Internal Audit of the Tanzania Country Office

May 2017

Office of Internal Audit
and Investigations (OIAI)
Report 2017/05

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unite for
children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Tanzania country office. The audit sought to assess the office's governance, internal risk management and internal controls. The audit was conducted on-site from 31 August 2016 to 21 September 2016, and covered the period from January 2015 to August 2016.

Since 2011, the Government of the United Republic of Tanzania and the United Nations have adopted a single UN Development Assistance Plan (UNDAP). The initial UNDAP I covered the period July 2011 to June 2016 and supported the achievement of the Millennium Development Goals. The current UNDAP II covers the period July 2016 to June 2021. UNDAP II defines a programme of cooperation between the Government of Tanzania and the UN Country Team to enhance opportunities for social, economic and political development. Each agency is responsible for a set of key actions that jointly contribute to shared results. The UNDAP II budget for 2016-2021 has a total projected amount of US$ 1.3 billion.

UNICEF's own 2016-2021 country programme has eight main programme components: *Health*; *HIV and AIDS*; *Water, sanitation and hygiene (WASH)*; *Nutrition*; *Education*; *Child protection*; *Social inclusion*; and *Programme effectiveness*. The budget for the five-year programme amounts to US$ 227.7 million, of which about US$ 98.7 million is regular resources (RR) and US$ 129 million is other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. A UNICEF office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved ceiling.

As of August 2016, the country office had 123 established posts, comprising 36 international professional (IP), 42 national professional (NO) and 45 general service staff (GS). The country office is in Dar es Salaam and has three zone offices, in Zanzibar, Iringa and Kibondo.

Delivering as One

Tanzania is a Delivering as One (DaO) country for the United Nations. The DaO initiative aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs within the UN effort. DaO was originally launched in 2007 in eight pilot countries, of which Tanzania was one. Given the risks and significance of DaO to UNICEF in Tanzania, OIAI reviewed its application in-country. The resulting observations relating to DaO are presented in a separate section of this report and are addressed to the UN team in Tanzania as a whole rather than just to UNICEF. They are therefore not reflected in the audit report's overall conclusion, which is applicable to the UNICEF office only.

Action agreed following the audit

The audit found that a number of controls were functioning well. The country office had adequate procedures in place to manage risks to its programme. It had conducted an evidence-based situation analysis of children that formed the basis of the 2016-2021 country programme. The advocacy strategy was also evidence-based, with objectives and key performance indicators. There were satisfactory controls to ensure planning focused on results, and to ensure that programmes were evaluated. There were also satisfactory controls over funds allocation and utilization, which appeared in accordance with donor agreements. Cash transfers to implementing partners were adequately supported with appropriate documentation.

However, 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 issues identified by the audit. Four of these are being implemented as high priority – that is, to address issues that require immediate management attention:

- Establish clear roles and responsibilities for the team overseeing the Harmonized Approach to Cash Transfers (HACT), ensure that sufficient assurance activities are carried out, monitor follow-up actions arising from micro-assessments and assurance activities, and provide adequate training on HACT to partners.
- Strengthen programme monitoring, including improvements to the content of reports, the making of specific recommendations, better analysis and planning of programme monitoring, and monitoring of its implementation.
- Include sufficient information in the supply plan, institute a mechanism to monitor supply activities, ensure sufficient processing time before target arrival dates, and implement an end-user monitoring process.
- Institute a process for review of unit costs in programme cooperation agreements (PCAs), brief the Partnership Review Committee on when PCAs should be concluded and when service contracts should be used instead, base payment schedules on scheduled activities for each quarter, and strengthen the process for assessing capacities of new partners and vendors.

The audit did not accord a high priority rating to any of the recommendations related to DaO.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed improvement to be adequately established and functioning. As stated above, this conclusion concerns the audit's opinion in relation to UNICEF in Tanzania, and does not reflect its observations on Delivering as One, which have been addressed to the UN team in Tanzania as a whole.

Since the conclusion of the audit, the UNICEF Tanzania Country Office has taken action to implement several of the above measures. The country office, its United Nations partners in DaO, the regional office and OIAI will work together to monitor implementation of all the measures that have been agreed, according to the action plans supplied by the office and by the broader UN team for the DaO observations.

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Objectives and scope

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.

In the course of the audit, OIAI also reviewed the application of the UN's Delivering as One (DaO) initiative in Tanzania. DaO aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs across the United Nations effort. DaO was originally launched in 2007 in eight pilot countries, of which Tanzania was one.

Given the risks and significance to UNICEF, OIAI decided to review its application in Tanzania as part of the audit. The audit's observations on DaO in Tanzania are addressed to the UN team in Tanzania as a whole, not just UNICEF, and so are therefore presented in a separate section towards the end of this report (starting on page 16). They are not reflected in the audit's overall conclusions which are applicable to the UNICEF office only.

Audit observations: UNICEF Tanzania Country Office

Cash transfers to partners

The audit reviewed the adequacy of controls over assurance activities on the use of direct cash transfers (DCTs) to partners. From the start of 2015 until August 2016, the office spent US$ 22.3 million in DCTs to government partners, representing 69 percent of the total cash transfers of US$ 32.4 million to all partners. The remaining US$ 10.1 million in cash transfers were to international and local NGOs.

UNICEF offices manage DCTs through a procedure called the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on the use of funds provided; this reduces the amount of supporting documentation UNICEF needs, cutting bureaucracy and transaction costs. HACT makes this possible by requiring offices to systematically assess the level of risk attached to a given partner before making cash transfers to that partner, and to adjust their method of funding and their assurance practices accordingly. HACT therefore requires micro-assessments of all implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. At country level, HACT also involves a macro-assessment of the country's financial management system.

As a further safeguard, the HACT framework requires UNICEF offices to carry out assurance activities that include spot checks, programme monitoring, and scheduled and special audits. HACT is also required for UNDP and UNFPA and the three agencies are meant to work together to implement it.

The audit noted the following.

***Governance**:* HACT-related issues were regularly discussed during CMT[1] meetings. The office also had

[1] The country management team (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.

a team it called the “HACT hub” to oversee assurance activities. Established in 2015, it reported at first to the Deputy Representative. In July 2016, this was changed to the Planning, Monitoring and Field Coordination Section, for a better balance of responsibilities for programme monitoring between the sections and field-office staff. However, by the time of the audit in September 2016, there were still no terms of reference that defined roles and responsibilities, and the job descriptions had not been adjusted to include the specific roles of HACT monitoring and coordination through the “hub”.

Micro-assessment: During 2015, the office carried out 27 micro-assessments of implementing partners to assess their financial management capacity. However, the results were not always used to select the best method for cash transfers, or the most appropriate assurance activities, for that particular partner.

Assurance plan: The office prepared assurance plans in both 2015 and 2016. These were risk-based, with the frequency of spot checks and programmatic visits generally linked to risk profiles of partners, the total paid annually in cash transfers, or the funds to be disbursed during the programme cycle. The CMT regularly discussed status of assurance plans in both years. However, in 2015, only 23 out of 50 planned spot checks and 51 out of 158 planned programmatic visits were completed, showing a low completion rate of 46 and 32 percent respectively. This meant that although the office had planned enough activities to provide assurance on the activities being funded and the funds being spent, the assurance activities actually carried out were not sufficient. The office said that this was due to other priorities, including the refugee crisis and the preparation of the new country programme.

The audit team reviewed the quality of a sample of five spot checks and found they were adequately executed. It also reviewed one sampled scheduled audit under HACT and noted the review had adequate scope and included relevant recommendations.

Financial management capacity of partners: The audit team visited five implementing partners. In four cases, the partner’s financial management capacity appeared adequate. UNICEF direct cash transfers were properly deposited, recorded accurately in the books of accounts and bank reconciliations were done monthly. However, in the fifth case, the audit was unable to verify whether UNICEF cash transfers had been properly deposited in the partner’s bank account as there were no financial records available for the period from June 2016 to August 2016. The partner was also unable to provide the audit with supporting documentation for recent transactions, stating that no records were available for 2016 as a new system was being put into place. Bank reconciliations were not done on time; at the time of the audit visit in September 2016, the most recent reconciliation was for the month ended June 2016. The partner told the audit team that it had started implementing a new computerized system in January 2016 but had not yet finished installing it at the time of the audit.

Training of staff and partners: All UNICEF staff in Tanzania had attended mandatory training on HACT. However, the office had no system to track HACT training provided to implementing partners. For two of the five partners visited by the audit, relevant staff had not received adequate training.

Follow-up of key actions: The office had an electronic system for follow-up of proposed actions. However, at the time of the audit visit (September 2016), the office was not retaining sufficient information to allow it to properly follow up its spot checks and other assurance activities. Further, the system was not consistently used across the programme sections. The micro-assessment of two implementing partners visited by audit had outstanding recommendations that were not incorporated and were not followed up. The audit team noted that in five out of six sampled spot checks, there was no evidence of follow-up of high or significant priority actions stemming from prior micro-assessments and previous assurance activities.

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

i. Establish clear terms of reference for the Harmonized Approach to Cash Transfers (HACT) hub, including: assignment of responsibilities between programme and operation sections and field office staff; and definition of mechanisms of coordination, including reporting lines.
ii. Ensure that sufficient assurance activities are implemented to provide adequate comfort on the use of funds and achievement of results.
iii. Monitor the use of the system for follow-up of high/significant-priority recommendations stemming from micro-assessments, spot checks, programmatic visits and scheduled audits.
iv. Provide adequate training on HACT to implementing partners, focusing on key staff with direct responsibilities for management of UNICEF funds; and track and report progress on this training to the HACT hub.

Staff responsible for taking action: Representative, Deputy Representative and Programme Section Chief
Date by which action will be taken: The office reports actions ii and iv as having been completed. The remaining actions will be completed by 30 June 2017

Zone offices

The Tanzania country office has three zone offices, in Zanzibar, Iringa and Kibondo. The audit visited one zone office, in Zanzibar, and its sub-office. The zone office took an active part in the country office's risk and control self-assessment (RCSA),[2] and zone-office specific risks and mitigating actions were identified. Staff interviewed in the zone office confirmed they had adequate support and guidance from the chiefs of programme sections, the Chief of Operations and other programme and operations support staff from the Tanzania office. There was a good exchange of information with the country office, and close coordination between the sub-office and the zone office.

However, the audit found that responsibilities and accountabilities of the zone offices in relation to the country-office staff (such as the chiefs of programme sections) were not clearly defined. Further, the country office had not done an annual management review of zone office performance in 2015. Had it attempted to undertake a review, it would have found a lack of annual key performance indicators, targets and expected deliverables against which to assess the zone offices.

As of the time of the audit visit, the office was planning a meeting in the last quarter of 2016 to clarify responsibilities and accountabilities.

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

i. Establish and communicate the responsibilities and accountabilities of zone offices and their staff, and their relationship with the Tanzania Country Office.
ii. Define key performance indicators and targets for, and expected results of, zone offices; and conduct an annual management review to assess the performance of zone offices.

Staff responsible for taking action: Representative, Deputy Representative and Programme Section Chief

[2] Under UNICEF's Enterprise Risk Management (ERM) policy, offices perform the RCSA, which 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.

Date by which action will be taken: 30 June 2017

Programme monitoring

Programme monitoring in the field is needed to assess progress, learn from implementation and take timely corrective action where required. It enables the provision of direct technical support to partners, while also offering a chance to work with them on resolving implementation bottlenecks. Monitoring has a further purpose in that it counts as an assurance activity under HACT (see observation *Cash transfers to partners*, page 5 above). UNICEF offices will therefore include some programme visits in their HACT assurance plan. Other visits will have a less formal purpose and will simply be part of ongoing cooperation with the partner.

The audit reviewed the office's programme monitoring and noted the following.

Planning: The programme sections had recently (July 2016) improved the planning of programme visits, which was now done on a quarterly basis. Zone offices shared their travel plans with the country office. However, the travel plans did not refer to the planned outputs of the annual workplans or the HACT assurance plan, so it was not clear whether all key planned outputs had been monitored. Moreover progress was not monitored against the plans themselves. One donor interviewed by the audit team said there was insufficient field monitoring by UNICEF. As stated earlier, the implementation rate of those programme visits that were in the HACT assurance plan for 2015 was only 32 percent (51 out of 158).

The audit team noted that the country office and the Zanzibar zone office did not review programme monitoring by region, purpose, programme, office and staff. This would have enabled the office to identify gaps in monitoring and also how to use its resources most efficiently and effectively.

Guidance: Monitoring practices varied among programme sections and zone offices. This was mainly due to incomplete guidance on how programme visits should be conducted and reported upon; this applied both to those visits that were linked to HACT and those (such as technical support) that were not. At the time of the audit in September 2016, the office issued standard operating procedures (SOPs) for HACT-related programme monitoring visits, with standard forms for trip planning and reporting and for monitoring the implementation of key actions. These new SOPs had clearly assigned responsibilities. However, they were specifically related to the guidelines for HACT, and were not necessarily suitable for visits not carried out as part of that procedure. The office had not issued guidance for non-HACT field-monitoring visits, the reports for which varied in quality. The lack of guidance for the non-HACT visits also increased the risks of inefficiencies and duplication of work among programme sections and zone offices.

Programmatic visits: The monitoring report's function is not only to convey information; it is a key accountability document. The audit reviewed a sample of 10 programme monitoring reports for the office's most significant programmes, covering the period from January 2015 to the end of August 2016. The activities to be assessed were mostly defined, but the expected results were not. Neither were the activities linked to the planned outputs in the workplans, and progress was generally not assessed against them.

Also lacking was a requirement to verify the results in activity reports by implementing partners, and the reports did not include sufficient evidence of this verification. When outputs were disclosed in monitoring reports, the nature and extent of testing to ensure accuracy of results were not explained.

Also, most programme monitoring reports did not include proposed follow-up actions.

OIAI field-monitoring visits: The audit met five implementing partners, who were generally satisfied with UNICEF's support and contribution. The audit observed on-site implementation of several of their projects. In two refugee camps, in Nduta and Nyarugusuted, it noted good coordination of the UN refugee programme working groups led by UNICEF. The emergency response included life-saving interventions in health, nutrition, WASH and child protection. Further, the five partners confirmed that programme supplies (such as vehicles, and motorcycles and bicycles) were of good quality and received on time.

Database: The office used the e-HACT database[3] for assurance activities and field visits. However planned visits in the quarterly travel plans were not included in the database, and recommendations stemming from assurance activities and field visits were not all recorded.

Agreed action 3 (high priority): The office agrees to ensure that:

i. Programme monitoring reports
   a. refer to the expected results defined in annual workplans;
   b. include evidence of review of the results reported by implementing partners in activity reports; and,
   c. are reviewed by immediate supervisors.
ii. Programme monitoring recommendations are specific, with assigned responsible staff and timelines.
iii. There are standard operating procedures and quality assurance review standards for non-HACT field-monitoring visits, with staff trained as necessary.
iv. There is a periodic analysis of actual programme monitoring visits against the plan, to identify gaps and opportunities, draw lessons learned and adjust monitoring strategy accordingly.
v. The status of implementation of programme monitoring plans and travel plans is monitored and reported to the CMT.
vi. A quality assurance process is established to ensure the e-HACT database is systematically used for monitoring the results of field visits and for following up on significant recommendations.

Staff responsible for taking action: Deputy Representative, Chief of Operations, Programme Section Chief and Knowledge Management Specialist
Date by which action will be taken: The office reports actions iv and v as having been completed. The remaining actions will be completed by 30 June 2017

Programme supplies

In 2015, the office procured US$ 5.7 million of supplies, constituting 14 percent of its annual expenditure. Programme supplies were the second largest programme input. From January to August 2016, the expenditure amounted to US$ 3 million. The audit sampled seven purchase orders (POs) with a total value of US$ 1.2 million.

The audit noted controls and processes were functioning well in several areas. For instance, the One Procurement Team made a market survey in 2014 to identify suppliers of major commodities and services. The Contract Review Committee, responsible for oversight of compliance with UNICEF

[3] The e-HACT database is a tool developed by UNICEF headquarters; its implementation will be mandatory for all offices in 2017. The Tanzania office was selected as part of a pilot project for its implementation in 2016.

policies and procures related to procurement, was functioning well. Long-term agreements were used where possible for efficient processing of procurements and economies of scale. Sampled payments were adequately supported.

However, the audit noted the following.

Planning: The office spent only US$ 3.9 million out of the US$ 5.9 million planned amount for the period July 2015-June 2016. This represents an implementation rate of 66 percent. Delays had arisen in implementation of the supply plan because some programme sections did not submit sufficient key information, such as specifications, quantity and/or target arrival dates (TADs). Where they were in the supply plan, the TADs were not always specific.

Orders near grant expiry: Offices sometimes place orders close to the expiry of grants; this is not conducive to value for money. In this case, the office had placed 13 POs with an aggregate value of US$ 232,000 within 30 days of the expiry of their respective grants. Five of these POs, accounting for about US$ 119,000, were issued late because of delays in planning or approving the design of the printing materials with the partners. The remaining POs that were issued late were delayed by inadequate specifications.

Target arrival dates: During January 2015 to August 2016, twenty-eight POs valued at US$ 526,497 (or 6 percent of total supplies) were recorded as having been delivered 90 or more days after the TADs. In 10 cases this was due to late recording of deliveries that had in fact been on time. However, six were due to time required to review and approve printing designs, while a further seven had been delivered late by vendors.

Clearance of supplies at port of entry: The Medical Stores Department (MSD) of the Government is responsible for clearing health and nutrition supplies that arrive at the port. However, the MSD did not always clear the supplies promptly; the audit team was told that this was a common concern for other UN agencies as well. For instance, in 2015, 14 of the 46 POs for non-emergency supplies were cleared after between 60 to 269 days; eight POs between 30 to 60 days; and 24 POs under 30 days (for an average of 64 days).

The office maintained a clearance monitoring report, and provided financial support as needed – particularly when stocks were at risk of expiry and/or were urgently needed. It had also taken other steps to manage the risk, including advising staff not to place POs at the last minute. This would help give government counterparts sufficient time to anticipate and budget for the clearance of supplies, reducing the risk of grant expiry. During the period covered by the audit, the office spent US$ 108,000 to help the MSD clear the goods, covering costs associated with customs clearance such as logistics and demurrage. There were no items expired at the port during that period. However, the MSD also needed information on incoming supplies. Although the office indicated the budget for them in the 2016 workplan, it specified only the total value, not the types of item or timeline for delivery. This had constrained efficient and timely clearing of supplies.

Liquidated damages clause: The liquidated damages clauses[4] (used to compensate for late delivery, or goods not meeting UNICEF specifications) were not applied in any cases of late deliveries by the office's vendors. The office said that the clauses had not been applied because of the low capacity of local vendors.

[4] A liquidated damages clause is similar to a penalty clause, but is not quite the same. Liquidated damages refers to compensation that will be given in the event of non-delivery or non-performance; however, that compensation should not exceed the losses incurred by the injured party. With a penalty clause, which is punitive, it may do so.

End-user monitoring: End-user monitoring of programme supplies was insufficient; according to the office, this was due to limited staff resources. Practices varied among programme sections. One collected data on the use of programme supplies and inventory level from contractors hired to liaise on-site with district-level governments. Other programme sections relied on partners' progress reports that included information on distribution of supplies and inventory levels. However, neither practice provided sufficient details on the quality or effectiveness of programme supplies delivered to end-users. Meanwhile there was no involvement by the supply unit. The latter's participation would both help identify any problems with the supplies, and identify lessons learned and inform changes in procedures.

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

i. Establish a supply plan with sufficient essential information (such as target arrival dates and specifications).
ii. Establish a mechanism to monitor implementation of supplies-based activities and give partners sufficient information to enable them to forecast, and budget for, effective clearance at the port.
iii. Ensure purchase orders have sufficient processing time before the target arrival dates to enable local vendors to deliver on time. If delays still occur despite adequate processing time, the office should remind the vendors of the liquidated damages clauses in the contract and apply these as needed to ensure that UNICEF's programmatic objectives are met and donors' money is safeguarded.
iv. Implement an end-user monitoring process, with assigned responsibilities and quality assurance mechanisms.

Staff responsible for taking action: Deputy Representative, Programme Section Chiefs and Supply & Procurement Specialist
Date by which action will be taken: The office reports action i as having been completed. The remaining actions will be completed by 30 June 2017

Individual consultants

In 2015, the office spent US$ 3.1 million on individual consultant contracts, constituting 7 percent of annual expenditures. From January to August 2016, the expenditure was US$ 2.2 million. During the period from January 2015 to the end of August 2016, 65 consultancy contracts were established.

Payments: Where consultants are paid by instalment, payment should be directly linked with satisfactory deliverables at specific time intervals, certified by the manager. The audit reviewed 10 contracts over US$ 30,000. For seven contracts, although consultants were paid monthly, the payment terms were not directly linked to specific deliverables. In three of the seven cases, the deliverables were activity-based because tangible products had not been defined in the contract. In the remaining four cases, the deliverables described in the contract were not specific and measurable. This had increased the risks of paying for services not fully received or not getting good value for money spent.

Open contracts: The audit noted that 57 contracts remained open 30 days after their expiry date. Fourteen of these had expired before 31 December 2015. Some contracts might have remained open due to delays in implementation. However, 30 had remaining balances under US$ 1,000, so it is likely that these contracts had been completed but not closed in the automated system. Delayed recording and/or inaccurate data in the automated system reduces effective monitoring of the contracts. It also keeps any remaining balances tied up, and prevents their reallocation.

Also, 35 of the 75 contracts did not have updated P11s (the consultant's personal history profile). The office said that this was an oversight and that it had taken steps to collect updated P11s in future recruitment of consultants. Incomplete documents mean that management will find it more difficult to justify their selection of consultants if challenged later.

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

i. Ensure that deliverables described in contracts of individual consultants are specific and measurable, and that payments of instalments are directly linked with satisfactory deliverables and entered in the automated system on time.
ii. Ensure personal history profiles of all consultants are retained on file, and that all contracts are closed on time in the automated system. Any significant consultancy contracts that have remained open for a prolonged period should be either extended or closed.

Staff responsible for taking action: Chief of Operations and Human Resources Specialist
Date by which action will be taken: 30 June 2017

Partnership management

In 2015, the office entered into 15 programme cooperation agreements (PCAs) with 14 NGOs for a total value of US$ 6 million. From January 2016 to the end of August 2016, the office contracted a further seven PCAs amounting to US$ 2 million. In May 2015, the office issued SOPs for the management of partnerships with NGOs, providing specific guidance on the preparation, management and administration of partnerships. The SOPs reflected the two main options for engaging with NGOs: procurement or partnerships. The office had also established a Partnership Review Committee (PRC) with appropriate terms of reference and membership.

The audit reviewed a sample of 10 PCAs and found that all the sample had been completed within the organizational target of 45 days from the date of submission to the final approval. However, the following was noted.

PCA budgets: Partners should prepare detailed cost estimates of inputs for each activity (using the itemized cost estimate form). None of the PCAs sampled showed sufficient documented evidence that the PRC had looked at the unit costs and ascertained that they were reasonable. The audit noted that the office lacked an established methodology for assessing unit costs, particularly for salaries, which increased the risk of overpaying for programme inputs.

Assessment of partners' capacity*:* In nine out of 10 cases, there was direct selection of partners, without inviting expressions of interest from others. The sole selection criterion used was often the experience of the NGO in delivering previous projects. In three cases, the selection was based on a rapid assessment carried out by other UN agencies, and UNICEF did not do its own assessment.

In five cases related to construction and rehabilitation of water, sanitation and hygiene (WASH) projects, the office did receive technical and financial proposals from shortlisted partners. However, the capacity to carry out construction activities was not used as a specific evaluation criterion in any of the five cases. Inadequate selection of partners for construction activities increases the risks of cost overruns, poor quality, delays and programmatic setbacks (see also next paragraph, *Construction projects*).

Construction projects: In 2015 and 2016 (as of August), the office had nine PCAs with NGOs amounting to US$ 3.2 million for the construction, rehabilitation of WASH and other facilities, including latrines, surface water treatment stations and schools. The audit team reviewed the purpose of these arrangements and found that all the reviewed cases constituted a vendor relationship rather than a partnership, as no genuine contribution from the partners was agreed and only staff regular operational costs were included as the partner's contribution. A vendor agreement would require compliance with UNICEF's procedures for the award of contracts. Such non-compliance was not identified as a risk during the review of the agreement by the PRC.

During the field visit to the zone office in Kibondo, the audit noted that the implementation of three WASH activities carried out by two international NGOs was behind schedule by between three and six months. The delays were mainly due to limited capacity of partners to acquire adequate resources to finalize the construction sites. On two other sites, the delays were due to lack of capacity of the NGOs to obtain construction material in the local market due to limited experience and presence in Tanzania.

Instalments: The schedules of quarterly instalment payments of all 10 sampled PCAs were set either as percentages of the total agreed amounts or as lump sums – without clear links to the budget of the activities planned for each quarter. As such, the funds received by the partners might not be fully utilized during the quarter, which could result in a delay in the reporting of the direct cash transfer or a refund of the unspent amount.

Agreed action 6 (high priority): The country office agrees to:

i. Establish a process to document the review of the reasonableness of unit costs presented in PCA budgets to obtain good value for money spent.
ii. Increase awareness of the Partnership Review Committee members with respect to the requirements of PCA and service contracts in order to select the appropriate type of agreement either partnership or vendor relationships.
iii. Establish the schedule of instalment payments of PCAs based on the expected expenditures for the activities to be implemented in each quarter.
iv. Revise and strengthen the process for assessing the capacity of new partners and vendors, particularly for projects involving construction activities.

Staff responsible for taking action: Deputy Representative, Chief of operations, Programme Section Chief, Programme Specialist and Supply & Procurement Specialist
Date by which action will be taken: 30 June 2017

Resource mobilization

Country offices are responsible for meeting the funding needs of their country programme and maintaining effective external relations with donors. This includes having an adequate resource mobilization[5] strategy and an action plan, and regularly monitoring their funding status.

The office regularly monitored the funding gaps by programme during CMT meetings. The office had raised US$ 99 million of other resources (OR), or 97 percent of the approved target of US$ 102.3 million, for the five-year programme that ended on 30 June 2016. The *Health*, *Nutrition*, *Child*

[5] 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.

protection and *Social inclusion* programmes were fully funded, while the *WASH* and *Education* programmes met 90 percent of other resources[6] targets. The programmes with major funding gaps were *HIV/AIDS* (US$ 3.7 million or 62 percent) and *Local governance and resilience* (US$ 390,081 or 27 percent). This had reduced the office's capacity to achieve planned outputs in these areas.

For the new country programme cycle covering the period from July 2016 to June 2021, the Executive Board-approved OR ceiling was US$ 129 million. The office had established a resource mobilization strategy in 2015, but had not updated it to take into account the changes in the donor environment by sector and challenges to be faced in the new 2016-2021 country programme. The three major challenges by the time of the audit were: 1) weak interest of donors in funding key UNICEF programmes in Zanzibar following the 2015 election process; 2) low donor response to the refugee emergency, which led to funding only 42 percent of UNICEF budgetary requirements for that emergency for the period 2015-2016; and 3) dependence of fundraising for the 2012-2016 country programme on one major donor that had contributed to 21 per cent of mobilized funds.

At the time of the audit visit in September 2016, the office had drawn up a new resource-mobilization strategy which was pending approval. It included an action plan with fundraising targets and a quarterly monitoring mechanism. However, it did not assign responsibilities and timelines by programme and year.

The audit team met two donors to discuss their relationships with UNICEF. Both donors confirmed good cooperation and a good relationship, and said that UNICEF staff were very responsive and had good technical skills. One donor also commented that UNICEF maintained very good communication, although the other mentioned the need for a more frequent exchange of information.

Agreed action 7 (medium priority): The country office agrees to:

i. Operationalize the resource mobilization strategy by developing an action plan that includes assigned responsibilities, fundraising targets, planned activities and timelines by programme taking into account evolving changes in the donor environment by sector.
ii. Take steps to increase communication of information with donors.

Staff responsible for taking action: Representative, Deputy Representative, Programme Section Chiefs and Resource Mobilization Specialist
Date by which action will be taken: The office reports ii as having been completed; i will be completed by 30 June 2017

Donor reporting

All donor reports were issued on time for the period covered by the audit. The office had a review process to ensure they met UNICEF standards. The two donors met by the audit team confirmed that the donor reports received from UNICEF were well-written. The regional office had reviewed a sample of four donor reports and found them to be exemplary. The audit team reviewed a sample of three donor reports submitted by the office during 2015 -2016 and found that they were generally of good quality, but did note that in one case the difference between the amounts approved in the donor agreement/project proposal and the actual expenditures was not listed and explained.

The audit also reviewed the supporting documentation for 21 achievements reported in the three sampled reports. Nine of the 21 reported achievements were satisfactorily supported. The remaining

[6] For an explanation of the terms "other resources" and "regular resources", please see p2 above.

12 were supported by quarterly activity reports received from implementing partners, but the office had not obtained sufficient assurance that the outputs in these reports were justified and supported.

Agreed action 8 (medium priority): The country office agrees to establish oversight mechanisms and to ensure that:

i. The donor reports review and explain actual expenditures against the amounts agreed in donor agreements.
ii. Relevant documentation needed to support results in donor reports is kept by each responsible programme section.
iii. Results disclosed in activity reports by implementing partners are validated at a field level during programme monitoring visits or by other means, and sources of information are confirmed before the finalization of a donor report.

Staff responsible for taking action: Deputy Representative, Programme Section Chiefs and Resource Mobilization Specialist
Date by which action will be taken: 30 June 2017

Audit observations: Delivering as One

Originally launched in 2007 in eight pilot countries (including Tanzania), the Delivering as One (DaO) approach had been adopted by UN agencies in 55 countries as of September 2016. DaO aims at a more unified and coherent UN structure at the country level. The aim is to reduce duplication, competition and transaction costs.

DaO was further refined in August 2014, when the UNDG[7] issued the *Standard Operating Procedures (SoPs) for Countries Adopting the "Delivering as One" Approach*. These define five core "pillars" of DaO: One Leader; One Programme; Common Budgetary Framework/One Plan Fund; Operating as One; and Communicating as One.[8]

In June 2016, the UN agencies in Tanzania signed UNDAP (United Nations Development Assistance Plan) II (2016-2021); this took into account lessons learnt from UNDAP I (2011-2016). UNDAP II was prepared jointly with development partners, was evidence-based, and focused on the most vulnerable and hard-to-reach populations. UNDAP II identified 12 programme outcomes focusing on four thematic areas. Two additional outcomes included business harmonization (in procurement, ICT, finance and human resources), and communications, outreach, advocacy and partnerships.

The audit team reviewed the governance, risk management and controls over DaO. It also interviewed the Resident Coordinator of the UN system in Tanzania and the head of the UN Sub-Office in Zanzibar, as well as the Representatives and/or heads of three UN agencies operating in-country. The audit observations on DaO are presented below, grouped under the five "pillars" set out by the UNDG.

One Leader: The audit team interviewed the heads of three UN agencies, who expressed satisfaction with the availability and quality of support and guidance from the Resident Coordinator's Office. This was borne out by good collaboration among the UN agencies. Governance structures included working groups or thematic results groups, an Operations Management Team, a Country Communication Group, a UN Country Team (UNCT)[9] and a UN Programme Management Team (UNPMT).

The external evaluation of UNDAP I and discussions with the heads of three UN agencies revealed that there were too many working groups, which were often led at junior level, and the work was mainly process-oriented with little time to discuss and review content, synergies and partnerships. For UNDAP II, in light of the evaluation results, fewer working groups had been established; these were chaired by senior management and did focus on thematic results. As UNDAP II had come into operation only since 1 July 2016, it was too early to assess the effectiveness of these changes. The audit team noted that there was as yet no systematic review process, with defined key performance indicators and targets, to measure and report on the effectiveness of the revised structures.

One Programme: The external evaluation of UNDAP I had noted heavy processes and procedures, and the audit's discussions with the three heads of UN agencies confirmed this. UNDAP II was more

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[7] The UNDG is the United Nations Development Group, formed in 1997 to enhance the effectiveness of the UN's development activities at country level.

[8] The full text of the *Standard Operating Procedures (SoPs) for Countries Adopting the "Delivering as One" Approach* may be found at: https://www.unssc.org/home/sites/unssc.org/files/publications/sops_for_countries_adopting_the_delivering_as_one_approach_-_august_2014.pdf

[9] UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT, which is convened by the UN Resident Coordinator, is found in non-DaO countries as well. Its terms of reference, and division of responsibilities with individual agencies, vary from country to country.

focused and strategic in terms of the scope of UN's work. For instance, the number of outcomes had been reduced significantly from 58 to 12, grouped into four themes. In UNDAP II, the UN agencies were expected to coordinate their work with existing partner/government structures at the sector level to avoid duplication. The audit team was told that, under UNDAP II, geographic factors were built into the joint workplans to enhance coordination at sub-national level.

Under DaO, the only workplans signed with government partners are the UNDAP workplans. To meet its operational needs, UNICEF had developed its own internal agency-specific workplans that contained more detailed information at the activity and input level. These had not been shared with implementing partners. The audit found that the UNDG SoPs did not provide sufficient guidance regarding development and sharing with, and approval by, partners of agency-specific workplans. There was also a lack of guidance regarding agency-specific annual programme reviews at the output level with partners.

There was an on-line results monitoring system (RMS) where each agency entered mid-year and annual progress against expected results. However, the RMS was a heavy process imposed on agencies that overlapped with their own monitoring requirements and was not integrated into the government monitoring systems. This led to duplication of work. The audit was told that a replacement for the RMS was being devised based on lessons learned from UNDAP I. For UNDAP II, the UNCT had planned to focus less on processes and tools and more on strategic issues and the use of monitoring and evaluation findings to improve programming.

The audit team noted that UNICEF was active in helping shape the strategic directions of DaO through discussions with the Resident Coordinator and UNCT members. It supported simplification of some DaO processes to improve efficiency and effectiveness. At the time of the audit, it was also playing a strong role in the joint programme approach. There was good collaboration among UN agencies.

One Budgetary Framework and One Fund: UNDAP I and II reflected the individual agencies' budget contributions in the results framework and the joint workplans. Also indicated were the funded and unfunded portions. The audit team was told that disbursements from the One Fund were done on time for UNDAP I. Narrative statements of progress and funds disbursed and spent were reported in the RMS. The One Fund annual report was shared with the donors to the One Fund.

However, the audit team noted that budgets were mainly determined by each agency and then compiled into the common budgetary framework (CBF) and joint workplans. The evaluation of UNDAP I highlighted the need to critically review agency-proposed budgets and to prioritize funding on most significant strategic issues. The audit team's discussions with the heads of three UN agencies confirmed this. The audit team was also told that, during UNDAP I, funds in the One Fund become more earmarked, and funding was less flexible, towards the end of the cycle. Moreover resource mobilization[10] was primarily left to individual agencies, with little focus by the programme working groups. For UNDAP II there was no joint resource-mobilization strategy, and fundraising had not started at the time of the audit.

Operating as One: There was a business operation strategy and an operations management team were established. Significant efforts were made to harmonize processes across agencies. For instance, the UNICEF office reported efficiency gains stemming from the use of common long-term agreements (LTAs) for procurement. However, additional efficiency gains could have been achieved.

[10] 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.

For example, during most of UNDAP I, which ended on 30 June 2016, UNICEF paid direct cash transfers (DCTs) to the Ministry of Finance through the Exchequer system (the preferred modality of the Government). The Ministry would then transfer the funds from the Government's central bank account to the relevant Government partners of UNICEF at both the national and sub-national levels. However, this had led to significant delays to implementation of activities [redacted]

This affected all UN agencies. Several meetings had been held with the Ministry of Finance and other relevant government bodies [redacted] As a result, UNICEF had decided to transfer funds directly to local government authorities since October 2014, and to Government Ministries since October 2015. At the time of the audit, the office and the other UN agencies were developing a UN common approach to address this longstanding issue.

The audit team also noted the potential to jointly improve management of DCTs through HACT.[11] Under UNDAP I, 68 micro-assessments and 48 audits had been carried out jointly. For UNDAP II, the UN was seeking to strengthen common HACT assurance activities by considering developing joint audit oversight and assurance plans. It was also planning to reform the HACT working group to assist a full roll-out, including adoption of common FACE forms[12] and training of staff and partners as needed.

The audit noted several other areas where greater efficiencies could be achieved through Operating as One:

- *Common procurement:* Although common LTAs had been developed, there was no common procurement plan and procurement was undertaken separately by the UN agencies.
- *Common human resources (HR):* Standard advertisement formats had been established. However, different HR approaches, policies, practices and standards prevented further harmonization.
- *Common information and communication technology (ICT):* The common ICT strategy consisted only of one internet service provider (ISP), routing its services through WFP. UNICEF had not participated in this ICT common service because it obtained lower rates and faster service responses from its own contract. However, the UNICEF office told the audit team that it would consider using the One UN ISP as a secondary ISP for business continuity purposes.
- *Common premises:* UN agencies operate together from One UN House in Zanzibar. In Dar es Salaam, progress was being made with planning to construct a One UN House.

Communicating as One: This pillar had been fully implemented for UNDAP I, with the development of a common communication strategy by the UN Communication Group (UNCG) as well as a joint communication workplan including shared communication tools and events. The UNCG met regularly and reported quarterly progress into the UNDAP Results Monitoring System. The external evaluation and discussions with the heads of three UN agencies in Tanzania concluded that establishment of the UNCG was a good practice: it led to synergies, reduced transaction costs and improved communication within and by the UN. The audit did not identify any area for improvement for this pillar.

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[11] For an explanation of HACT, see observation *Cash transfers to partners* on p5 above.

[12] 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.

Agreed action 9 (medium priority): With the support of the Resident Coordinator's Office, the UN Country Team agrees to review annually the effectiveness of the functioning of key DaO supervisory committees (including the UN Programme Management Team, the Operations Management Team, and various working groups such as thematic results groups and programme working groups), and to implement corrective actions as necessary to increase the capacity for delivering results together (for instance through the establishment and use of performance indicators, targets and expected deliverables).

Staff responsible for taking action: UNDP Coordination Specialist
Date by which action will be taken: 31 March 2017

Agreed action 10 (medium priority): To further support coherence and cost-effective implementation of Delivering as One, the UN Country Team agrees to:

i. With the support of the Resident Coordinator's Office and assistance from the UN Programme Management Team (UNPMT), implement a plan for UN agencies and implementing partners to better coordinate and minimize duplication of work. This plan should include specific activities with assigned responsibilities and timelines, and should address both the sectoral and sub-national levels. Part of its objective should be to ensure adequate focus on strategic issues, and relevant use of monitoring and evaluation findings to improve programming.
ii. With the support of the Programme Working Group of the UN Development Group,[13] provide guidance for:
    a) the sharing of agency-specific workplans that are developed with government partners (at the activity and input level); and,
    b) the agency-specific annual programme reviews that are conducted with partners at the output level.

Staff responsible for taking action: UNDP Coordination Specialist
Date by which action will be taken: 30 June 2017

Agreed action 11 (medium priority): The UN Country Team agrees to, with the assistance of the Resident Coordinator's Office:

i. Draw up a common joint resource mobilization strategy, and explain the One Fund pillar to donors.
ii. Start raising funds as soon as possible to meet the priority needs of the UNDAP II planned outputs, in accordance with the UN Development Group Standard Operating Procedures (SoPs).

Staff responsible for taking action: UNDP Coordination specialist and UNDP Coordination Adviser
Date by which action will be taken: 31 March 2017

Agreed action 12 (medium priority): The UN Country Team agrees to, with the assistance of the Resident Coordinator's Office:

i. Assist full rollout of the Harmonized Approach to Cash Transfers (HACT) and revise the HACT working group structure, including adoption of common Funding Authorization Certificate of Expenditure (FACE) forms and training of staff and joint partners as needed.

[13] The UNDG is the United Nations Development Group, formed in 1997 to enhance the effectiveness of the UN's development activities at country level.

ii. Give priority to a capacity assessment of the Government exchequer system managed by the Ministry of Finance; and identify corrective measures to be implemented by the Government to ensure timely transfer of each agency's funds from the Ministry of Finance to relevant Government implementing partners at the national and sub-national levels.

Staff responsible for taking action: UNDP Coordination Specialists
Date by which action will be taken: Ongoing

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. For Delivering as One, the audit referred to the United Nations Development Group (UNDG) *Standard Operating Procedures (SoPs) for Countries Adopting the "Delivering as One" Approach*.

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. The Representative and their staff then work with the audit team on agreed action plans to address the observations. 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). For the DaO portion of the report, the findings were addressed to the UN country team (UNCT) via the UN Resident Coordinator (as its chairperson). The Resident Coordinator and the UN Development Operations Coordination Office (UNDOCO)[14] review and comment on the DaO-related observations, and work with the audit team on agreed action plans to address the observations. These plans are then presented in the report together with the observations they address.

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.

[14] The UN Development Operations Coordination Office (UN DOCO) is the Secretariat and technical and advisory support unit of the UNDG.

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".]