

Internal Audit of the Central African Republic Country Office

Office of Internal Audit
and Investigations



Report 2018/01

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an internal audit of the Central African Republic (CAR) Country Office. The objective of the audit was to assess the office's governance, risk management and internal control processes. In this audit, the primary focus was on core financial and support functions; safeguarding of key assets; and prevention of sexual exploitation and abuse of children by UN and humanitarian personnel. The audit also reviewed important risks and issues related to programme management. The audit team visited the office from 19 February to 9 March 2018, and the audit covered the period from January 2017 to February 2018.

The 2018-2021 country programme has five main components: *Child survival and development; Primary education and gender equality; Child protection; Water, hygiene and sanitation; and Social inclusion*. The total budget is US\$ 120.4 million, of which US\$ 26.4 million is Regular Resources (RR) and US\$ 94 million Other Resources (OR). RR are core resources that are not earmarked for a specific purpose. OR are contributions that may have been made for a specific purpose or programme, and may not always be used for other purposes without the donor's agreement. The office is expected to raise the bulk of the resources for its country programme as OR, up to the approved ceiling.

In cases where a country office faces a crisis, it may raise additional resources as OR (emergency) funding. In this case the office had an approved OR (emergency) (ORE) ceiling of US\$ 56.3 million in 2018, in addition to the regular OR ceiling quoted above.

The Central African Republic Country Office is in the capital, Bangui. It has four zone offices (Bambari, Bouar, Bossangoa and Kanga Bando). As of January 2018, the office had 157 approved posts, of which 48 were allocated to the four zone offices.

Sectarian violence that started in 2013 uprooted nearly 1.2 million people. Currently, some 687,397 people remain displaced whilst 546,000 people are refugees in the neighbouring countries. More than half of the country's population, the equivalent of about 2.3 million people, are in urgent need of humanitarian assistance, while more than 76 percent of the population continues to live in extreme poverty.

The audit noted several areas which were functioning well. For example, the office had integrated its humanitarian response and its development activities in its workplan, and it maintained a good working relationship with the DSRSG who is also Resident Coordinator and Humanitarian Coordinator.

Peer reviews conducted by teams from the regional office and headquarters during the last quarter of 2016 reported that the country office had made improvements related to human resources management, administration processes, procurement and security of staff and premises. The internal audit concurred that the office had made progress in addressing the risks and issues raised by the peer reviews, but judged that it needed to take additional steps to fully mitigate these risks.

Action agreed following the audit

The audit identified a number of areas where further action was needed to better manage risks to UNICEF's activities. In discussion with the audit team, the country office and regional

office agreed to take a number of measures to address these risks. Three are being implemented as a high priority – that is, to address risks that require immediate management attention:

- Improving risk management practices by raising awareness amongst staff, providing support and guidance on the preparation of the risk and control self-assessment, and establishing accountability for the timely development, implementation and monitoring of the action plans for mitigation of the risks identified.
- Strengthening assurance activities and establishing a third-party monitoring process to cover programme interventions in areas that are inaccessible to UNICEF personnel.
- Further strengthening the office's approach to preventing sexual exploitation and abuse.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that governance, risk management and control needed improvement to be adequately established and functioning.

The Central African Republic Country Office, the West and Central Regional Office (WCARO), Programme Division and OIAI will work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over a number of key areas in the office. In this audit, the primary focus was on core financial and support functions; safeguarding of key assets; and prevention of sexual exploitation and abuse of children by UN and humanitarian personnel. The audit also reviewed important risks and issues related to programme management. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

This report presents the more important risks and issues found by the audit, the measures agreed with the client to address them, and the timeline and accountabilities for their implementation. It does not include lower-level risks, which have been communicated to the client in the process of the audit.

Audit observations

Risk management

UNICEF's Enterprise Risk Management (ERM) Policy is currently being revised. However, the current version requires that offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to the achievement of 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 audit noted the following.

Risk and Control Self-Assessment: The office had updated its RCSA in January 2017, identifying 22 risks, of which 14 were rated high, four medium and four low. However, in many cases the risks were not properly formulated. Risk drivers were described as impacts and vice-versa. The root causes of the 22 risks were not always clearly stated to allow identification of appropriate mitigating actions, and the actions identified were sometimes broad and not clearly linked to the risks they were supposed to address. The responsible staff and timelines for the mitigating actions were not always given, and there was no system to ensure their timely implementation and/or adjustment.

The RCSA had been prepared primarily to comply with the ERM policy rather than as a tool to best manage risks to the delivery of results for children. Also, while the RCSA had been prepared by the Country Management Team, which included programme officers, staff from zone offices and programme assistants from Bangui office had not been involved.

Management of fraud risks: At the time of the audit, the office was managing 13 open cases of fraud (suspected and actual), staff misconduct and irregularities from staff and implementing partners. The audit noted that the office had provided training to staff on ethics, and had recruited a staff counsellor who amongst other things was helping it respond to misconduct risk. However, the office did not have an action plan with assigned responsibilities and timelines to help ensure that staff and other stakeholders are aware how

they should prevent, detect and respond to fraud.

Sustainability of mitigating measures: Various internal control deficiencies had been identified by previous audits, and by peer reviews of the office's finance and administrative processes conducted by staff from the Regional Office and Headquarters. In October 2016, to address the recommendations arising from these audits and reviews, the office had recruited a quality assurance specialist to monitor and report on their implementation. This was a temporary appointment. In preparing the new 2018-2021 country programme, the country office recommended that the position be converted to a fixed-term appointment and explained in its PBR¹ submission that, given the country's high-risk environment, the position was needed for both programme and operations. The office had also recommended that, to safeguard its independence, the position should report directly to the Representative. The PBR had supported the establishment of this position, retitled as Operations Specialist (Internal Controls), but it had recommended that the reporting line should instead be to the Operations Chief.

The internal audit team noted that a majority of the country office's identified exposures to fraud had involved control deficiencies within the Operations section. The audit team therefore advised that the new position of Operations Specialist (Internal Controls) would be most effective if it both had the Representative's personal support and engagement and was independent of staff, such as the Operations Chief, who are directly responsible for detailed risk management. However, the regional office informed the audit team that, in the absence of corporate guidance to the contrary, it prefers to maintain the reporting line of the position to the Operations Chief, as the latter has broad oversight responsibilities over the application of controls in the office.

Country Management Team (CMT): The CMT is the central management body that advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from the Programme and Operations sections, and staff representatives. It is responsible for advising and assisting the Representative in management of risks.

The above-mentioned deficiencies in risk assessment, fraud risk management, and implementation of sustainable mitigating measures indicate that the CMT could have been more effective in these areas. It did have adequate terms of reference, and met frequently during 2017. However, the audit found no evidence that it was periodically reviewing and following up on the key risks and related mitigation measures in the RCSA. There was also insufficient evidence that it was reviewing progress against the office's priorities and the performance of zone offices.

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

- i. In consultation with the West and Central Africa Regional Office, strengthen its risk management practices by raising awareness amongst staff, providing support and guidance on the preparation of the RCSA, establishing accountability for its timely development and implementation, and effective monitoring of risk-mitigation measures.

¹ 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.

- ii. Strengthen the Country Management Team to make it more effective in supporting the office's risk and performance management.
- iii. In consultation with the Regional Office, review the operation of the position of Operations Specialist (Internal Controls) after a reasonable period, including its reporting line, and provide appropriate tools and guidance if necessary to further enhance its effectiveness.

Responsible staff members: Representative and Chief of Operations

Target date for completion: i) and iii) March 2019; and ii) July 2018

Human resources

In February 2018, the office had 157 established posts, comprised of 44 international professionals, 52 national professionals, 59 general service staff, and two UN volunteers. The audit noted the following.

Recruitment: The office completed 50 recruitments in 2017, but as of February 2018 there were 44 vacant positions, of which half were key technical positions (specialist positions in Child Protection, Health, Nutrition, WASH,² Education, Child Survival and Emergency).

This was mainly due to an inability to attract qualified candidates due to the difficult security situation, a factor beyond the control of the office. However, there was also an avoidably protracted recruitment process. As it is operating in an emergency country, the office could have used "fast-track selection", which significantly shortens the recruitment procedure; but instead it adopted the UNICEF global standard (90 days from advertisement to offer letter). In practice, it struggled to meet that standard; based on a sample of eight recruitments in 2017, the audit found that it took an average of 115 days to complete the process.

The audit found that the delays occurred mainly between the closing of advertisement and completion of interviews, an average of 57 days. There was another 27 days on average from the interview of candidates to final selection. This was caused by a combination of factors, including lack of a local talent group (i.e. a pre-selected pool of potential candidates). Another factor was non-availability of staff to conduct interviews and other essential recruitment processes, sometimes due to frequent leave and rest and recuperation breaks called for by the emergency context.

Orientation of new staff: In 2017, the office recruited 50 new staff, of whom half were new to UNICEF. It conducted orientation for some new staff in April 2017, September 2017 and February 2018. However, some staff who assumed duties in 2017 had not taken part, particularly those in the zone offices. Further, the new staff did not receive an overview of the office's operations from key staff members. The office said that it was working on a more comprehensive orientation package on the country programme and UNICEF procedures.

Learning and development: The office had a learning and staff development committee with adequate membership and terms of reference. It had met twice since it was constituted in February 2017; however, it had kept no minutes.

The office had started preparing its learning and development plan for 2018 but had not completed it at the time of the audit in March 2018. Further, the 2017 plan, approved in May

² Water, Sanitation and Hygiene.

2017, had not been implemented, although the audit noted that the office had identified the major bottlenecks to learning and development and had taken steps to address them. For instance, in the first quarter of 2018 it set up a learning budget and a mandatory learning day in each quarter. Further, the office encouraged staff to explore online training opportunities, including Agora and others.

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

- i. Identify the causes of delays in recruiting staff and, with the support of the West and Central Africa Regional Office, take appropriate measures (e.g. using the “fast-track selection” process available in emergency situations) to ensure timely completion of recruitment actions.
- ii. Complete the orientation package and ensure that all new staff members participate in induction activities.
- iii. Take steps to ensure the learning and staff development committee is fully effective in helping meet the office’s learning and development needs.

Responsible staff members: Human Resources Specialist

Target date for completion: July 2018

Protection from sexual exploitation and abuse

UNICEF policy states that sexual exploitation and abuse (SEA) of crisis-affected populations committed by actors who provide aid constitutes the most serious breach of accountability by the humanitarian sector. All UNICEF personnel have a duty to report to UNICEF senior management allegations of sexual exploitation and abuse of children by UN personnel, or by foreign military personnel associated with a UN mandate. The Executive Director has given top priority to this issue and committed to strong action and transparency within UNICEF.

The office had assigned responsibility for implementing prevention and victim assistance activities to the Child Protection Section, with close supervision by country management. It had also appointed focal points in Bangui and zone offices, and prepared an action plan that had been validated by the CMT in January 2018. The plan included financial and technical support for programmatic and internal capacity-building activities.

The office had promptly informed the regional office about allegations of SEA it received. The office had also participated actively in the inter-agency SEA coordination mechanisms, and contributed to the preparation of an information-sharing protocol and a UN SEA action plan, both finalized at the time of the audit.

However, the audit noted the following.

SEA strategy: The office had yet to establish a specific SEA prevention and case management strategy. In planning its SEA-related activities, the office used: the package of basic interventions;³ the child protection communication plan,⁴ drafted in 2016 and yet to be

³ SEA victims are provided with a choice of services from a basic package which includes psychosocial support, a dignity kit, medical referral, socio-economic support, food kit, group counselling, family mediation, and school reinsertion.

⁴ This plan covers sexual exploitation and abuse, recruitment of children soldiers, early marriage and birth registration.

finalized; and the SEA vulnerability mapping of areas where there are military operations. However, the office had not addressed other potentially high-risk areas where humanitarian staff operated and harmful customs/traditions were observed. The strategy was needed to define the minimum support package for victims of SEA, identify areas of vulnerability, define partnership approaches, and define how to integrate any other SEA-prevention activities.

Regarding partnership approaches, the audit noted that the office was partnering with community networks for child protection for regular activities of the programme, such as identification of children for demobilization. However, SEA-related activities were not systematically integrated into the activities of these community networks, which could be instrumental in rolling out community-based complaint mechanisms.

Data confidentiality: To manage information and track assistance to victims, the office had developed a confidential consolidated database for SEA cases that were managed by the Child Protection team. The database included basic biographical data for the victim; information about the interviews, including comments/observations, participants and consent for the interview; the consent for services; type of services received; and service provider. This had enabled the office to document the life cycle of 286 cases of SEA.

The original files of the victims were kept in the premises of the implementing partners. However, the agreements signed with these partners did not include a clause requiring the confidentiality of the victims' data. Furthermore, the office had yet to establish a procedure for the systematic verification of the confidential data entrusted to implementing partners, to ensure that adequate safeguards were put in place to protect the victim's information.

Closure of cases: The office had not clarified the extent and duration of support to be provided to SEA victims, as well as the conditions that should be met to consider a case closed. The office said that it had already considered this question, but could not find a solution at that moment. There is need for a UNICEF-wide approach that is informed by lessons learned and inputs from country offices that have experience in managing SEA cases.

Training: The office had set the end of March 2018 as deadline for all staff to complete the mandatory PSEA e-learning. However, the office lacked a system to monitor the completion of the course by staff.

Agreed action 3 (high priority): To supplement the steps it has already taken, the country office agrees to:

- i. With the support of the West and Central Africa Regional Office and Headquarters, prepare a comprehensive strategy for the protection of children from sexual exploitation and abuse (PSEA), including roll-out of community-based complaint mechanisms as the basis for updating the PSEA action plan.
- ii. Include a clause requiring confidentiality of SEA victims' data in agreement with implementing partners and establish a procedure for regular monitoring of its implementation.
- iii. Implement a system to ensure that all personnel complete the PSEA e-learning course on a timely basis.

Responsible staff members: Chief of Child Protection

Target date for completion: i) December 2018; ii) October 2018; and iii) July 2018

Agreed action 4 (medium priority): Programme Division (Child Protection Section) agrees to develop guidance on the extent and duration of support to be provided by country offices to victims of sexual exploitation and abuse.

Responsible staff members: Senior adviser, Child Protection
Target date for completion: September 2018

Resource mobilization

An office is expected to raise the bulk of the resources for its country programme as Other Resources (OR), up to the approved ceiling – which in the case of UNICEF in CAR is US\$ 94 million for the 2018-2021 country programme. However, where a country office faces a crisis, it may raise additional resources as OR (emergency) funding, ORE. In this case the office had an emergency funding requirement of US\$ 56.3 million in 2018, in addition to the regular OR ceiling quoted above.

The office explained in its 2017 annual report that funding shortfalls hampered the delivery of critical services and affected the funding of key positions. There was also a funding gap of US\$ 29 million against the 2017 emergency funding requirement of US\$ 53.6 million - notably in Education (79 percent ORE funding gap), Health and HIV/AIDS (77 percent ORE funding gap) and WASH (70 percent ORE funding gap).

To address the above funding gaps, the office had developed a resource mobilization⁵ strategy in April 2017, but this strategy did not set specific fundraising targets and strategies to address the existing funding gaps for each underfunded output. The office had recently established a fundraising task force to address the gaps in the resource mobilization strategy. However, it had no mechanism in place to regularly monitor progress in fundraising, including the funding status of programme outputs against established budgets. The office did have a system in place to track ongoing funding proposals submitted to potential donors. However, these proposals were not regularly monitored.

There was also the need for the office to sharpen its funding proposals. In a meeting with a key donor who had recently received two funding proposals, the audit team was informed that the proposals were not clearly linked to the needs of the country programme.

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

- i. With the support of the West and Central Africa Regional Office, revise the resource mobilization strategy to include fundraising targets and specific actions to address the underfunded areas.
- ii. Establish a mechanism to regularly monitor the funding status of programme outputs against established budgets and the status of funding proposals to donors, and to ensure mobilized resources are properly allocated.
- iii. Update the quality assurance process to ensure funding proposals are adequately aligned with the priorities of the country programme.

Responsible staff members: Representative, Deputy Representative, Chief Communication

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.

and Fundraising and Reporting Specialist
Target date for completion: July 2018

Work planning

In line with UNICEF practice for country offices, workplans were prepared jointly with Government and NGO partners. The workplans included both regular programme and emergency activities. The planning process involved consultation with implementing partners at the central, regional and community levels. It also included consideration of various operating conditions in terms of security, accessibility and presence of Government structures at the decentralized level. At the end of 2017 the office had issued guidance on the preparation of the 2018-2019 workplan. The audit noted the following.

Zone offices: Programme staff in the zone offices said that their inputs were not sufficiently considered in the preparation of the consolidated workplans. They felt key programmatic decisions were made by the country office in Bangui without consultation with them. There was no evidence that the office had reviewed the zonal workplans to ensure they were in line with the office's consolidated workplans and would contribute to the achievement of the planned results in them.

Budgeting: The audit noted significant discrepancies between the budgets in the workplans and the budget ceiling in the 2018-2021 country programme document (CPD) and the HAC⁶ funding requirement. For example, the budgets in the workplans for Education and Child Survival and Development (CSD) programmes were 30 percent (US\$ 7.8 million) and 22 percent (US\$ 6.9 million) lower than their respective planned amounts in the CPD and HAC. The programme sections said they did not receive clear guidance from the country office on how to establish budget estimates – especially given that the ORE ceiling was not included in the CPD, although it represented a significant proportion of the workplan budget (65 percent for 2018).

Further, the office did not monitor the workplans' estimated budget per funding source against the planned amounts. It could not therefore determine whether the budget estimates were aligned with the approved budget ceiling in the CPD and the funding requirement in HAC. This increased the risk of under-estimating resource mobilization needs.

Emergency: The country was declared a Level 2⁷ emergency in July 2015 and the funding requirement for the 2018 HAC has been put at US\$ 56.5 million. However, a review of the planning for emergencies showed that the process for the identification and selection of emergency activities was not clearly defined; neither were the roles and responsibilities of the emergency section, clusters and sub-clusters. As a result, the workplans and budgets were not always aligned with the HAC. For instance, one programme activity had a target of crisis-affected people of 400,000 in 2018 in the workplan, while the target in the HAC was 600,000.

Workplan activities: In workplans signed with Government partners, the planned activities

⁶ HAC stands for Humanitarian Action for Children. An HAC is an appeal that UNICEF launches for assistance for a particular crisis or emergency response, and will state how much UNICEF thinks it needs to raise for a given situation. The appeals page is at <https://www.unicef.org/appeals/>; the page for the CAR can be found at <https://www.unicef.org/appeals/car.html>.

⁷ A Level 2 emergency is defined as a situation where the emergency is such that a country office needs additional and prioritized support from other parts of the organization to respond, and where the regional office must provide dedicated leadership and support.

were generally formulated in broad terms. In a meeting with a Government partner responsible for the implementation of significant aspects of three UNICEF programmes, the audit team was told that the tasks required to implement the planned activities were agreed on an *ad hoc* basis with the Government partner. There was no system in place, with assigned responsibilities, to assist operational planning by the partner.

The office had a good example of an operational workplan with detailed tasks that was used by a programme section as a basis for regular coordination with a Government counterpart. However, this good practice was not applied by the other programme sections.

Agreed action 6 (medium priority): The office agrees to:

- i. Update the planning process to ensure inputs from zone offices are duly considered in the office-wide workplans, and that there is clear guidance on workplan budgeting and selection of emergency preparedness and response activities.
- ii. Establish a rigorous quality assurance process over the preparation of workplans to ensure that: they adequately reflect the approved ceiling and the emergency funding requirement; zonal internal workplans are validated against the office-wide workplans; and emergency activities in the workplans are aligned with those in the Humanitarian Action for Children appeal.
- iii. Implement a system, with assigned responsibilities, to assist operational planning by Government partners.

Responsible staff members: Chief Planning, Monitoring and Evaluation and Chief of Field Operations

Target date for completion: December 2018

Partnership with NGOs

NGOs were key implementing partners of the country programme. In 2017, they received 76 percent of the US\$ 17 million of direct cash transfers made by the office. The audit noted the following.

Partner selection: The office used two methods to select NGO partners, open selection and direct selection. Open selection allows all potential partners to respond to an expression of interest. It was mostly used when international NGOs were involved and the agreements greater than US\$ 1 million.

Direct selection involves the office going straight to a partner it feels would be suitable. Direct selection was used when national NGOs were involved and the amounts were smaller than US\$ 1 million. The office said that the selection of national NGOs from January 2017 was based on a mapping of the NGOs and an analysis of their comparative advantages prepared in 2016. It also stated that it had strengthened its direct selection process by requiring reference checks with other UN agencies, validation of the selected NGOs, and visiting the NGO in case of first partnership. However, the audit could not find evidence that this improved process was followed in the selection of two national NGOs reviewed. Their files did not include mapping of the NGOs and the analysis of the comparative advantages of the NGOs selected. This was because the office had not formalized the improvements in the selection process and taken steps to ensure compliance with it.

Evaluation of completed PCAs: A review of nine sampled completed PCAs showed that the office had not conducted final evaluations of the cost-effectiveness of the partnerships. At the time of the audit, the office was investigating pending claims for over-expenditures and reimbursements submitted by several NGOs. These claims related to 10 longstanding PCAs from 2013 to 2016. High turnover of staff in both UNICEF and the NGOs significantly constrained the office's capacity to resolve the contentious PCAs.

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

- i. Update its standard operating procedures on programme cooperation agreements to reflect the new, improved processes in the selection of NGOs and requirements for the documentation of mapping and analysis of comparative advantages of the NGOs.
- ii. Evaluate completed programme cooperation agreements, to ensure any pending issues are properly documented for timely resolution.

Responsible staff members: Deputy Representative, Operations Specialist (internal controls), Heads of Sections and Budget Officer

Target date for completion: December 2018

Assurance on the use of direct cash transfers to partners

Cash transfers are the largest input of the country programme. In 2017, the office transferred US\$ 17 million to 76 implementing partners, including 43 rated as high-risk. The total transferred comprised US\$ 13 million (76 percent) to 54 NGOs and US\$ 4 million (24 percent) to 22 government partners. In 2017, direct cash transfers (DCTs) comprised 41 percent of the total expenditure of the office.

The office had implemented the Harmonized Approach to Cash Transfers (HACT) in June 2015. HACT is a set of procedures used by several UN agencies, including UNICEF, to ensure that cash transfers to partners are used as intended. Its principle is to do a risk assessment of the specific partner, and manage the relationship with the partner accordingly. This is meant to cut down on bureaucracy, but without reducing vigilance in cases where fraud seems more likely. HACT procedures include a micro-assessment of the partner to determine the risk level, which should then determine the level of assurance activities used with that partner. These activities include spot checks, scheduled audits, special audits where necessary, and programmatic visits; the latter review progress on funded activities.

The CAR Country Office had established a unit in 2016 and a task force in 2017 to support HACT. It had also prepared an annual plan of micro-assessment and assurance activities, based on UNICEF's HACT tool, to calculate the required minimum assurance activities. In 2017 and 2018, the office carried out programmatic visits, spot checks and HACT audits to obtain assurance on whether DCTs to partners were used for the intended purposes. The audit focused its review on programmatic visits and spot checks and found the following.

Programmatic visits: In 2017, the office completed 83 (65 percent) of the 128 planned programmatic visits. The audit noted the need for improved planning to improve this rate, as the HACT Unit was not explicitly considering the priorities and workload of programme sections when it prepared the monthly plans for programmatic visits. Further, due to the dire security situation (at the time of the audit, several regions had been inaccessible for three to 12 months), the office was unable to make planned programmatic visits to some regions of the country. The office attempted to contract third-party monitors to review and support

implementation of key programme activities in inaccessible areas (except for the WASH activities, which were monitored by the regional departments of the Ministry of Hydraulics), but had been unsuccessful as of the time of the audit.

Spot checks:⁸ The audit reviewed a sample of three spot checks and found the quality of these to be inadequate. Several spot check findings were not clearly formulated and recommendations did not address the root causes of the problems cited.

The office had started taking action to improve the quality of spot checks. For instance, the HACT Unit had begun reviewing draft spot-check reports before they were finalized. However, while the office said staff in charge of spot checks had been trained and coached, it admitted that further improvements were required. At the time of the audit, the office had not identified the key areas where coaching was needed to improve the quality of spot checks.

Follow-up of the results of HACT assurance activities: Programme staff interviewed did not have a clear understanding of how to manage the many observations and recommendations stemming from the HACT assurance activities. The lack of an established process and/or a tool hampered the office's capacity to systematically use the results of assurance activities and to monitor the status of implementation of HACT-related recommendations addressed to partners. The office said at the time of the audit that it was developing a process.

HACT training: The audit team met two partners who confirmed that they had attended HACT training provided by the office. However, they had not received a HACT reference guide, and did not demonstrate a good understanding of HACT. The audit could not ascertain the quality of HACT training because of a lack of documentation.

Agreed action 8 (high priority): The office agrees to:

- i. Update the planning process and clarify accountability for programmatic visits to integrate the workload and priorities of programme sections.
- ii. Establish a third-party monitoring process covering the areas of programme interventions that are inaccessible to UNICEF staff.
- iii. Increase training, supervision and support to staff to improve the quality of spot checks.
- iv. Complete the development of a process to systematically use and monitor key results stemming from HACT assurance activities.
- v. Revise the strategy and approach for the training of implementing partners.

Responsible staff members: Deputy Representative, Chief Planning, Monitoring and Evaluation and Heads of Sections

Target date for completion: December 2018

⁸ A spot-check is a review of financial records to obtain reasonable assurance that amounts reported by implementing partners on the Fund Authorization and Certificate of Expenditures (FACE) form are accurate. Spot checks are performed in the office of implementing partners where financial records are kept. A spot check is not an audit. Therefore, the extent of expense testing is generally lower (i.e. covering a single FACE form or quarter) than what would be undertaken for an audit.

Contracting

The office issued contracts for goods and services for a total value of US\$ 12.5 million from January 2017 to February 2018.

Solicitation and bidding: Despite efforts made in 2017 to improve its contracting processes, the office did not always ensure that at least three valid bids had been obtained prior to adjudication. In two of the eight samples reviewed, the office had received only two acceptable offers but decided on a bid to accept anyway. It did not record the reasons for its decisions.

Contract review: The office had standard operating procedures to guide its contracting process. However, the audit noted gaps in defining deliverables and payment terms. For instance, in a sample of contracts, some expected deliverables were not always specific and measurable. Further, the payments were not clearly linked to deliverables, making it difficult to determine when payments were due. Payments were made upon contractors' requests, which triggered an estimate of the work completed up to the date of the requests. For instance, in one contractor's request, 38.7 percent of the contract value was paid to the contractor because 38.7 percent of the work was estimated to have been completed.

The office said it had adopted this method only for construction contracts, because contractors did not receive any advance payments, and the operating environment for the construction companies (unreliable country-wide financial system, very high price of construction materials) was unusual and challenging. Nonetheless, the audit team noted that contracts without time-bound and specific deliverables increase the risk of delayed completion, abandonment and disputes that could result in financial loss to UNICEF.

Contract review committee (CRC): The CRC advises the Representative on contracts for the procurement of services and programme supplies above US\$ 50,000. The CRC aims to review whether the proposed contract award recommendations are well justified, and the terms and conditions of the proposed contracts adhere to UNICEF Financial Regulations and Rules. Although the CRC had suitable membership, it did not detect the weaknesses noted in the above paragraphs, with respect to minimum number of bids and the deliverables and payment terms of construction contracts.

Implementation of contracts: Contracts are legally binding only when signed by both parties (UNICEF and a contractor). The implementation of contracts should not commence before signature. Five out of 12 sampled contracts awarded in 2017 started before they were signed, with delays in signature ranging from 21 to 75 days. The office said that it had discontinued this practice as of August 2017. However, two of the sample reviewed related to contracts entered into in October and December of 2017. This practice could increase the risk of disputes, and of tasks not being performed.

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

- i. Review the current construction contracts process to ensure that deliverables are specific and time-bound, and the linkage between payments and deliverables is clear.
- ii. Establish a quality assurance review mechanism to ensure the CRC review focuses on the minimum number of bids, the quality of deliverables and payment terms.
- iii. Train staff on the proper application of controls, including those related to oversight and the implementation of contracts.

Responsible staff members: Supply Officer and Construction Engineer
Target date for completion: September 2018

Programme supplies and warehousing

The office procured programme supplies with a total value of US\$ 9.6 million from January 2017 to February 2018. It maintained warehouses in six locations (two in Bangui and one in each of the four zone offices). The value of supplies stored in the warehouses at the time of the audit visit was US\$ 2.6 million.

Planning: The office-wide procurement plan for 2017 was incomplete. For instance, it only included procurement of programme supplies, and omitted the procurement of services. Further, the planned supplies were not linked to the programme workplans. The office said it had planned to address these issues in the 2018 procurement plan, but at the time of the audit this was not completed or available for review. Inadequate procurement planning could lead to unnecessary procurement and prolonged storage of supplies in the warehouse.

Timeliness of delivery: The audit found significant delays in the delivery of programme supplies by six out of eight sampled vendors in 2017. The delays ranged from 23 days to 138 days after the agreed delivery dates. Late delivery of supplies could delay the implementation of programme activities, or render the supplies obsolete or no longer needed.

Even though the office instructed staff in July 2017 to systematically assess the performance of vendors, the performance evaluation of these vendors had not been done in five cases. These vendors had delivered the goods and services after the instruction to always assess vendors was issued. The results of the evaluations could be used to establish more realistic target arrival dates and feed into subsequent procurement awards.

The office stated that two of the six cases with significant delays related to global long-term agreements (LTAs) that would be evaluated by the end date of the LTAs.

Age of supplies: The audit found that US\$ 537,000-worth of non-prepositioned supplies had been kept in the warehouse for over nine months. This included supplies valued at US\$ 470,000 that had been in the warehouses for over 12 (and up to 24) months. This was caused by a combination of factors, including lack of distribution plans, and the insecurity in some parts of the country, which prevented the office from implementing planned activities in the affected areas. Prolonged storage of supplies in the warehouse could lead to increased risk of theft; delayed and/or non-implementation of programme activities; obsolescence; and increased inventory carrying costs.

Storage conditions: The audit visited the warehouses in Bangui where health and nutrition supplies were kept. These were equipped with temperature monitoring devices. However, the temperatures of the warehouse were sometimes beyond those prescribed by the manufacturers for those supplies. For instance, a review of the temperature log for the preceding two months showed that health and nutrition supplies like Plumpy'nut⁹ were stored sometimes at temperatures between 41 and 42.3 degrees; this was significantly above the prescribed 30 degrees centigrade.

In another example, some stored medicines with an estimated value of US\$ 37,000 were

⁹ A peanut-based read-to-eat therapeutic food used in the treatment of malnutrition.

supposed to be kept at less than 8 degrees. However, the four warehouses in the zone offices were not equipped with thermometers, so the warehouse staff were unable to confirm whether or not supplies, including therapeutic foods and drugs, were kept at the appropriate temperature. This was due to inadequate oversight of warehouse management.

End-user monitoring: The office lacked a robust end-user monitoring and beneficiary feedback mechanism. This is needed to ensure programme supplies are appropriate, are used for the intended purposes and are delivered to the right beneficiaries (and therefore reduce risk of fraud or theft), and to receive feedback from beneficiaries.

Agreed action 10 (medium priority): The office agrees to:

- i. Establish rigorous monitoring controls over supplies delivery, and ensure that major suppliers are evaluated and the results are used as key input for subsequent contract awards.
- ii. Set standards to minimize long outstanding non-prepositioned supplies in the warehouses.
- iii. Establish adequate mechanisms to ensure supplies are stored at appropriate temperature as prescribed by the manufacturers.
- iv. Institute a robust mechanism for end-user monitoring, to ensure that programme supplies are used for the intended purpose and delivered to the right recipients, and to gather feedback from the beneficiaries.

Responsible staff members: Supply Manager and Finance Specialist

Target date for completion: December 2018

Asset management

The office had done a physical inventory count of its assets in October 2017, and the assets were properly recorded in its books. However, the audit noted the following.

Insurance: In four of its five locations, the office had not insured the contents of UNICEF buildings against fire and other hazards.¹⁰ It estimated the total replacement cost of the contents at US\$ 1.2 million.

Guesthouse: The office is expected to ensure the rental rates of their guesthouses adequately cover initial and running costs (excluding security), considering the local context and the need to harmonize rental rates with other UN agencies as appropriate.

At the time of the audit, the office had two guesthouses. However, it could not provide evidence to demonstrate that the rental rates of the Kaga Bandoro guesthouse were sufficient to cover annual expenditures. The office said it had put in place a systematic process to keep track of actual expenditures of its guesthouses, starting in 2018.

Agreed action 11 (medium priority): The office agrees to:

- i. Ensure, in consultation with the Division of Financial and Administrative Management, that the contents of its premises are adequately insured against fire and other hazards.

¹⁰ The value of the contents in the fifth location was less than US\$100,000, the required minimum for insurance.

- ii. Put in place a system to analyze the adequacy of rental rates of each guesthouse to ensure rental revenues cover at least all relevant expenditures.

Responsible staff members: Chief of Operations

Target date for completion: December 2018

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 clients 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 client's own (for example, a regional office or headquarters 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 auditing 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 office's governance, risk management and internal controls 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, the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.