activities and achievement of results, clarify responsibilities, and reinforce coordination between relevant sections and units; ensure programme monitoring plans have adequate coverage, particularly in hard-to-reach areas; analyse actual against planned field and programmatic visits; and train staff on the system for follow-up of action points from programmatic visits.
• Increase oversight over partner’s capacity and update the capacity development plan; communicate UNICEF’s expected controls to government partners; and review the reconciliation of actual costs incurred by one NGO and the estimated average cost paid by UNICEF and recover any overpayments as appropriate. Carry out an audit to verify whether payments to national technical assistants in high-risk Ministries are justified and supported, and recover unsupported payments as appropriate.
• Ensure the procurement plan is properly coordinated and monitored for timely implementation, and that causes for delays are addressed promptly. Apply liquidated damage clauses and make sure any exceptions are documented and approved. Ensure that distribution plans are prepared and there is timely distribution of programme supplies, and that programme sections provide feedback to the supply section on the use and quality of supplies.

Conclusion
Based on the audit work performed, OIAI concluded that the controls and processes over the country office, in the areas examined, needed improvement to be adequately established and functioning during the period under audit.

Since the conclusion of the audit, the Afghanistan country office has taken action to implement several of the above measures. The office, the regional office and OIAI intend to work together to monitor implementation of all the measures that have been agreed, according to the action plan to be supplied by the office.
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Objectives

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

Audit observations

Assurance on the use of resources

The audit reviewed the extent to which the office obtained reasonable assurance on the use of cash transfers paid to partners, and its awareness of the capacity of partners to manage funding obtained from UNICEF.

For management of funding to partners, UNICEF and some other UN organizations use 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. To make this possible, an office is meant to systematically assess the level of risk involving 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.

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, and, where required, special audits. There should also be scheduled audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. At country level, HACT involves a macro-assessment of the country’s financial management system. This includes establishing whether or not the country’s own official audit institutions have the capacity to audit partners. HACT is also required for UNDP and UNFPA and the agencies are meant to work together to implement it.

The office had started implementing HACT in March 2015, and the audit found some areas in which controls were functioning well. In January 2015 the office had established a risk assurance unit to oversee assurance activities over cash transfers to partners. HACT-related issues and the status of implementation of HACT assurance plan were generally discussed during country management team (CMT) meetings. Standard HACT provisions were included in key contractual documents such as programme cooperation agreements with partners.

In 2015, the office spent US$ 36.1 million in direct cash transfers (DCTs) to government and NGO partners to implement programme activities. In accordance with HACT, the office had assessed the level of risk for each partner, and had adjusted their funding and assurance practices accordingly. The office had also coordinated its work with UNDP and UNFPA and

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1 The CMT advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives.
carried out joint risk assessments of three common government partners during 2015. For the remaining country-specific (e.g. non-international) partners, it had decided not to carry out additional micro-assessments and therefore considered the remaining partners as high risk for the purpose of assurance activities.

The office had drawn up risk-based assurance plans in both 2015 and 2016 to obtain assurance on the use of funds. Assurance activities include spot checks, programmatic visits, scheduled audit and special audits. All partners were rated high risk. The frequency of spot checks and programmatic visits was properly linked to the risk profile of partners, the expected total cash transfers paid annually or during the programme cycle, and whether or not the partner had been audited during the year.

OIAI reviewed the individual assurance mechanisms – spot checks, programmatic visits and audits. It noted the following.

**Spot checks:** The purpose of spot checks is to provide assurance that amounts reported by implementing partners on the Funds Authorization and Certificate of Expenditures (FACE)\(^2\) form are accurate. The audit reviewed five sampled spot check reports and found that they were properly documented.

However, none of the recommendations in the five sampled spot checks addressed the root causes of control weaknesses. For instance, in one case, the spot check identified lack of monthly bank reconciliations and recommended that the partner do them, rather than addressing the reasons why they had not been done – which could have included lack of policy, weak supervision and/or insufficient staff skills. Additional training and guidance for UNICEF staff assigned to spot checks would help improve their value.

At the time of the audit, UNICEF’s Field Results Group stated that it had begun a global quality assurance review of HACT assurance practices to improve processes and tools, including for spot checks. The office could also benefit using external audit firms, as needed, for conducting spot checks of most significant complex and high risk partners.

**Programmatic visits:** According to the latest UNICEF-specific HACT procedure (2014), programmatic visits are defined as “a review of progress towards achievement of planned results, challenges and constraints in implementation and ways to address them performed with the partner at the programme site. Depending on the nature of the partnership, programmatic visits may be undertaken at a field location (field monitoring), the partner’s office and/or in the form of a meeting involving key stakeholders. Programmatic visits focus on programmatic issues, including attention to matters of financial management.”

At the start of 2015, the office planned 306 programmatic visits and eventually completed a total of 349. However, areas inaccessible to UNICEF staff for security reasons were generally not included in the visit plans. Eight of the 10 focus provinces were in the “red zone”, i.e. were subject to significant threats which prevented UNICEF staff gaining access. To enable monitoring in such locations, the office had planned to have third-party monitors (TPMs) in all 10 focus provinces by the end of 2014 (as per the 2014 risk mitigation plan\(^3\)). In fact, the office

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\(^2\) 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.

\(^3\) See observation Risk mitigation measures, p21 below.
contracted for TPM with service providers in just two out of the 10 focus provinces in 2014 and signed three long-term agreements with three TPM companies in 2015. At the time of the audit in April 2016, the office was in the process of finalizing contracts to extend TPM to the other eight focus provinces, plus some districts that were not in focus provinces but where UNICEF had significant programme input. (See also observation Programme monitoring, p10 below).

Scheduled audits: The UNICEF HACT policy requires partners receiving more than US$ 500,000 during the country programme cycle to be subject to a scheduled audit at least once during that cycle. A scheduled audit is an independent review of the effectiveness of the partner’s internal controls. Based on the macro-assessment of the public financial management system that was completed in August 2013, the office and other UN agencies had concluded that the supreme audit institution did not yet have the necessary capacity and therefore could not be used to audit government partners. Instead, the office decided to contract external audit firms to audit them. The office also informed OIAI that UNDP, UNFPA and UNICEF had started considering joint audits, though none had yet been agreed on.

The office had audited six partners in 2015. OIAI reviewed the six audit reports in the draft form available at the time of the audit. The external audit firms had carried out the engagement in accordance with the accepted international standard for engagements that cover only certain agreed-upon areas. An engagement of this type is confined to those areas agreed between the auditor and its client, and does not constitute an audit in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices). The draft reports stressed that “because the procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), they do not express any assurance on the functioning of internal controls and programme expenditures for the period covered by the audit”. This limitation restricted the office’s level of assurance on the functioning of controls. Further, although the six draft reports identified several control weaknesses and related risks, the recommendations did not address the root causes. This was a lost opportunity to strengthen financial management controls of partners.

The office had not carried out any special audits (to review significant issues identified in respect of individual partners) since January 2015.

Follow-up of recommendations: Prior to October 2015, the follow-up of recommendations stemming from spot checks and programmatic visits was done informally but was not documented. In November 2015, the office introduced an in-house follow-up actions report template for these two assurance activities. However, the template was not systematically used by all five zone offices and the country office located in Kabul. For scheduled audits, the office was producing a template for follow-up as of the time of the audit.

Training: The office trained staff on HACT processes and procedures in 2015. As of the time of the audit, 171 out of 271 staff members (63 percent) selected to take the online HACT course had completed it, and 70 out of 215 selected staff members (33 percent) had completed the FACE e-courses. The office regularly monitored the completion rate of e-courses.

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4 The International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information. This is issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).
Agreed action 1 (high priority): The country office agrees to:

i. Implement third-party monitoring in all focus provinces, to increase programmatic visits and achieve adequate coverage of hard-to-reach areas.

ii. Train staff, and increase oversight over the quality of spot checks and audits, to ensure root causes of control weaknesses are adequately identified and addressed.

iii. Ensure all staff with responsibilities related to the Harmonized Approach to Cash Transfers (HA) have completed the HA on-line course and funding authorization certificate of expenditure (FACE) e-courses.

iv. Monitor the use of the established follow-up tool for high-priority recommendations stemming from spot checks and programmatic visits.

Responsible staff members: Deputy Representative and Chief Field Operations
Date by which action will be taken: December 2016

Agreed action 2 (medium priority): As part of its global quality assurance review of Harmonized Approach to Cash Transfers (HA) systems and processes, the Field Results Group agrees to revise the HA-related tools and training materials, so as to strengthen guidance on effective remediation of internal control weaknesses identified during spot checks and audits.

Responsible staff members: Chief, Implementation Modalities Field Results Group.
Date by which action will be taken: August 2017

School construction project
The office assisted the Ministry of Education (MoE) with a construction project under the Basic education and gender equality programme. The project, with funding amounting to US$ 24.8 million, aimed to build 70 schools in three central highland provinces (Bamyan, Daykundi, and Ghor). The target completion date of the project was December 2014. However, as of April 2016, only 38 (or 54 percent) of the 70 school buildings had been completed. The remaining 32 school buildings were at different stages of completion, ranging from 35 percent to 90 percent.

The completion of the project was now expected by December 2016, when it would be late by two years. The office had twice obtained extensions from the donor for the grant, with latest revised expiry date being 31 December 2016. As of April 2016, a total of US$ 15.4 million or 62 percent of the total budget had been spent.

The audit identified the following as significant causes of delays.

Weather conditions and limited access: The planning of the project did not adequately take into account that no construction is undertaken in about five months during the year due to the heavy rainy season. There was also insufficient recognition that the schools were being built in locations with deteriorating security and/or difficult physical terrain, both of which limited access. As a consequence, the project had unrealistic and ambitious timelines.
**Operational planning:** There was no operational workplan with detailed activities, timelines, indicators and targets, results framework, or assurance activities. Also, the roles and responsibilities for contracting and management of contracts (between the Government and UNICEF) had not been defined. As a result, the office did not monitor progress against workplan expectations.

The office was aware of the above causes of delays and had taken some corrective action. For example, in 2015, it had established a construction unit with three construction engineers within the supply section which, among other things, provided technical support to the MoE and monitored implementation. In addition, to strengthen the monitoring of the project, construction engineers had been hired at the provincial level; they visited the construction sites weekly, and all sites were visited at least once every quarter.

In addition, the office had contracted an external audit firm to perform an Agreed-Upon Procedures engagement (see also *Scheduled audits*, p7 above). Under this engagement, the procedures to be examined were limited to procurement, financial management, recording of transactions, safeguarding of assets and compliance. The external audit firm was not therefore obliged to provide assurance on the functioning of internal controls and programme expenditures, and its report did not include audit assurance on the use of funds and achievement of results.
Programme monitoring
The audit reviewed the effectiveness of processes in place to monitor the implementation of programme activities. Programme monitoring is also an important assurance activity for HACT purposes (see also observation Assurance on the use of resources, p5 above, and the observation on programmatic visits, p7 above).

The office had established processes to monitor implementation of activities and progress of an equity-focused programme in 10 of the most insecure provinces of the country. The country office and zone offices monitored programme implementation during zonal management teams meetings and zonal programme coordination meetings. They also jointly carried out mid-year reviews and annual reviews of programme implementation with implementing partners to monitor progress against indicators and targets. The results of the reviews informed future planning and adjustments to internal processes. The office also issued guidance on field monitoring visits in July 2015, including a programme-visit checklist. Though the guidance had not been implemented in 2015, some progress was noted in the first quarter of 2016.

However, the audit also noted the following.

Coverage: There are significant constraints to programme monitoring in Afghanistan, including weak government capacity, and high and constantly-evolving security risks. The office reported that it had originally planned 306 programmatic visits in 2015 and eventually completed 349. However, it did not have information on the number of planned and actual field visits during the same period (programmatic visits to partners are not necessarily to the field). In fact, discussions with staff confirmed insufficient coverage of hard-to-reach areas due to a significant decrease in security since January 2015.

The office had initiated action to strengthen monitoring through the use of third-party monitoring (TPM), but this had not been fully put into effect (see p7 above). The office had also not fully analysed field and programmatic visits undertaken by its programme sections and zone offices, in order to assess the value of programme monitoring and gaps in coverage, and to identify lessons learned and good practices.

Monitoring plans: Not all zone offices had quarterly programme monitoring plans. Where they did, the planned visits were properly linked to planned outputs. However, the value of the planned visits was not clearly stated and the objective of each trip was also often unclear (for example, “to contribute to technical issues”). Further, the distinction between a field visit and a programmatic visit was not well understood. While a programmatic visit could certainly be a field visit, it would be distinguished by the fact that it was being carried out to provide assurance under HACT, and to check progress against the plan; this would not be the case with all field visits (some might for example be for capacity-building purposes). Quarterly monitoring plans did not clearly make this distinction, leading to lack of clarity of what is needed to ensure cost-effective monitoring. Programme monitoring plans were also not systematically shared among country and zone offices and with programme sections.

Quality: Programme staff, especially those based in zone offices, should conduct field monitoring regularly. This includes monitoring programme events in the field, such as immunization campaigns and school construction, to ensure that agreed activities are implemented as planned and to review the quality of programme implementation. The main tool used to record the results of field monitoring is the field-trip report.
The audit reviewed a sample of 10 reports completed in 2015, and found there was insufficient and infrequent review of the timeliness, quality and end-user delivery of supplies. The majority of sampled cases did not link the purpose of the visit with planned outputs and targets. Almost none of them identified challenges and constraints to programme implementation. In only one case was there a detailed testing of data collection.

Action points were generally assigned to responsible staff members, but frequently with no deadlines. There was also no evidence of follow-up of key action points. The office had devised a system for following up action points of programmatic visits in November 2015, but one zone office, and the country office in Kabul, did not use it.

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

i. Clarify responsibilities for, and reinforce coordination of, planning, review and reporting on programme monitoring activities and results within relevant sections and units.

ii. Establish quality assurance mechanisms to ensure that programme monitoring plans have adequate coverage, particularly in hard-to-reach areas, and are shared among programme sections and zone offices.

iii. During mid-year and annual reviews, analyse actual against planned field visits and programmatic visits undertaken by programme sections and zone offices, to review the value of the activities and the gaps in coverage; identify lessons learned; share good practices; and adjust monitoring strategy accordingly to ensure adequate coverage of programmatic visits.

iv. Train staff on the use of the system for following up action points of programmatic visits, and ensure that it is used.

Responsible staff members: Deputy Representative; and Section Chiefs, with guidance from the Chief of Social Policy, Planning, Monitoring and Evaluation (SPPME)

Date by which action will be taken: First and second quarter 2017 for i), ii) and iii); December 2016 for iv)

**Partners’ financial management**

OIAI met two NGO and three government partners, in Kabul and Mazar-I-Sharif, and reviewed their financial management capacity. The following was noted.

The office had found during a financial spot check of funds used by one partner that the amount on the FACE form was based on average cost. The partner agreed to correct this, and to use real cost methodology in 2016. However, as of the time of the audit, the partner had not provided the office with a reconciliation of the estimated average cost with actual costs for the current and previous programme cooperation agreements. As a result, the office could not determine whether the actual cost was lower than the average cost – that is, whether there had been under- or over-payment to partners.

One partner had no financial accounting manual or guidelines to help ensure minimum internal controls. There was no automatic or manual accounting system to record financial transactions. The partner also lacked a cash book for recording receipts and disbursements of funds. Bank reconciliations were not done. The only documentation maintained by the partner was copies of requests and liquidations, including FACE forms, for the amounts requested from UNICEF. The audit received supporting documentation for only six out of the
16 sampled disbursements. Another partner also lacked a cash book and did not do bank reconciliations.

It was also noted that UNICEF cash transfers and related expenditures incurred by one government partner were not recorded in the government’s accounting system but in a separate ledger. They were therefore not subject to internal review by the Ministry’s internal audit department or by Afghanistan’s National Audit Office. The government partner had no internal policies, procedures or guidance received from UNICEF regarding (for example) segregation of duties, bank reconciliations or delegation of authorities. Monthly bank reconciliations were not done.

Further, the office funded national technical assistants (NTAs) to support the Ministry for the implementation of UNICEF-supported programmes in 2015 and 2016. The Ministry of Finance’s guidelines, used to prepare NTA contracts, had been updated in November 2015. At the time of OIAI’s visit, the 2016 NTA contracts, effective January 2016, had not been finalized. The office had not carried out any financial spot checks to ensure NTA salaries were properly justified in accordance with the contractual requirements and UNICEF HACT policies and procedures. The office informed the audit team that it had taken steps to improve quality assurance review. Effective in 2016, NTAs will be required to submit monthly activity reports on their work to UNICEF, and will be subject to joint annual performance evaluations with UNICEF and the Ministry.

The office had established a capacity development plan in January 2015, and this was continuously updated. As of January 2016, the office reported that that the majority of its 200 implementing partners had been trained on HACT processes, FACE forms and filing systems. Of five partners met by the audit team, four of them confirmed having received training on HACT and the HACT guidelines. One major partner confirmed the need for refresher training. Staff interviewed in the country office and zone offices also noted the need to provide additional training to partners, due to regular turnover of staff with HACT-related responsibilities.

With respect to procurement, OIAI noted that significant and high-risk partners had not been trained on good procurement management practices during 2015. At the time of the audit in April 2016, the office had planned a one-day training on this topic to be held the following month.

**Agreed action 5 (high priority):** The country office agrees to:

i. Update the capacity development plan and help implementing partners address the internal control weaknesses identified regarding the five partners noted above.

ii. Clearly define and communicate UNICEF expected controls to Government partners, to ensure proper financial management of UNICEF cash transfers and related expenditures.

iii. In respect of the NGO that had used average costs, audit its reconciliation of actual costs incurred and the estimated average cost paid by UNICEF, and recover any overpayments as appropriate.

iv. Carry out an audit to verify whether payments to national technical assistants in high-risk Ministries are justified and supported, and recover unsupported payments as appropriate.

Responsible staff members: Deputy Representative and Chief of Operations
Date by which action will be taken: i), April 2017; ii) and iv), March 2017; iii), January 2017

**Work planning**

To operationalise its country programme, a UNICEF office has a country programme action plan (CPAP), developed jointly with its partners. The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme. It includes a results matrix that sets out what will be achieved during the country programme cycle; this matrix should be results-based, with baselines, targets and indicators.

The CPAP, finalized in November 2014, detailed the key strategies to achieve planned results. They were well supported, with an analysis of key bottlenecks to implementation and a description of key assumptions and risks. The office planned to review the effectiveness of the strategies during the mid-term review scheduled for 2017.

UNICEF offices also agree workplans with their implementing partners. These serve as basis for programme disbursements to the partners. They are meant to be results-based, and should detail outputs, indicators, targets, baselines, activities to be carried out, the responsible implementing institutions, timelines and planned inputs from the partners and UNICEF. They should be signed with key partners before the end of February of the year of implementation. Workplans can be annual or multi-year, or rolling workplans (RWPs). In the latter case, the workplan is subject to interim review.

The Afghanistan Country Office used RWPs. The workplans were aligned with the needs and national priorities of the government and the United Nations Development Assistance Framework (UNDAF) outcomes, and were developed jointly with partners at the national and provincial level. Each zone office also developed their own zonal RWPs.

However, the audit noted the following.

**Timeliness of workplans:** All 2015-2016 RWPs were signed late, from 2 April to 17 June 2015 (they should be signed by the end of February according to UNICEF standards). The office cited several reasons for this. The main ones were extensive discussions to align the RWPs to the new country programme and CPAP effective January 2015; the significant turnover of UNICEF programme section chiefs and programme staff at the country and zone-office levels; and prolonged elections and the delays in the formation of the new Government that came into power towards the end of 2014.

The following year’s RWPs (2016-2017) were also late. Two out of six were signed on 30 March 2016 and the remaining four had not been signed as of 24 April 2016. One Government partner confirmed that late signing of RWPs increased the risk of delays in programme implementation of new activities incorporated in 2016-2017 RWPs.

**Results-based workplans:** OIAI noted that the RWPs were generally results-based, and the baselines and targets in the workplans had been reviewed by programme sections and peers

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5 The United Nations Development Assistance Framework (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 2015. However, at the time of the audit, there was no up-to-date consolidated information on actual gaps in baselines and targets in relation to the results matrix in the CPAP, or the actions needed to address them. Further, the office had not updated the results matrix to reflect the changes in indicators, baselines and targets, and had not informed key implementing partners of the changes.

The RWPs and zonal RWPs included estimated budgets for each programme. However, there was no documented evidence that these had been reviewed by the Social Policy, Planning, Monitoring and Evaluation (SSPME) section, to ensure that estimated costs of planned outputs and key activities were supported with sound analyses. It was also noted that the office did not provide guidance to the chiefs of programme sections on costing analysis for estimating planned resources.

The sampled RWPs did not specifically describe strategies and planned activities to increase access to the hard-to-reach areas through the use of third-party monitors. For instance, one sampled RWP indicated the need “to engage third party monitors (TPM) for quality assurance” but did not include the necessary planned activities, indicators and targets. (However, planned activities for “strengthening coordination, planning, monitoring and evaluation” had been added in the 2016-2017 RWPs so as to increase coordination at provincial level, and support implementation of third-party monitoring.)

One sampled RWP did not state the method of implementation, or planned inputs from UNICEF (such as cash transfers and supplies). One government partner expressed the need to have information on planned inputs in the signed RWPs. In one sampled key programme, there was an imbalance between access to, and quality of, services to children; there was also no output on policy dialogue and upstream work, and some outputs could have been merged.

The results matrix of the CPAP showed 101 indicators to measure performance of 37 outputs. The audit found that 32 out of 101 output indicators had no baselines, and there were 22 indicators with no targets. At the outcome level, four out the 18 indicators had no baselines, and four out of 18 lacked targets. For instance, in one sampled 2016-2017 RWP, there were four baselines and seven targets missing at the activity level. Incomplete baselines and targets reduced the capacity of the office to judge performance and progress. Conversely, however, baselines, indicators and targets were established not only at the outcome and output level but also at the activity level, where they were not always necessary. For instance, in one sampled 2016-2017 RWP, there were 75 indicators at the activity level for all planned activities. One output had 20 indicators for 20 activities. Numerous indicators at the activity level could constrain timely completion of RWPs and efficient measurement of progress.

**Training:** The office prioritized results-based management (RBM) training to staff in 2015. It explained that staff in all sections had been trained on the essentials of results-based planning, monitoring and budgeting. OIAI found that the office would also need to evaluate and reinforce the RBM capacity of planning, monitoring and evaluation (PME) focal points in each programme section and full-time PME staff in all zone offices.

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6 UNICEF programmes plan for results on two levels. An outcome 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 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 or health centre, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.
Agreed action 6 (medium priority): The country office agrees to:

i. Evaluate and reinforce the capacity in results-based management of the planning, monitoring and evaluation (PME) focal points in each programme section, and of the full-time PME staff in all zone offices.

ii. Establish a process to ensure rolling workplans are systematically reviewed for adherence to results-based management standards, and document that review.

iii. Update the results matrix to reflect changes in baselines and targets, and communicate the changes to all partners.

iv. Develop a plan to obtain data to establish baselines for all key performance indicators used to measure outcomes and outputs.

Responsible staff members: Deputy Representative
Date by which action will be taken: i), May 2017; ii), January 2017; iii) and iv), June 2017.

The country programme and its results

The country programme covered the period January 2015 to December 2019. To ensure that this country programme was evidence-based, the office had produced an analysis of the situation of the children jointly with partners in 2014. This was based on available data from various sources including national surveys, studies and disparity analysis. It identified 10 priority or focus provinces based on deprivation ranking, using the most recent Afghanistan Living Conditions Survey (ALCS).⁷

The results achieved for the children of Afghanistan in 2015 were lower than had been planned. The office reported that 20 out of the 37 planned outputs (or 54 percent) were on track; however, 16 were constrained and one had no progress. This indicated that the RWPs may have been ambitious and unrealistic, given the operating environment. The fact that there had been several requests to donors for no-cost extension of grants was further evidence of this.

The country management team had not systematically reviewed, discussed and recorded the causes of lower-than-expected performance. The audit assessed the root causes and found gaps in the management of key risks in a difficult context, with high security threats in all 10 focus provinces and weak government capacity. Also, as stated earlier, the RWPs were signed late in 2015 and 2016 (see observation Work planning, p13 above), and this significantly delayed programme implementation. The weak capacity of partners to absorb funds and implement planned activities was also a contributing factor. The audit also found gaps in the financial management capacity of partners; almost all implementing partners were rated as high risk (see observation Partners’ financial management, p11 above).

Other factors that contributed to delayed programme implementation and lower-than-expected results included high vacancy rates in some programme sections and/or some zone offices, and insufficient coordination between the country and zone offices. Finally, at the time of the audit, the office had not fully implemented third-party monitoring in hard-to-reach areas in all 10 focus provinces due to high security threats (see observation Programme monitoring, p10 above). This had constrained support to implementation and monitoring of

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⁷ Conducted by the Central Statistical Organisation, the ALCS is carried out to assist the Government of Afghanistan and others in development planning and policy making. It collects and analyses data on poverty, food security and a wide range of other development indicators. The project is funded with the support of the European Union and the UN World Food Programme (WFP).
Agreed action 7 (medium priority): The country office agrees to establish a process for an annual review of the causes of significant variations between actual and planned results, and develop a plan to address major recurrent root causes and related risks.

Responsible staff members: Deputy Representative
Date by which action will be taken: January 2017

PCA budgeting
UNICEF enters into programme cooperation agreements (PCAs) with NGOs to pool together resources to achieve commonly defined results, sharing costs and benefits. In 2015, the office had 29 PCAs with 29 different NGOs with a total value of US $4.7 million. In September 2015, the office established a standard operating procedure to help streamline partnership management.

The office’s Partnership Review Committee (PRC) had appropriate terms of reference and membership. The audit reviewed a sample of nine PCAs and found that the PCA review process was generally completed on time, and that the PRC adequately assessed the quality of the results framework and compliance with UN resolution 1267 (regarding individuals and entities belonging to, or associated with, terrorist organizations).

However, the nine cases sampled showed insufficient written evidence of review of the itemized cost estimates presented in the PCA budgets. Lack of an established methodology for reviewing these, particularly salaries, constrained thorough review and increased the risk of unrealistic budgets and poor value for money.

Agreed action 8 (medium priority): The country office agrees to increase oversight over the review of programme cooperation agreement (PCA) budgets and establish a process to ensure sufficient appropriate documentation of the review.

Responsible staff members: Deputy Representative and Chief Field Operations
Date by which action will be taken: March 2017

Donor reporting
The audit reviewed the timeliness of donor reports and compliance with UNICEF reporting obligations, including donor requirements.

During 2015 and 2016 (as of April 2016), the office issued 94 donor reports, 61 in 2015 and 33 in 2016. In 2015, 18 reports (or 30 percent) were sent to donors late. As of April 2016, there had been some improvement in timeliness of donor reporting, as six reports had been issued late. The delays in 2015 and 2016 ranged from one day to 95 days.

The audit team met four major donors in Kabul. Two of the four were generally satisfied with the quality of UNICEF reports. However, two thought that the donor reports were not sufficiently results-based. One donor said that the donor conditions were not fully met. For instance, there was insufficient analysis of the impact of rapidly evolving security risks on UNICEF capacity to implement programme activities and achieve results. Another donor expressed the need for more detailed information on project achievements.
The audit reviewed in more detail five donor reports issued during 2015-2016. It was found that the office generally complied with UNICEF reporting obligations, including donor requirements. However, in two of the five reports reviewed, there was no analysis of constraints and challenges, together with specific actions being taken or planned to be taken to address these constraints. These two reports also lacked outlines of future plans and an appeal for future funding from the donor. They also omitted a comparison between results agreed in the project proposal/donor agreement and results reported in the donor report, with an explanation of any differences between the two.

One report had no comparative analysis between amounts agreed in the donor agreement and actual expenditures. Again, the variations were not explained. Four reports had no reference to donor visibility and acknowledgement. Finally, in all five cases, no donor feedback had been received in response to the donor report, and the office had not followed up.

The audit also reviewed a sample of 23 of the results statements in the five donor reports to determine whether they were well supported. In 20 cases it was generally sufficient. In the remaining three cases, although the reported results were supported by partners’ activity reports, the office could not provide sufficient evidence (such as field monitoring) to confirm the accuracy of those partners’ reports.

Also, it took several days for three programme sections to provide the requested documentation needed to support nine of the results statements. The office said that the monitoring reports containing the evidence were only available in zone offices and were not kept by the programme sections in the Kabul’s office.

Late submission and inadequate quality of donor reports could undermine the office’s capacity to raise funds. Conversely, a good analysis of the very real challenges faced by UNICEF operating in an environment such as Afghanistan can help donors understand those challenges and constraints and how the office is responding, and thus enable more effective engagement with those donors locally and in capitals.

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

i. Timely submission of donor reports in accordance with donor agreements.

ii. Compliance of donor reports comply with UNICEF reporting obligations, including individual donor requirements.

iii. Retention of sufficient documentation to support result statements by the designated programme sections accountable for donor reporting.

Responsible staff members: Deputy Representative

Date by which action will be taken: December 2016

**Programme supplies**

The audit reviewed the planning and timeliness of delivery of supplies to end-users in 2015 and 2016. It noted the following.

**Planning:** There were significant variations between actual and planned procurement of supplies. The actual procurement of supplies in 2015 was US$ 46.5 million, or 150 percent of the planned procurement (US$ 31 million). Furthermore, the total value of purchase orders
raised during the last quarter in 2015 amounted to US$ 36.4 million, or 88 percent of all purchase orders raised during the year. There were several reasons for this, including late signing of rolling workplans in 2015, weak capacity of partners and high vacancy rates. Also, for the period January 2015 to March 2016, the audit noted purchase orders amounting to US$ 2.3 million that were issued within the same month as expiry of the grants.

Weak oversight contributed to the weaknesses observed in this area. This led to weak planning, inadequate coordination of the procurement process and slow implementation of the supply plan, which contributed to the last-minute rush in procurement at year-end and just before expiry of grants.

**Delivery to end-users:** Supplies were not delivered in accordance with the timelines for the start of activities agreed in the workplans. For example, in 2015 teachers’ learning materials were delivered two to three months after the start of the school year (which is in March). In 2016, they had not yet been delivered as of April; the office stated that there were concerns regarding the quality of supplies and the issue had been followed up with the suppliers.

The audit analysed the delivery of supplies recorded in VISION for the period from January 2015 to 5 April 2016, and noted that only 21 percent of the purchase orders were delivered within the purchase order delivery dates; the remaining 79 percent were between seven and 126 days late. Further, for items covered by a long-term agreements (LTAs), the office still took 36 days from creation to the authorization (release) of purchase orders (against a three-day target). Delays in authorizing purchase orders and delivery of supplies led to late implementation of programme activities. The audit also noted that although all purchase orders reviewed included liquidated damage clauses, the office had not applied them for late delivery of supplies by suppliers.

**Aging of supplies:** Supplies were kept longer than expected in the warehouse. As of 25 April 2016, the office had US$ 12 million worth of supplies in all the warehouses, of which US$ 7.9 million (66 percent) were programme supplies and the remainder were pre-positioned supplies. About US$ 1.1 million worth or 14 percent of the programme supplies had been in the warehouse for over six months, of which US$ 484,500 (53 percent) for over 12 months. There were several reasons for this, including difficult access to hard-to-reach areas caused by constantly evolving security risks.

**Assurance on the use of supplies:** The office monitored goods-in-transit and reconciled them with acknowledgement receipts signed by partners. It also relied on assurance obtained through field-monitoring visits, which included review of status of supplies with partners and end-users. However, in view of limited access to parts of the country – including the focus provinces in the south and south-east – there was limited assurance on the quality of supplies delivered to partners. The office had established three long-term agreements (LTAs) with third parties in March 2016 to provide monitoring services in inaccessible locations. However, as stated elsewhere in this report (see observation *Programme monitoring*, p10 above), these arrangements were not fully in place at the time of the audit. Further, the supply section was not getting feedback from the programme sections on the use of supplies from end-users.

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

1. The procurement plan is properly coordinated, and is monitored for timely implementation.
2. Causes of delays in authorization and delivery of supplies are addressed promptly.
iii. Liquidated damage clauses are applied, and any exceptions are approved and the reasons for them recorded.

iv. Distribution plans are prepared, and there is timely distribution of programme supplies.

v. Programme sections provide feedback to supply section on the use and quality of supplies.

Responsible staff members: Chief of Operations and Chief of Supply and Logistics
Date by which action will be taken: November 2016

Procurement of supplies and services
As explained above, the office procured supplies worth US$ 46.5 million in 2015 and US$ 10.1 million as of April 2016. In the same period, the office issued 269 contracts for services amounting to US$ 24 million.

The office had properly established Long Term Agreements (LTAs) with vendors selected through a competitive process for procurement of supplies. Sampled payments made to suppliers were well supported and approved. The office conducted appropriate inventory physical count of supplies in the warehouses in Kabul and at the zone office.

However, the audit noted the following.

**Acquisition of supplies:** The office used various mechanisms to ensure that goods and services were procured at best possible cost for a given level of quality. The office’s procedures included public advertisements for invitations to bid, and requests for quotations, expressions of interest and proposals.

However, the office had not carried out a market survey since 2010. This limited its knowledge regarding availability of supplies, key suppliers and best prices offered in the local market. In addition, the office had no process for pre-delivery inspection of supplies to ensure conformity with specifications agreed in the purchase orders. A review of a sample of purchase orders found no copies of pre-delivery inspection reports on file for those cases that such inspection. As of April 2016, the office was conducting a bidding process for pre-delivery inspection companies, and had started to prepare standard operating procedures for pre-delivery inspection.

**Acquisition of services:** The audit reviewed five cases and found that the office did not request individual consultants to provide quotations (fees and time needed for a given task) for the services to be rendered in all cases. Instead, it applied fixed daily rates stated in the terms of reference, and paid Daily Subsistence Allowances using UN rates for official travels undertaken by the consultants. This practice limited the office’s capacity to contract services at the best possible cost.

**Agreed action 11 (medium priority):** The country office agrees to reinforce its oversight and procurement processes for the acquisition of programme supplies and contracts for services. In particular, it agrees to:

i. Conduct market surveys for locally-procured supplies and update the suppliers’ database for selected high-volume commodities and services.

ii. Develop a process for undertaking pre-delivery inspection of supplies to ensure that
the quality of supplies is in conformity with agreed specifications.

iii. Ensure requests for services under an individual contract require consultants to indicate their all-inclusive fees (including lump-sum travel and subsistence costs, as applicable) for the services to be provided.

Responsible staff members: Chief of Operations; Chief of Supply and Logistics; Human Resources Manager

Date by which action will be taken: January 2017

Cooperation with zone offices

The audit team interviewed three chiefs of zone offices, five chiefs of programme sections and other staff, and visited one zone office (Mazar-l-Sharif, in the Northern region).

The five zone offices prepared rolling workplans for 2015-2016 and 2016-2017. These were reviewed semi-annually and annually with partners and the country office in Kabul. The governance committees of the zone offices were well established and functioning well. However, the interviews confirmed the need for more clarity regarding the responsibilities, authority and accountability of the heads of the zone offices. There was also a need for clarity regarding their relationships with the Chief of Field Operations and Emergency Coordinator, Chiefs of programme sections and the Chief of Operations in Kabul. As these had not been defined and explained in the annual management plans of each zone office or that of the country office, or in any other equivalent document, this had increased the risk of confusion and weakened coordination and information sharing.

Moreover the efficiency and effectiveness of each zone office had not been reviewed and discussed during the 2015 annual management review. This represented a missed opportunity to address common risks and identify areas for improvement, and to share lessons learned and good practices.

Zone offices also stated that they needed more guidance and support from programme and operations staff based in Kabul. For instance, one zone office said that it had not received sufficient HR support to fill a high number of vacancies. The delays in recruiting staff constrained implementation and increased workload of remaining staff. The country office said that the rapidly evolving and frequently changing security situation in the country, especially in the last two years, significantly constrained field visits to zone offices.

Country and zone offices needed to better coordinate field visits, quality assurance and technical support by staff members based in Kabul. One programme section confirmed that it did not prepare a plan defining field visits, quality assurance and technical support to zone offices. The visits were largely ad hoc and the programme section did not request or receive zone offices’ own travel plans to better coordinate and minimize disruption in regular programme activities.

Field-trip reports of country-office staff travelling to zone offices and outposts were not always shared; neither were field-monitoring reports of zone offices visiting implementing partners. This had limited knowledge sharing and learning opportunities. In the case of one former chief of a programme section, none of their 2015 field-trip reports could be traced. There was also no database enabling sharing of reports. The office said that it had not set up an in-house database as it was awaiting e-tools from the Field Results Group.
Agreed action 12 (medium priority): The country office agrees to:

i. Define responsibilities, authorities and accountabilities of zone offices and their relationship with the country office, and clarify the reporting lines between sector staff in the zone offices and the heads of sections.

ii. Develop a plan for technical support and guidance to zone offices, and monitor its implementation.

iii. Establish mechanisms to reinforce coordination of field visits between the country office and zone office staff, including sharing of field-trip plans and reports.

iv. Identify areas for improvement and lessons learned during annual management review of zone offices, and share good practices.

Responsible staff members: Chief Field Operations and Deputy Representative
Date by which action will be taken: October 2016

Annual priorities and staff accountabilities

An office’s annual management plan (AMP) ensures that that office’s human, financial and other resources remain focused on the country programme and its hoped-for outcomes for children and women. To this end, it establishes key priorities, and assigns staff responsibilities for them.

The office’s programmatic priorities in the 2015 and 2016 AMPs were not sufficiently focused (i.e. more than 10 priorities), and did not include regional and zonal priorities. Further, one key operational priority (“functional systems in place to improve general programme and administration, human resources, financial management, procurement support services”) had 12 indicators of measurement but no targets. This means that progress could not be assessed against targets to identify bottlenecks; and the fact that there were no specific priorities for zone offices reduced the capacity to hold managers accountable for the effectiveness of their operational support to those offices. In comparison, one sampled zonal AMP showed four operational priorities with indicators of measurement and targets.

The AMPs of the country and zone offices had assigned responsibility to staff members for the achievement of key programmatic and operational priorities. However, the assigned responsibilities were not always clearly included in the staff members’ annual performance plan. For instance, one key operational priority (“all OR funds are fully utilized and no funds lost at expiry of the grant”) was not adequately addressed in the annual performance evaluation plans of designated staff members. We reviewed a sample of performance evaluation plans of staff members and found that workplan outputs were not always specific and measurable. Further, several indicators, such as those related to the timeliness of donor reports, did not have targets to gauge actual performance.

Agreed action 13 (medium priority): The office agrees to ensure:

i. Annual key priorities are focused, and targets are set for each key priority in the annual management plan (AMP).

ii. The key priorities and expected results in the AMP are included in the performance evaluation plans of the responsible staff members, and include measurable and specific workplan outputs and targets to gauge actual performance.

Responsible staff members: Representative; Deputy Representative; Chief of Operations; and
Chief Field Operations
Date by which action will be taken: The country office reports the action as having been taken as of September 2016

Risk mitigation measures
Under UNICEF’s Enterprise Risk Management (ERM) policy, offices are required to perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office’s objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

The office had reviewed its risk profile and developed an action plan in 2013 in accordance with the ERM, but the plan had not been updated in 2014 and its implementation status was not monitored by the country management team (CMT). In April 2015, the risk library was reviewed by a group of five staff members. The review identified five focus risk areas; an action plan was developed; and the office updated the Risk Assessment Input Form in the ERM module of inSight. However, neither the 2015 nor the 2016 AMPs included significant risks and relevant actions plans in accordance with UNICEF standards.

The audit noted that the review of key risks and mitigating actions had not included wide participation of staff from the country and zone offices. For instance, there were no representatives from Chiefs of Zone Offices and programme sections. Further, zone office-specific risks had not received sufficient attention. During the 2015 annual management review, the office did not review its high risks to assess whether the risk significance level had decreased or other significant risks had emerged.

The implementation of risk mitigation measures was given priority, and systematically monitored, by the CMT. However, this did not always result in the necessary action on a timely basis. For instance, an action had been identified to establish third-party monitoring (TPM) in all focus provinces by year-end 2014 at the time of the update in 2013-2014, and yet as noted on pp6-7 above, the office had TPM in only two of 10 focus provinces by the time of the audit visit in April 2016. The status of implementation of risk mitigation measures was reviewed in July 2015, but the most significant actions identified had not been incorporated into relevant work plans.

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

1. Wider participation of staff in the management of risks and development of mitigation measures.
2. Proper monitoring by the country management team of the timely implementation of effective mitigation measures.
3. Full reflection of significant risks and mitigation measures in the annual management plan.

Responsible staff members: Deputy Representative; Chief of Operations; and Chief Field Operations

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8 inSight is the performance component in UNICEF’s management system, VISION (Virtual Integrated System of Information). inSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.
Decisions of statutory committees
The audit reviewed the functioning of key supervisory and decision-making committees, including the CMT (Country Management Team), Zonal Management Teams (ZMTs), PRC (Partnership Review Committee), CRC (Contract Review Committee) and JCC (Joint Consultative Committee). The composition of the committees was adequate and was communicated to staff. The committees met regularly.

However, a review of a sample of CMT minutes noted that the action points did not include deadlines and were not followed up in the next meeting. Further, as of February 2016, 23 out of 30 action points raised in 2015 by the JC (a forum for an office’s Staff Association to discuss matters arising with the office management) were pending. Several of the pending action points related to training, staff development and recruitment.

Agreed action 15 (medium priority): The country office agrees to ensure decisions made by the Country Management Team and the Joint Consultative Committee include target completion dates and are rigorously followed up to ensure timely implementation.

Responsible staff members: Representative
Date by which action will be taken: October 2016

Assessing vulnerabilities to fraud
UNICEF has a zero-tolerance policy for fraud and corruption. It has also adopted the COSO internal control framework, which includes fraud risk assessment. The risk of fraud and corruption is high and Afghanistan continues to rank among the worst countries (166 out of 168 in 2015) in terms of Transparency International’s Corruption Perception Index. Fraud risks continually change and should therefore be continuously assessed. In particular, procurement and contracting are a high-risk area for potential fraud or other irregularities.

The office had not carried out a systematic risk assessment to identify and address all its vulnerabilities to internal and external fraud and other abuse. This would enable the office to identify where abuse is most likely to occur, and take steps to reduce its likelihood. It will also assist with the update of its risk library (see also observation Risk mitigation measures, p21 above).

Though the office had trained all staff on ethics, which includes a section on UNICEF fraud awareness, key staff with procurement and contracting responsibilities had not been specifically trained on how to identify and assess indicators of vulnerabilities to, or red flags for, procurement and contract fraud and corruption. The office said that this was not done because the Division of Financial and Administrative Management (DFAM), which is

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9 COSO is the Committee of Sponsoring Organizations for the National Commission on Fraudulent Financial Reporting, more commonly known as the Treadway Commission (after its first chair). The Treadway Commission was founded in the United States in the 1980s in response to a need to control corrupt practices. The five sponsoring organizations are professional associations in accounting and risk management, and include the Institute of Internal Auditors, the standards of which are observed by OIA in its audits. COSO has established a set of standards against which organizations can assess their internal controls, known as the COSO Framework, referred to here. For more information, see http://www.coso.org/.
responsible for oversight of ERM implementation, had not yet issued guidance on how to carry out a fraud risk assessment and develop a fraud response plan.

The office had put in place key relevant internal controls to reduce fraud risk in procurement and contracting, such as segregation of duties, supervision, and reconciliation. However, it had not established a self-assessment programme to regularly test and monitor the effectiveness of controls, and the performance of its procurement and contracting activities, so as to respond quickly to fraud risks. This could be assigned to a staff member with no procurement and contracting responsibilities and/or the regional office and/or Supply Division. The audit team was informed that, in the absence of a supply advisor in the Regional Office, the office had requested an assessment mission from a senior supply manager in another country office to assess the local contracting processes. This had not yet occurred at the time of the audit.

Other areas of fraud risk include gaps in the management of vendor master records and segregation of duties (discussed in the two following observations).

**Agreed action 16 (medium priority):** The Division of Financial and Administrative Management (DFAM) agrees to develop, test and issue tools and guidance materials to assist country offices in fraud risk assessment, and develop a fraud response plan to mitigate fraud risk, particularly for country offices operating in a high-risk environment for fraud and corruption.

Responsible staff members: Senior advisor, Finance
Date by which action will be taken: December 2017

**Agreed action 17 (medium priority):** The country office agrees to carry out a fraud risk assessment to identify and assess vulnerabilities to internal and external fraud and other abuse; and develop a fraud response plan to pro-actively manage fraud risk, such as the use of a self-assessment programme to review its preventive and detective controls for the procurement and contracting activities.

Responsible staff members: Deputy Representative; Chief Field Operations; and Chief of Operations
Date by which action will be taken: The completion date is contingent on the availability of DFAM guidance and tools

**Vendor master data**

UNICEF’s Global Shared Service Centre (GSSC) has established a process for country offices for the creation and maintenance of vendor records in VISION. Since 18 January 2016, country offices have been required to verify the completeness of the vendor’s details in the master record before submitting any request for the creation (or blocking or flagging for deletion) of vendor records – especially the banking details, as this information is required for processing of payments.

The audit reviewed a sample of 10 vendor records, and found no bank details to validate the existence and legitimacy of new vendors. The office stated that these active records were migrated in 2011 to the then-new VISION without verification of their legitimacy.

In February 2016, in consultation with the GSSC, the office performed a data clean-up exercise
to identify and remove duplicate vendor master records. However, the audit found that, as of 10 April 2016, the clean-up was incomplete, with at least 532 out of the 4,159 vendor records created by the office being duplicates. These 532 duplicated vendor records were created for 202 vendors (in several instances, more than one duplicated record was created for the same vendor).

The audit reviewed a sample of 161 out of the 532 duplicated master records and found that 54 duplicated records were effectively identified and blocked (e.g. there was a block on transactions being posted to the vendor’s account). However, the remaining 107 were still active and not properly identified for blocking or flagged for deletion. These duplicated master records were created either during the migration of data into VISION from UNICEF’s previous management system in November 2011, or through the establishment of new master records without verification as to their pre-existence.

Duplicated records for the same vendors increase the risk of overpayments or double payments (the audit did not find any in the sample of 416 vendor accounts reviewed in VISION).

**Agreed action 18 (medium priority):** The country office agrees to:

- With assistance from the Global Shared Service Centre (GSSC), ascertain the validity of vendors with multiple master records and of bank details used to process payments; and request the GSSC to block and mark for deletion master records considered invalid or duplicate.
- Align current practice with the new procedure issued by GSSC to avoid the creation of multiple master records for the same vendor.

Responsible staff members: Chief of Operations
Date by which action will be taken: February 2017

**Segregation of duties and delegation of authorities**

Each office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. These authorities should be notified to the staff member in writing, and they should acknowledge their understanding of them. The Representative should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness.

The ToA should be reflected in the roles assigned within VISION. 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. 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 audit noted the following.

**Delegation of authorities:** The latest ToA (signed in March 2016) identified all staff members who should have received a delegation letter (to notify internal control roles delegated to them). However, three members who were bank signatories did not receive a delegation letter, and 14 staff members had not signed their letter.
The audit also found that 206 roles assigned to 52 staff members in VISION had not been delegated to them in the ToA. For instance, 28 roles were assigned to three different users, and one of them was in another office on a stretch assignment at the time of the audit. At the time of the audit, the ToA included 16 roles assigned to 11 staff members that were not included in VISION roles; and 15 roles were assigned to five users that were not staff members. Incorrect or unauthorized assignment of roles in VISION increased the risk of inappropriate, erroneous or fraudulent transactions.

**Segregation of duties:** UNICEF uses software called APPROVA to detect segregation-of-duties conflicts. As of 9 April 2016, the audit detected two medium-priority user violations. These two violations increased the risk of accepting goods or services that were not in accordance with specification or that had not actually been received.

**Agreed action 19 (medium priority):** The country office agrees to, through the country management team, regularly review the adequacy of segregation of duties between the delegated authorities, the mapping of functional roles in VISION, the consistency between the delegated authorities and assigned roles in VISION, and notification of roles delegated to staff members.

Responsible staff members: Chief of Operations
Date by which action will be taken: December 2016

**Recruitment**

As of 20 April 2016, the office had 377 established posts: 69 international professional (IP), 137 national professional (NO) and 171 general service staff (GS).

Given the context of protracted and recurrent emergencies in Afghanistan, the office had been approved for a “fast-track” recruitment process, with a benchmark of 20 days from advertisement of posts to offer letters sent to selected candidates. There was a Central Review Body (CRB) to review appointments. The office completed 83 recruitments between January 2015 and April 2016.

**Vacancies:** At the time of the audit, 60, or 16 percent, of total established posts were vacant. About 31 of the vacant posts were in the five zone offices. Of the 60 vacant posts 41 had been vacant for over a year. Various factors contributed to the high number of vacant posts, including lack of funding and difficult in getting suitable candidates to fill vacant posts. OIAI understands that the deteriorating security situation in the country made the duty stations unattractive to prospective candidates.

**Recruitment process:** The audit reviewed a sample of 12 recruitments and found that while four were completed within the benchmark period, the other eight cases took between three to five months to complete. The average time for recruitment was 103 days, which exceeded the standard of 20 days for fast-track offices. Also, while the interviews of shortlisted candidates were timely in three cases, the remaining nine happened within one to three months from closing dates of vacancy notices.

Factors contributing to delays in recruitment process included the difficulties in convening an interview panel, due to frequent absence of staff travelling on missions, rest and recuperation, or leave. Difficulties in getting suitable candidates also contributed to delays in the
recruitment process as some posts had to be re-advertised several times. Also, the audit team noted that there was inadequate prioritization, oversight and monitoring of performance against established benchmarks in the recruitment process.

Vacant posts and delays in recruitment put strain in the existing staff and were likely to affect programme implementation.

**Agreed action 20 (medium priority):** The office agrees to review the rationale for posts which have remained vacant for long time, and take appropriate action; and increase oversight, prioritization and monitoring to ensure that recruitment is completed within the established timeline.

Responsible staff members: Human Resources Manager  
Date by which action will be taken: July 2017

**Training**

The office had a learning and training committee with appropriate terms of reference and adequate composition. It had produced a training plan for 2015. However, the training plan for 2015 had been neither approved nor monitored. As of April 2016, although the Human Resources unit had compiled a list of training activities, these had not yet been reviewed within HR and approved by the Representative. The audit also noted that staff development needs were not identified in a timely manner during the first quarter of the year through the annual performance appraisal planning and reviews.

Furthermore, although the office stated that it allocated funding for training from programme funds, the training plans did not include costs for planned training activities and therefore no monitoring was done against actual expenditures.

**Agreed action 21 (medium priority):** The office agrees to ensure that training plans include budget estimates, are prepared on a timely basis, and are adequately managed.

Responsible staff members: Chief of Operations and Human Resources Manager  
Date by which action will be taken: March 2017

**Staffing structure**

The office staffing structure that was approved by the Programme Budget Review (PBR)\(^{10}\) in 2014 (with subsequent changes made in 2015) was not accurately reflected in VISION. The list of authorized posts recorded in VISION as of 20 April 2016 was not aligned with the list of posts approved by the PBR.

For example, the reporting lines (supervisors) for 23 posts were not given in the authorized list of posts in VISION, and nine staff had incorrect reporting lines, since the changes approved by the PBR had not been reflected in VISION. Further, 28 staff members were listed in

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\(^{10}\) The programme budget review (PBR) is a review of a UNICEF unit or country office’s proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.
incorrect duty stations, and one outpost office was not reflected in VISION. These errors had not been detected because the records in VISION had not been checked against the structure approved by the PBR. The result was that staff could not have their annual leave and related entitlements (e.g. annual leave balances) processed in VISION; instead, they were subject to error-prone and inefficient manual processing. During the audit, the office was in the process of updating the organogram and would then send the database to headquarters for correction.

**Agreed action 22 (medium priority):** The office agrees to ensure that the current staffing structure is accurately recorded in VISION and is consistent with the approved structure.

Responsible staff members: Chief of Operations and Human Resources Manager

Date by which action will be taken: November 2016

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**Funding gaps and donor relationships**

The aid environment was increasingly competitive due to slow economic growth, deteriorating security and the unstable political situation in Afghanistan. The audit noted the following.

**Funding gaps:** The Board-approved ceiling for funding that the office could raise as other resources (OR) was US$ 455.5 million during the five-year programme cycle ending on 31 December 2019. As of the end of 26 April 2016, the office had so far raised the significant amount of US$ 293 million. This left a funding gap of US$ 163 million or 36 per cent of total OR requirements for the five-year programme. The education and WASH programmes were fully funded for the five years. However, there were programmes with major funding gaps: social inclusion (US$ 23.5 million, or 92 percent); child protection (US$ 33 million, or 93 percent); and nutrition (US$ 54.4 million or 82 percent).

The office’s resource mobilization strategy, drawn up in 2014, had not been updated annually to take into account the changes in the donor environment and the status of funding gaps. Further, the strategy did not include an action plan identifying planned resource mobilization activities, including any support needed from the regional office and HQ divisions; assigned responsibilities; fundraising targets; and timelines by programme and year. It also did not explain an approach to diversify the donor base to reduce the risk of dependency on a small number of donors. The office had not updated and shared donor profiles across programme sections, or assessed lessons learned and shared good practices on fundraising.

**Donor relationships:** The audit met four major donors in Kabul to assess the partnership relationships with UNICEF. Three donors confirmed good cooperation and a good relationship. One donor stated that UNICEF maintained very good communications, which helped solve any issues causing delays in project implementation. Another donor confirmed that the office attracted high-quality staff with strong technical expertise, was very good at identifying constraints to implementation of activities, and was quick to respond to various demands. However, one donor’s view was that its relationship with UNICEF had deteriorated because the office did not fully comply with the donor’s expectations as defined in the donor agreement. The office was aware of this situation and was developing steps to meet donor expectations.

**Agreed action 23 (medium priority):** The country office agrees to:
i. Implement the resource mobilization strategy and update it regularly (at least annually), taking into account funding gaps and evolving changes in the donor environment. The strategy should include planned resource mobilization activities, assigned responsibilities, fundraising targets and timelines by programme and year.

ii. Establish funding priorities for the office and by programme, taking into account relevant criteria such as absorption capacity.

iii. Create donor profiles, identify lessons learned and share good practices on resource mobilization practices across programme sections.

iv. Develop an action plan and take immediate corrective action to address significant donor relationship issues.

Responsible staff members: Deputy Representative; Resource Mobilization Manager and Representative

Date by which action will be taken: February 2017

Emergency preparedness and response

The audit reviewed the adequacy and effectiveness of controls to ensure the UNICEF Core Commitments for Children (CCCs)\textsuperscript{11} were fulfilled. The key CCC controls include developing an emergency preparedness and response plan (EPRP); ensuring effective and inclusive coordination mechanisms; timely assessments; and planning and monitoring of the humanitarian situation and response, with clear identification of gaps.

The office participated in the UN inter-agency humanitarian effort through the Humanitarian Country Team (HCT) and humanitarian response clusters such as the nutrition and Water, Sanitation and Hygiene (WASH) clusters. The office had drawn up a Humanitarian Action for Children (HAC) appeal\textsuperscript{12} to raise funds for implementing UNICEF’s Core Commitments for Children (CCCs) amounting to US$ 50.9 million in 2015 and US$ 27.8 million in 2016.

However, the audit also noted the following.

\textit{Preparedness and response plan:} The office prepared an Emergency Preparedness and Response Plan (EPRP) which included, among other things, prepositioning of supplies at 28 emergency locations in warehouses managed by partners at the provincial level. These partners provided UNICEF with quarterly stock reports and end-user distribution lists as evidence for supplies distributed during the period. However, the inventory database maintained by the Emergency Coordination Unit did not provide a complete historical record of the total quantity of supplies delivered to the warehouses – only current balances were maintained. In addition, the memoranda of understanding defining responsibilities and accountabilities for managing the prepositioned supplies had expired in 2014.

The office also distributed emergency nutrition supplies through 31 NGOs contracted by the government at the provincial level. The NGOs maintained warehouses and were responsible for distributing the supplies to the facilities at the district and community levels. However, there were no mechanisms for the office to obtain data relating to the supplies distributed by the NGOs. This limited the office’s assurance on whether supplies had been distributed as


\textsuperscript{12} UNICEF launches a HAC for emergency response programmes. The page for Afghanistan can be found at http://www.unicef.org/appeals/afghanistan.html.
intended to designated end-users.

Further, the office had not updated the Early Warning Early Action (EWEA) online system as required by standard UNICEF procedures. As of April 2016, 12 (or 60 percent) of the 20 key actions had not been updated for more than a year. Key required actions not updated included baseline data and inter-agency needs assessments, information and communication technology (ICT) preparedness checklist, responsibilities in the first 72 hours of an emergency, supply and logistics emergency readiness, mapping of potential donors, and WASH and health emergency readiness.

The office had not uploaded the latest version of the Emergency Preparedness and Response Plan (EPRP) and Business Continuity Plan (BCP) into the Early Warning Early Action (EWEA) portal of the UNICEF intranet. Also, there had been no simulation of the BCP in 2015 or 2016. Inadequate maintenance of the EWEA system and failure to run timely simulations limited the office’s capacity to identify and monitor emergency-related risks and its preparedness to respond to an emergency.

Rapid assessment, monitoring and evaluation: The office had no system for performance benchmarking to regularly monitor UNICEF’s humanitarian action. There was also no regular assessment of humanitarian actions against the CCCs. Although Humanitarian Performance Monitoring (HPM) tools had been developed and shared with programme sections, these had not been implemented as of April 2016.

No evaluative exercises were undertaken within 3-4 months of any of the major sudden-onset emergencies that occurred in 2015. This limited the office’s knowledge of its performance against the CCCs global benchmarks, the performance of the clusters and the overall needs by sector to be able to effectively coordinate emergency response. The office stated that it had planned to implement the HPM in January 2016 but its implementation had been postponed to later in the year.

Agreed action 24 (medium priority): The country office agrees to:

i. Update the database for prepositioned supplies is updated to provide historical data for supplies provided to partners, and ensure that the memoranda of understanding for managing the prepositioned supplies are finalized and signed with responsible partners.

ii. A monitoring and reporting mechanism is established on nutrition emergency supplies to strengthen assurance on delivery of emergency supplies to end-users.

iii. Key actions of the Early Warning Early Action (EWEA) system are regularly updated; and the Business Continuity Plan (BCP) is simulated at least once a year.

iv. A mechanism for assessing and monitoring actual performance against CCCs benchmark is established.

Responsible staff members: Chief Field Operations; Deputy Representative; Chief of Operations
Date by which action will be taken: i), October 2016; ii), December 2016; iii), March 2017; and iv), December 2017.
Management of clusters
UNICEF had taken the lead-agency roles for the nutrition and WASH inter-agency clusters and for the child protection sub-cluster. These roles included providing cluster leadership, coordinating activities, supporting service delivery and capacity building of partners.

However, none of the clusters had an overall strategy and response plan for the cluster, with linkages between disaster risk reduction, relief, recovery and development. There was also inadequate capacity in terms of staff responsible for coordination of cluster activities for both WASH cluster and child protection sub-cluster.

UNICEF guidance on cluster coordination recommends that cluster coordinators should be managed by one person (with appropriate seniority) to ensure coherence of approach within UNICEF-led clusters and to ensure that issues common to all clusters are identified and addressed coherently. Also, to promote and demonstrate neutrality, the coordinators should not be managed by section chiefs. However, all coordinators of UNICEF-led clusters (WASH and nutrition) and sub-cluster for child protection were reporting to respective section heads, thereby increasing the risk of insufficient neutrality. Further, the post of the WASH cluster coordinator was vacant during all of 2015 and only filled in April 2016. Similarly, the child protection sub-cluster had no coordinator between September 2014 and April 2016. The section chiefs for WASH and child protection functioned as interim cluster coordinators.

There was weak capacity among cluster partners, leading to UNICEF having to take on more responsibilities for some tasks. Capacity building was required in emergency coordination, preparedness and response both at national and sub-national level. However, none of the clusters had identified learning needs and developed strategy for capacity building of its cluster members.

For the child protection sub-cluster, critical gaps in provision of psychosocial support interventions in emergencies had not been addressed due to lack of capacity and funding. Also, partners were supposed to share information on a quarterly basis but they did not do it consistently. Similar weaknesses were noted for some cluster members under the WASH cluster.

The child protection sub-cluster and WASH partners had not yet drawn up codes of conduct. The nutrition cluster drafted a code of conduct for all participating members of the cluster in June 2015, but this had not been finalized as of April 2016.

**Agreed action 25 (medium priority):** The country office agrees to establish oversight mechanisms to regularly review the coordination function for UNICEF-led clusters; develop an overall strategy for the clusters with linkages between disaster risk reduction, relief, and recovery; and establish a capacity-building strategy for cluster partners, codes of conduct, and line management of cluster coordinators.

Responsible staff members: Representative and Chief Field Operations
Date by which action will be taken: December 2016

Budget and cash management
The audit reviewed the accuracy of budget data in VISION and the management of grants, to establish whether:
• Funds received were spent on time.
• Financial commitments for services rendered or goods received were paid for (expensed) before the financial closure of the grants.
• Any extension of a grant was requested at least three months before its expiry.

As of March 2016, the office had 62 active grants with total amount of US$ 298.6 million.

The audit found some areas in which controls were functioning well. The approval of funding commitments for cash transfers was done in accordance with delegated authorities and financial limits established in the table of authority. The office had standard operating procedures for donor funding proposals and contribution management. No grants expired with significant unutilized amounts during the period from January 2015 to April 2016.

However, the audit also noted the following.

**Recording of budgets:** The budget to be funded from Other Resources (OR) for the country programme 2015-2019 was US$ 455.5 million. However, the amount reflected in VISION as of 24 April 2016 was US$ 423.6 million. In addition, the planning figures for the humanitarian response reflected in the Humanitarian Action for Children appeal, amounting to US$ 50.9 million in 2015 and US$ 27.8 million in 2016, had not been posted into VISION.

Further, the planning figures for outcomes both in VISION and in the performance management system, inSight, were not in line with the budget amounts in the country programme document or in the country programme action plan (CPAP). Incomplete and/or incorrect entry of planning figures in VISION meant that the management reports generated from its performance management module would not be accurate, and would present incorrect funding positions for outcomes. These weaknesses were partly due to inadequate oversight and quality assurance on the entry of budget figures in VISION.

**Utilization of funds:** As stated earlier, no grants had expired with significant unutilized amounts during the period under audit. As of 24 April 2016, however, the office had seven grants expiring within one to two months, with a total unutilized amount of US$ 4.3 million, ranging from 9 percent to 68 percent of the programmable amounts. Unutilized amounts meant that no commitments had been raised against them and there was a risk they would not be accessible after expiry of the grants.

Also, the high percentage of unutilized funds on grants nearing expiry risked errors and inappropriate transactions, due to rushed processing of commitments to avoid grants expiring with unutilized balances. For instance, in one case of a grant nearing expiry with unutilized funds, the office transferred funds of about US$ 1 million to the bank two weeks before the grant expiry date. According to the note for the record, the arrangement was made to enable use of funds after the expiry of the grant, upon receipt of partners’ requests for cash transfers expected after expiry of the grant. Effectively, the payment was made without evidence for existing financial obligations for goods received or services rendered.

**Extension of grants:** In six of the 10 cases reviewed, the requests for extension of grants were not submitted at least three months before the expiry of grants as required. This limited the office’s capacity to commit funds and could lead to return of funds to the donors, if extension requests were not approved.

**Agreed action 26 (medium priority):** The office agrees to ensure that:
i. Budget figures for the regular and emergency response programmes are accurately recorded in VISION and are consistent with the country programme document and with Humanitarian Action for Children.

ii. Commitments are raised by the staff responsible, and grant-extension requests are submitted to donors well in advance of the expiry dates of the grants.

Responsible staff members: Deputy Representative; Resource Mobilization Manager; and Chief Field Operations

Date by which action will be taken: December 2016

Direct cash transfer processing

During the period from January 2015 to April 2016, the office disbursed Direct Cash Transfers (DCTs) of US$ 16.9 million (US$ 14.5 million in 2015 and US$ 2.4 million in 2016).

**Processing of DCTs:** Of the seven sampled cases, three disbursements were made fairly soon after the start of activities (six to 11 days); the other four, however, were made three weeks to four months after the start of the activities. In four of the seven cases, the funds were released for six months’ activities, instead of three months as required.

**Processing of reimbursements:** In one of the four cases reviewed, the reimbursement to the partner for activities completed took about nine months from the completion of the activities. This was partly due to late submission of supporting documents by the partner, which took about six months after completion, and delay in processing the cash transfer to the partner, which took over two months from the date of the partner’s request for reimbursement.

**Authorization:** In all the four cases reviewed (one direct payment and three reimbursements), the partners did not obtain UNICEF’s authorization to enter into obligations with third parties and make disbursements using their own funds prior to the start of the activities. This could lead to inappropriate transactions and potential disputes. This was due to inadequate oversight on compliance with established policies and procedures.

**Liquidation of DCTs:** As of 25 April 2016, the outstanding DCTs amounted to US$ 6.9 million, of which US$ 615,000 (9 percent) had been outstanding for more than six months. There was also US$ 275,000 outstanding for more than nine months. The audit noted delays in the liquidation process, which took from 23 days to 60 days from the receipt of the documents from the partners to liquidation in VISION.

**Agreed action 26 (medium priority):** The office agrees to establish oversight mechanisms and address causes for delays in the processing of payment and liquidation of cash transfers. It also agrees to provide guidance to staff members to ensure direct payment and reimbursements are well supported.

Responsible staff members: Chief of Operations and Finance Specialist

Date by which action will be taken: December 2016
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 in the report summary 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 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 the office 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 the office needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over the office 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”.]