

Internal Audit of the Bulgaria Country Office

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Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted a limited-scope audit of the Bulgaria country office. The audit sought to assess the office's governance, programme management and operations support. The audit fieldwork took place between 6 April and 13 April 2016, and the audit covered the period from January 2015 to March 2016.

The 2013-2017 country programme consists of two main components: *Equity and social inclusion for children*; and *Alliances and national capacity for child-rights monitoring*. There is also a cross-sectoral component. It has a total budget of US\$ 16.3 million, of which US\$ 3.8 million are regular resources (RR) and US\$ 12.5 million are other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The country office is in Sofia; there are no zone offices. There are 21 posts (one international professional, 10 national officers and 10 general service posts). No posts were vacant as of 14 March 2016.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address the issues raised in this report. None are rated as high priority (that is, requiring immediate management attention).

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the Bulgaria country office were generally established and functioning during the period under audit.

The Bulgaria country office, with support from CEE/CIS Regional Office, and OIAI will work together to monitor implementation of these measures.

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Objectives

The objective of the limited-scope 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

The audit noted a number of areas where controls were functioning well. Statutory committees such as the Country Management Team (CMT), Programme Review Committee, and Contract Review Committee (CRC) were working well, and minutes were well-written and had been approved.

The office had adequate mechanisms to identify key priorities and communicate them to staff, measure performance, and hold management and staff accountable. The staffing structure was aligned with the needs of the programme in the country. Authority was properly delegated in accordance with UNICEF policies, and there were processes to mitigate segregation-of-duties conflicts.

There was an advocacy plan based on themes consistent with the country programme. The plan specified accountable staff, and the status of actions were reported as being up-to-date.

The office had adequate mechanisms for work planning. It established multi-year workplans (MYWPs)¹ every two years with the coordinating government counterpart (Ministry of Labour and Social Policy). The workplans were complete with planned activities, indicators, recipient partners, budget and timeframes. For line ministries, the office had established memoranda of understanding. For other Government entities and for municipalities receiving cash transfers, the office had established grant agreements, which were supported by details on agreed projects. Based on the sample reviewed, these grant agreements were amended/extended in a timely manner, and budgets were generally consistent with workplans.

Advisory committees such as the Contract Review Committee (CRC) and Property Survey Board (PSB) had clear terms of reference.

Based on samples reviewed, bank reconciliations were completed on time with appropriate segregation of duties and no long-outstanding unreconciled items. Sampled payments for cash transfers, contracts, and procurement were processed in a timely manner with adequate segregation of duties.

The country office had prepared well to respond to emergencies, such as needs of refugee and migrant children, by developing action plans based on assessments of the government capacity to address the needs of refugees and migrants, and UNICEF response capacity. The

¹ UNICEF offices agree workplans with their implementing partners. Workplans can be developed on an annual or multi-year basis, or as rolling workplans. They are expected to detail outputs, indicators, targets, baselines, activities to be carried out, the responsible implementing institutions, timelines and planned inputs from the partners and UNICEF. Workplans serve as basis for programme disbursements to partners.

action plans identified accountable staff and status of actions was periodically updated.

However, the audit noted the following.

Risk identification and mitigation

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). This is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of actions 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 was updating the risk and control library annually, based on the discussion during meetings of the CMT. However, the audit noted that action plans were ongoing for three years without being closed. This happened largely because the action plans were not always written in a way that made their achievement measurable. For example, the risk *Funding and External Stakeholder Relations* had the proposed action as *Scanning the environment and identifying new potential partners*, without specifying the targets to be addressed with the new partners. For the risk on *Results-based Management and Reporting*, the proposed action was to *Strengthen the capacities of counterparts*; it did not identify the activity required for this, making it hard to confirm that the action had been implemented. In addition, the action plan did not specify deadlines or accountable staff. This could prevent the office from implementing prompt and adequate measures to manage the risks identified.

The Bulgaria Country Office's current CPD² is for the period of 2013-2017. This means that the office will be preparing their new CPD over the coming months and presenting it to the Executive Board in 2017. According to the guidelines *UNICEF Enterprise Risk Management – Instruction 1: Risk Assessment and Reporting 2015*, the Bulgaria office must therefore, in 2017, report its RCSA by uploading it to inSight,³ with an updated risk library. The office is now taking the steps necessary to be ready for this process.

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

- i. Revise its risk mitigation action plan so that the actions in it are specific, measurable, and adequate to address the risk identified.
- ii. Indicate deadlines and accountable staff for each action in the plan.

Responsible staff members: Representative and the Policy and Planning Specialist

Date by which action will be taken: October 2017

² The CPD is the country programme document, which sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs for five years.

³ 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.

Ethics

UNICEF offices should promote ethical standards, promoting awareness of UNICEF's ethical policies and procedures, and ensuring compliance with them. An office should also communicate UNICEF anti-fraud policies to partners and consultants.

The Bulgaria Country Office encouraged staff members to take UNICEF's ethics and integrity on-line seminar, and the office reported that all staff members had already completed the on-line training. It also informed the audit that a presentation on ethics had been made to staff members and some consultants in 2015, and that an ethics focal point had been appointed. The office also said it had that in March 2016 it had agreed with all staff members that there would be two workshops per year, to help cultivate and maintain a culture of ethics, integrity and accountability.

However, the audit found that the office did not systematically verify whether non-staff parties, such as contractors and partners, had established ethical, anti-fraud and anti-corruption policies similar to those of UNICEF, as required by the Policy Prohibiting and Combating Fraud and Corruption (CF/EXD/2013-008).

Agreed action 2 (medium priority): The office agrees to establish a process to systematically verify that non-staff personnel, NGO implementing partners and vendors maintain the highest standard of conduct in their engagement with UNICEF and that they have adopted, and are enforcing, robust policies to combat fraud and corruption.

Responsible staff members: Policy and Planning Specialist and the Child Protection Specialist
Date by which action will be taken: December 2016

Resource mobilization strategy⁴

UNICEF's Programme Policy and Procedure Manual (PPPM) specifies that country offices should have a clear and comprehensive resource mobilization strategy for securing OR to support their programme. The strategy should outline the main existing and potential governmental and inter-governmental funding sources, opportunities in the private sector (including National Committees for UNICEF), and other channels such as global funds and foundations. Resource mobilization strategy should focus on flexible and long-term funding. As part of the strategy, the office should set specific resource mobilization targets for the programme period and outline how, where, when and with whom resource mobilization activities will be undertaken.

In 2012 the office had drawn up a strategy for private-sector fundraising in preparation for the 2013-2017 country programme. During the mid-term review of the country programme in 2015, the office had comprehensively reviewed the private-sector programme in order to assess its implementation, and its progress against the targets. Any necessary changes were made for the remaining period of the plan. The regional support team of UNICEF's Private Funding and Partnerships (PFP) office was actively engaged in the process.

⁴ While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

The audit noted that the office was also pursuing other fundraising possibilities. These included National Committees for UNICEF and private foundations. During 2015 and 2016, the office had received grants totalling US\$ 1.6 million. For these additional activities, however, there was as yet no documented strategy.

Agreed action 3 (medium priority): The country office agrees to develop a resource mobilization strategy for Other Resources outlining the main existing and potential governmental and inter-governmental funding sources, opportunities in the private sector, inter-organizational arrangements and new aid modalities such as global funds, and foundations.

Responsible staff members: Representative, Policy and Planning Specialist and Resource Mobilization Officer

Date by which action will be taken: July 2017

Harmonized Approach to Cash Transfers (HACT)

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

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

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

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

Training: The country office did not organize HACT training in 2015 for Government or NGO counterparts, to reinforce their ability to complete FACE forms,⁵ carry out liquidations and perform other HACT-related tasks. The audit was informed that there had been individual conversations related to HACT with most of the partners. Also, at the time of the audit, only six of the office's own staff members had completed the on-line HACT training, and two the on-line training on FACE forms.

Micro-assessments: During 2015, seven partners who received US\$ 100,000 and more per year from UNICEF were subject of micro-assessments. All resulted in medium risk ratings.

⁵ The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

Assurance activities: During 2015, the office conducted a macro-assessment. It also made 19 programmatic visits⁶ to, and 11 spot-checks of, partners. During 2016, 45 programmatic visits and 21 spot checks were planned.

The office had prepared assurance plans for 2015 and for 2016. However, the audit did not find evidence in the CMT minutes for 2015 that it had reviewed progress in implementation of the assurance plan. The audit noted that there was no defined procedure in the office for reviewing progress against the plan, or to follow up of recommendations resulting from the assurance activities (audits, spot checks and programmatic visits).

Agreed action 4 (medium priority): The office agrees to fully implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2014 HACT guidelines and procedures, including the following steps:

- i. Organize on-site training sessions for staff members involved in HACT implementation.
- ii. Train all partners on HACT principles, the use of Funding Authorization Certificate of Expenditure forms, and liquidations.
- iii. Ensure that implementation of the assurance plan is monitored.
- iv. Define a process for the follow-up of recommendations resulting from assurance activities, to ensure that they are implemented by partners.

Responsible staff members: Policy and Planning Specialist

Date by which action reported as taken by office: June 2016

Direct Cash Transfer (DCT) management

DCT was the largest programme input in 2015. Over the period from January to December 2015, cash transfers to 18 partners amounted to US\$ 1.2 million, representing 39 percent of total expenditure.

The audit selected a sample of five implementing partners and reviewed six cash transfer payments, 13 liquidations and one refund. The total value of the cash transfers sampled was US\$ 152,000, or 13 percent of 2015 annual expenditure on DCTs.

The office had no DCTs that had been outstanding for long periods (e.g. over nine months). However, in 12 out of 13 liquidations, the amount of DCT expenditures reported by the implementing partners through the FACE forms did not match what the office recorded in VISION. This was because where funds were underspent, the unspent funds were kept with the partner and then deducted from the following payment, without recording this in the FACE form. The record of such transactions was maintained only outside VISION, via internal e-mails. This increased the risk that incorrect payment of cash transfers might not be detected

⁶ According to the latest UNICEF-specific HACT procedure issued in 2014 (page 2), 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.”

by the system.

The audit also noted that partners did not always clearly indicate the relevant activities in the FACE form; this was the case for both the payment requests and liquidations. For the majority of the FACE forms reviewed by the audit, the partners were submitting the FACE form based on duration and/or input costs. This risked inaccurate monitoring of the cash transfers against agreed activities.

Finally, the office was certifying the liquidations based on additional supporting documentation, such as invoices and receipts. This meant the office was duplicating the assurance activities, as programmatic visits and spot checks were also conducted. The office said it was gradually implementing new HACT regulations that came into effect in May 2015, including phasing out the review of additional supporting documentation to approve liquidation.

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

- i. Ensure that all under and over-expenditure and related reprogramming of cash transfers is recorded in VISION and in the Funding Authorization Certificate of Expenditure (FACE) forms.
- ii. Determine which partners are not correctly completing the FACE forms and provide training (or a refresher course if training has already been given).

Responsible staff members: Policy and Planning Specialist

Date by which action reported as taken by the office: June 2016

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, and testing samples of transactions. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

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

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

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

Priorities attached to agreed actions

- High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
- Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
- Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusion

The conclusion presented at the end of the audit report falls into one of 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 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 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".]