Internal Audit of the Ethiopia Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/06

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Ethiopia Country Office. The audit sought to assess the office's governance, programme management and administrative and operational support. The audit team visited the Ethiopia Country Office from 5-29 November 2012. The audit covered the period from January 2011 to October 2012.

Ethiopia is a federal republic; there are nine regional states, plus two chartered cities (Addis Ababa and Dire Dawa). The population was an estimated 84 million in 2012. Over 52 per cent of the population are under 18 years of age. Gross national income per capita was US$ 400 in 2011 (World Bank), and Ethiopia ranked 174th out of the 187 countries on the UNDP Human Development Index for 2011. Since 2005, there has been a significant reduction in under-five mortality rate, from 133 per thousand live births in 2000-2005 to 88 per thousand in 2006-2011 (Ethiopian Demographic and Health Survey 2011). Access to primary education for years 5-8 also improved, from 37.6 percent in the 2005/06 academic year to 47.3 percent in the 2010/11 academic year.

The UNICEF country office, which is based in Addis Ababa, is one of the largest UNICEF country offices, with funding of over US$ 140 million per annum. It maintains seven zone offices (in Semera, Bahir Dar, Gambella, Awassa, Jijiga, Mekelle, and Oromiya), covering eight regions, including the Somali Region. The country programme for 2012-2015 consists of four main programme components: survival and health; learning and development; protective environment and disaster risk reduction (which includes protection of children and reduction in vulnerability); and analysis, communication and participation. The country programme has a total budget of approximately US$ 447 million. Following the Horn of Africa drought crisis, the office prioritised resources and attention in responding to the emergency. In August 2011 the Executive Director declared this crisis to be a level 3 emergency, meaning that the organisation's resources should be mobilised on a global scale.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Three of them are being implemented as a high priority. They related to the following.

- The audit reviewed the implementation of the Harmonized Approach to Cash Transfers (HACT) and found that no macro-assessment or micro-assessments had so far been carried out during the current programme cycle. Also, although micro-assessments had taken place during the previous country programme, the results had not been used to guide decisions on how best to make cash transfers. No scheduled or special audits had been conducted. The office will give priority to HACT implementation and will assign responsibilities clearly to ensure HACT is effectively implemented.

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- Requests for cash transfers had inadequate supporting documentation. Also, documentation for some financial transactions could not be found. Cash transfers were requested late and processed slowly, causing a double delay. The audit also expressed concern regarding the validity of some long-outstanding bank transfers. The office intends to increase staff awareness of policies and procedures, strengthen the financial-transaction processes, and improve the oversight mechanism.

Conclusion

The audit concluded that control processes were established and functioning well in the area of governance, but that there were opportunities for improvement in the areas of programme management and operations support. The measures to address the observations made are presented with each observation in the body of this report. The Ethiopia country office and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) April 2013

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 addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraph that begins each of these sections explains what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following*:*

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had established a structured induction programme for new staff, which was systematically applied; it included topics on ethics and code of conduct. Advisory and statutory committees generally functioned well. The office had defined performance indicators and monitored actual performance against them regularly.

The office had carried out a major project to reduce the number of temporary assignments (TAs) and review the number of TAs that should be converted into fixed-term posts. As a result, the number of TAs fell from 200 to about 20-30 TAs depending on need, while established posts rose from 278 to 388.

Risk management

The audit team verified whether the office had systematically managed the risks and opportunities that could affect the achievement of its objectives, in accordance with UNICEF's enterprise risk management (ERM) policy.

The policy includes performance of a Risk and Control Self-Assessment (RCSA), in which an office or unit reviews risks and the measures that should be used to mitigate them. The Ethiopia office had finalised its RCSA in the last quarter of 2010, and had developed an action plan; however, it had not fully implemented that plan. Moreover, senior staff changes between August 2011 and August 2012 meant that the RCSA had not been kept fully up to date. The Representative had joined the office in August 2012, and the Chief of Operations in August 2011, and the deputy Representative had been serving as both deputy and the officer in charge; meanwhile the office did not give sufficient priority to the implementation of ERM. The office informed the audit that it was hiring a risk-management specialist to support the Chief of Operations in producing an updated RCSA.

Agreed action 1 (medium priority): The office agrees to give priority to the conduct of an office-wide risk and control self-assessment with all zone offices and the office in Addis Ababa, and to update the risk and control library. The office will complete the hiring of the risk-management specialist.

Action stated by the office as completed. The responsible staff members are the Chief, Field Operations and Emergency, and the ICT Manager.

Governance area: Conclusion

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

2 Programme management

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

- **Resource mobilisation and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The country programme was informed by a comprehensive analysis of the situation of children. The office had worked with the Ministry of Finance and Economic Development to produce a detailed analysis, *Investing in boys and girls in Ethiopia – Past, present and future 2012*. The country programme also reflected Ethiopia's 2011-2015 development plan, and the 2012-2015 United Nations Development Assistance Framework (UNDAF) and its related action plan. The annual workplans had been developed jointly with implementing partners and were properly endorsed by them. The office had conducted adequately planned evaluations of significant programme components; it had also disseminated the results and had responded formally to them.

Implementation of annual workplans

UNICEF offices draw up annual workplans with their implementing partners. These describe the activities to be implemented and the associated budgets, and should be the basis on which the partners request cash transfers. Programme supplies (such as vaccines) should also be requested by partners according to the agreed workplan. The audit verified whether the annual workplans approved by UNICEF and implementing partners had indeed been used as the basis for requesting inputs from UNICEF; any reservation of funds; the planning and requisition of supplies, contracts, travel authorisations and cash inputs; and disbursements (payments). The Funding Authorization Certificate of Expenditure (FACE) form, used by the partner and UNICEF to request and liquidate cash transfers, should mirror the workplan.

The audit found that the workplan clearly defined the programme component and intermediate results. The workplan specified the activities relating to each intermediate result, the responsible partners, the budget and the timing of the activities. It also itemised the programme supplies to be procured and the corresponding budgets. However, the audit reviewed samples of requests for cash transfers and for programme supplies, and made the following observations.

Release of cash transfers. Eight of the 12 sampled requests for cash transfers did not correspond to the activities in the approved workplan. For instance, the request from one NGO indicated the number of instalments instead of the activity for which the instalment payments were being requested. Further, the amounts requested and paid for the nine of the 12 sampled requests did not align with the budget as agreed in the workplan. In one of these nine cases, the amount requested and paid at the end of the fourth quarter was the aggregate budget for the four quarters. The above shortcomings created risks that activities implemented might be other than those in the approved workplan. They also made it harder to monitor implementation, as field monitoring is carried out against the activities and cash transfers listed in the FACE form – and these differed from those in the workplan.

Provision of programme supplies. The procured programme supplies were in accordance with the workplan, but purchase requisitions were raised late. Eight of the 11 sampled purchase requisitions were raised and authorised either during or after the quarter the programme supplies were to be procured and made available for the activities. The delay in raising and authorising purchase requisitions is likely to have delayed completion of activities.

The above weaknesses arose because implementing partners and the UNICEF office staff had insufficient knowledge of UNICEF policies and procedures on cash transfers and the need for them to align with the agreed annual workplans. There was also insufficient appreciation of the need to request programme supplies on time and in accordance with the timeframes given in the workplans. There was also limited supervision by the office. The office had conducted training on cash-transfer procedures during August and September 2012, but this had only been for the government implementing partners.

Agreed action 2 (medium priority): The office agrees to train implementing partners and office staff on relevant aspects of cash transfers, and strengthen the supervision of the execution of the workplan to ensure that requests for cash transfers and supply assistance are submitted by the implementing partners on a timely basis and that they are in accordance with the agreed/approved workplan. The office intends to:

i. Extend the training on cash-transfer procedures to other implementing partners besides the government partners, including the civil-society organisations, and to UNICEF office staff.
ii. Clarify the procedure on the submission and processing of requests for cash transfers and supply assistance, including lead times for the submission of requests, guidelines on the preparation of requests to conform with the agreed/approved workplan, and staff accountability on the certification, approval and posting of

requests for cash transfers and authorisation of supply requisitions.

iii. Institute periodic reviews to monitor adherence of implementation to established agreed workplans.

Action in progress and expected to be completed by June 2013. The responsible staff members are the Deputy Representative and the Planning Manager.

HACT implementation

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries.

HACT exchanges a system of rigid controls for a risk-management approach to cash transfers to implementing partners. It aims to reduce transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

HACT also requires assurance activities regarding appropriate use of cash transfers. These include spot checks of partner implementation, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Field monitoring/spot check of implementation is also part of the assurance process. Unfavourable findings from assurance activities should result in a review of the procedures used with that partner. A key component of HACT is that the risk assessments and assurance activities should be carried out in cooperation with the other UN agencies that have also adopted HACT.

The office's total cash transfers to implementing partners amounted to US$ 69 million in 2011, and US$ 45 million during 2012 (as of 22 November). However, no macro-assessment had yet been conducted for the new country programme cycle. The audit also noted the following.

Micro-assessments: No micro-assessments of implementing partners had yet been conducted for the 2012-2015 country programme cycle. The last assessment of government implementing partners had been in May 2007, while NGOs had been micro-assessed during the previous country programme cycle (2007-2011). Any new NGOs that the office had worked with during 2012 had been assessed using a checklist intended for implementing partners receiving less than US$ 100,000, even though the value of the agreements were over US$ 100,000 – meaning that a more detailed checklist should have been used. At the time of the audit (November 2012), the office had concluded a long-term agreement with two firms to conduct micro-assessments. According to the office, the work was due to start in December 2012.

The office did not systematically use the results of the micro-assessments done during 2007-2011 to guide decisions on which method to use for cash transfers, or to choose the most appropriate assurance activities. The implementing partners were provided with direct cash transfers regardless of the risk rating.

Assurance activities: The office had not developed an assurance plan for either the 2007-

2011 or the 2012–2015 country programme cycles specifying the type and frequency of assurance activities for each implementing partner. Neither had any scheduled audits or special audits been conducted; these should be done on the basis of the level of funds transferred or the risk ratings noted in the micro-assessments. While there were spot checks, they were fragmented and *ad hoc*. Also, as noted below, the findings from field-trip monitoring were not completely collected and analysed (and the quarterly review of programme implementation had not been systematically carried out in 2012).

The office needed to accord sufficient priority to, and clearly assign responsibilities for, implementation of HACT activities so as to obtain reasonable assurance on the use and reporting of cash transfers by implementing partners.

Agreed action 3 (high priority): The office agrees to give greater priority to implementation of the Harmonized Approach to Cash Transfers (HACT) and to assign clear responsibilities and accountabilities accordingly. It plans to:

i. Assign a dedicated team to spearhead HACT implementation within the office and assign a senior staff member to represent the office in the United Nations Country Team (UNCT) HACT working group.
ii. Include HACT implementation as a standing agenda in the country management team meetings until HACT is fully implemented.
iii. Develop and implement a comprehensive plan covering micro-assessments, selection of methods of cash transfer and assurance activities.

Action in progress and expected to be completed by June 2013. The responsible staff members are the Deputy Representative and the Chief of Operations.

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Field monitoring

The audit reviewed whether field monitoring of programme implementation was carried out. Such monitoring should include the use of inputs, work schedules and planned outputs, to confirm proper implementation of programme activities and ensure that deficiencies can be promptly detected and addressed. The office had issued guidelines and procedures for monitoring programme implementation and for preparing monitoring-trip reports. However, the audit noted some opportunities to strengthen effectiveness of the field-monitoring system.

The office consolidated and analysed the major findings and recommendations stemming from field-monitoring trips. However, this only applied to the trip reports submitted by the staff members to the trip-report mailbox. These may not necessarily have been representative of the field-monitoring trips conducted during the period. There were over 400 staff in eight locations, many making trips that may or may not have been related to field monitoring, and some staff members may not have submitted their reports to the mailbox; and the office did not have a systematic way to identify field-monitoring trips that had taken place in a given period. The results of some monitoring trips were therefore excluded.

The major findings and recommendations from field-monitoring trips were not systematically discussed and reviewed either in programme or country management team meetings. Also, where significant recommendations and follow-up actions arose from field trips, the office did not track their implementation until their completion.

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

i. Identify all field monitoring trips during each month and follow up with staff members who have not submitted their trip reports.
ii. Establish a database of major findings and recommendations and track the implementation of the agreed actions.
iii. Include the major findings and recommendations from field-monitoring trips as a standing agenda in programme meetings, and present unresolved issues during the country management team meetings.

Actions in progress and are expected to be completed by the office in June 2013, after which they will be ongoing. The responsible staff member is the Planning Manager.

Programme management: Conclusion

Based on the audit work performed, OIA concluded that the controls and processes over programme management, as defined above, needed improvement to be adequately established and functioning.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following*:*

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had an adequate system for tracking the distribution of equipment to staff, and recovered costs associated with the private use of telephone. It also had well-established service-level agreements and long-term agreements with local companies for the maintenance of corporate facilities and equipment, including vehicles.

The office had also developed and tested a comprehensive business continuity plan, and, in collaboration with the Division of IT Solutions and Services, was in the process of implementing a solution for the systematic management and deployment of configuration updates for the ICT services.

The bidding process for the procurement of supplies was well documented and properly conducted, and procurement was submitted to the contract review committee when its value reached the appropriate threshold.

Assignment of responsibilities and segregation of duties

The audit reviewed whether tasks and/or business process were assigned to staff in such a way as to ensure appropriate segregation of duties, so as to prevent errors and fraud.

In 2011, the Representative had issued a manual table of authorities (ToA) to delegate authorities to the staff members. With the implementation of UNICEF's new management system, VISION, in 2012, the office undertook a number of activities to analyse functional roles and map them to staff in the new system. However, the introduction of VISION resulted in a number of challenges; thus the office did not formally sign the new ToA until July 2012 and, at the time of audit, had not issued the assignment of functional roles to staff. In effect, the staff members had been provided with rights in VISION without any formal authorisation of their functional roles.

Moreover, the ToA issued in July 2012 had some shortcomings in terms of completeness and appropriateness of assignment of authorities and responsibilities. For example, it did not assign the approving officers for the various types of payments transactions. No one was assigned in the ToA to post cash receipts. Also, supply and logistics staff members were assigned with the incompatible functions of receiving and certifying. Further, the audit verified the registration in VISION of the delegated authorities as per ToA, and noted several discrepancies. For example, several individuals delegated in the ToA as receiving, certifying and approving officers were not provided with rights in VISION to exercise their functions – but those rights had on occasion been assigned to staff members who did not require them.

There had also been inadequate segregation of duties among staff members in the finance area, irrespective of the ToA. For example, the staff member in charge of the preparation of bank reconciliation statements could post bank statements, clear matching items, and approve the bank reconciliation statements. The same staff member could also park and post payment transactions and perform payment runs. In addition, the same staff member could also adjust general ledger account balances in the system. Three other finance staff could also park and post payment transactions. They could also perform payment runs, and had done so despite not being designated as paying officers, contrary to UNICEF's Financial and Administrative Policy. The staff member in charge of cash receipts also posted customer invoices, which is again contrary to policy.

Agreed action 6 (medium priority): The office agrees to implement mechanisms to comply with the prevailing financial and administrative policy on internal control, ensuring that authorities are clearly and formally delegated to staff members, and the incompatible functions are adequately segregated. It intends to:

i. Review the delegated authorities and mapping of functional roles to ensure adequate segregation of duties.
ii. Issue a revised document containing delegated authority and functional roles to be signed by staff concerned.
iii. Review the registration of the Table of Authorities and the functional roles in VISION to ensure consistency with the delegated authorities and roles.

Action stated by the office as completed. The responsible staff member is the Chief of Operations.

Vendor master record

With the implementation of VISION in January 2012, country offices' vendor master records relating to suppliers, contractors, and implementing partners have had to be created and maintained in the system. The audit reviewed whether: the creation of vendor master records had been done centrally by the designated staff member(s) in the country office;

vendors' details in the master record were complete and accurate; and only accredited vendors were maintained in the system.

The office had established a process for the creation and maintenance of vendor master records in VISION and had devised templates to assist their creation. Existing vendor master records in 2011 had been systematically migrated to VISION at the time of its roll-out. Three staff members had been assigned to maintain specific vendor account groups. Thereafter, the designated staff created additional vendors manually in VISION.

However, review of the registration of vendors and the vendor master records noted a number of shortcomings: lack of third-party confirmation on the validity of the vendors' names and bank details; duplicate cases of implementing partners, suppliers, and contractors; and incorrect designation of vendors to account groups.

These shortcomings had arisen because the office did not adequately review the vendor master records in UNICEF's old management system, ProMS, prior to their migration into VISION. Following the migration, the staff members had not checked closely enough for existing vendor master records before creating potential duplicates. In addition, the procedure in use did not require implementing partners, suppliers, and contractors to submit appropriate documentation to confirm the validity of their names and bank details. There was also no periodic review of the vendor master records.

Multiple master records may include records that are invalid or duplicated, and could complicate the analysis of payment transactions with the same vendor. Duplicate master records also increased the risk of overpayments or double payments (although the audit team did not identify any). In the case of implementing partners specifically, in addition to the risk of overpayments, direct cash transfers might be made to an implementing partner that had outstanding advances of over six months, which is contrary to the prevailing policy. The presence of records of non-existent vendors, or failure to validate the existence of a vendor before its inclusion in the master record, could also create a risk of fraud (though, again, the audit found no evidence that this had taken place).

Agreed action 7 (medium priority): The office agrees to institute measures to ensure that the vendor master records are complete, accurate, correctly classified, and periodically reviewed; that they are not duplicated; and that the vendors' names and bank details are verified. It plans to:

i. Review the vendor master record and carry out a clean-up exercise to remove duplicates and invalid records.
ii. Review the vendor registration process and issue a standard operating procedure to include a requirement for the submission of third-party documentation vouching for the registered names and bank-account details of the implementing partners, suppliers and contractors.
iii. Institute a periodic review of the vendor master records to ensure completeness and accuracy of recording.

Action in progress and is expected to be completed by 30 June 2013. The responsible staff member is the Chief of Operations.

General ledger

The audit verified whether the general ledger accounts were correctly used, and whether the maintenance of subsidiary ledgers were reconciled with the general ledger to ensure accurate and timely financial reports and statements. These reports serve as inputs for various levels of decision-making within the organisation. The audit noted the following shortcomings.

General ledger account balances*:* A number of asset accounts, including the petty cash fund and non-current deposits in the general ledger (which should normally have debit balances), had credit balances as of 22 November 2012. This was mainly due to errors in accounting petty cash and refunds.

Reconciliation between the general and subsidiary ledgers: The subsidiary ledger balance was US$ 38,467 greater than general ledger for inventory at field-office warehouses as at 22 November 2012. At the time of the audit, the office had yet to analyse the reasons for the difference.

Accounting entries. Petty cash fund accounts were used similar to that of a cash-on-hand account. While petty cash funds should cover only expenses of up to 25 percent of the maximum allowable imprest level of US$ 1,000 (about US$250), they were being used to provide advances to cover expenses as high as US$ 8,716. Hence the balances of the petty cash fund accounts had either credit balance (see above), or balances greater than the maximum allowable imprest level of US$ 1,000.

The above weaknesses were due to inadequate staff capacity in maintaining the accounting records and in coding financial transactions, due to changes in the system and to insufficient supervision.

Agreed action 8 (medium priority): The office agrees to strengthen capacity of the finance unit in maintaining the accounting records and transaction coding and improve the oversight function. It will:

i. Provide training to the finance unit in accounting and in VISION SAP.
ii. Institute periodic review of the accounts and reconciliation of the general and subsidiary ledgers, and implement corrective measures in a timely manner.

Action in progress and is expected to be completed by 30 June 2013. The responsible staff member is the Chief of Operations.

Financial-transaction processing

The audit reviewed whether financial transactions were appropriately processed and supported by documentation, accurately and completely recorded, and processed in a timely manner in accordance with UNICEF financial regulations and rules.

The audit selected a sample of 89 financial transactions for review and noted the following.

Transaction documents: Of the 89 financial transactions sampled for review, the audit was able to review only 80 as the relevant supporting documentation for the other nine could not be found. The missing documentation pertained to payments of supplies (2), travel claims (2), cash receipts (1), and liquidation of direct cash transfers (4).

Supporting documentation: The requests for direct cash transfers had inadequate supporting documentation. Ten of the 15 sampled requests did not clearly specify the activity as per the annual workplan (AWP) and the itemised cost estimates (see also the observation in Programme management section, *Implementation of annual workplans*). While the requests were signed by the implementing partners, there was no certainty that the signatories were indeed their designated representatives, as the office did not maintain a record of them for each implementing partner. Furthermore, the audit sampled 11 requests for reimbursements and found that there had been no prior authorisation to incur the reported expenditures in any of the 11 cases.

Release of cash transfers: Cash transfers to partners were not processed and released on time. The processing of 15 sampled requests for cash transfers took an average 52 days from the time of receipt of the requests to release of payments. The protracted processing was exacerbated by the late submission of the requests by the implementing partners – an average of 37 days after the planned start dates of the activities. Between them, the late submissions and slow releases delayed implementation of activities by a quarter of a year.

Accrual of receivables: Receivables such as refunds of unused direct cash transfers and private use of office vehicles were only accrued at the time of receipt. As these were exchange transactions, the receivables should have been recorded as soon as it was probable that cash or goods would be received. This would enable more reliable measurement of inflow, and would be in accordance with IPSAS.[1]

Bank transfers*:* The office limited its use of bank transfers to those suppliers, implementing partners and contractors who had accounts with one bank. It drew cheques to payees who did not have accounts with that bank. However, the use of cheques is less efficient than bank transfers.

Bank reconciliations: Bank reconciliation statements showed that bank transfers made as early as July 2012 had remained outstanding even at the end of October. As it only takes a few days for a bank transfer to be effected, the validity of these long-outstanding bank transfers was a concern.

Subsequent to the audit, in February 2013, the office informed the audit team that it had located the missing documentation and explained that the long-outstanding bank transfers were due to an oversight.

The above shortcomings increase the risk of inappropriate payments, possible misuse or loss of funds, inadequate recording of transactions and delays in processing payments. They were caused by weak understanding of prevailing policies and procedures, and by limited supervision of the application of controls in the VISION and IPSAS environment.

Agreed action 9 (high priority): The office agrees to increase the staff understanding and application of prevailing policies and procedures, strengthen financial transaction processes, and implement adequate oversight mechanisms. It intends to:

i. Provide training to staff on the prevailing policies and procedures such as those related to cash transfers and the new financial and administrative policy, so as to ensure that requests for cash transfers are appropriately supported and that they

[1] IPSAS = International Public Sector Accounting Standards, which UNICEF has now adopted.

are signed by the designated representatives of the implementing partners.

ii. Monitor and report on the timeliness of processing of cash transfers.
iii. Identify the causes of missing documents; and ensure that the concerned transactions are valid and correct in accordance with UNICEF policies and procedures and the documents are properly maintained (such as updating the filing system).
iv. Review the financial-transaction workflow processes, including the processing of cash transfers, the preparation of the bank-reconciliation statements, and the accrual of receivables; and institute improvements to these processes.
v. Explore the use of bank transfers to implementing partners, contractors and suppliers with bank accounts in other banks.
vi. Verify the validity of the long-outstanding bank transfers and ascertain the correctness of the preparation of the bank-reconciliation statements since January 2012.

Action stated by the office as completed. The responsible staff member is the Finance and Administration Manager.

Property, plant and equipment

The audit reviewed whether property, plant and equipment (PPE) were adequately maintained, identified and recorded, and used for authorised purposes in accordance with UNICEF policy and procedures. It also verified whether smaller but “attractive” items such as laptops and cameras were properly recorded and maintained.

Before the rollout of VISION, the office recorded PPE in two different repositories, a Lotus Notes database and a Microsoft Excel database. As with other country offices, it was necessary to migrate the PPE data to VISION when the latter was implemented in January 2012. In December 2011, the office contracted a firm to conduct a physical inventory count of PPE. The firm carried out the count using the data in the Excel database. The results of the count were therefore reflected in the Excel database, but this was not reconciled with the data in Lotus Notes. Despite this, it was the data in the Lotus Notes database that was migrated to VISION. There was therefore no assurance as to the validity, accuracy and completeness of the PPE data in VISION.

The audit carried out a verification of the PPE (which was valued at US$ 9.6 million at the time of the audit), and noted discrepancies between the data in VISION and the audit’s own test count. Out of a sample of 26 items, four could not be located, seven were physically in the office but were not recorded in VISION, and eight had tags that were either ruined or were written simply with a marker. In addition, information in VISION was incomplete and inaccurate. Of the 2,754 items, 216 items did not carry any value, 398 did not have information about their location, and 411 did not have tag numbers. There were also 24 vehicles listed that had in fact been disposed of. Moreover, there was no standardised naming convention employed to generate the identification codes for tagging PPE items.

Although VISION is the official data repository for PPE records, the office had continued to maintain records of PPE in Lotus Notes and Excel databases. In July 2012, the office carried out a physical count using the data from the Excel database instead of the one in VISION. Subsequently, another physical count was performed by a firm in August 2012 using again the data in the Excel database. Neither exercise assured the validity, accuracy and completeness of the PPE recorded in VISION.

The above shortcomings were mainly due to inadequate staff capacity and lack of supervision.

Agreed action 10 (medium priority): The office agrees to improve controls over Property, Plant and Equipment (PPE) in order to ensure validity, completeness and accuracy of the inventory records in VISION. It will:

i. Cease using the Lotus Notes and Excel databases.
ii. Conduct a physical count of PPE and reconcile the count results against the records in VISION.
iii. Ensure validity, completeness and accuracy of PPE in VISION SAP by:
    a) properly recording the information regarding the cost and location of each PPE item;
    b) tagging the PPE using a standardised coding convention; and,
    c) excluding items that have been disposed of.

Action is in progress and is expected to be completed by 30 June 2013. The responsible staff member is the Finance and Administration Manager.

Programme supplies inventory

The audit verified whether the records of programme supplies and equipment were properly maintained in accordance with UNICEF financial regulations and rules; physical inventory counts were conducted at reasonable intervals; and stores/warehouses were adequately organised and monitored.

As of November 2012, the total value of programme supplies stored in all warehouses in six locations managed by the office was approximately US$ 14 million. The audit visited two warehouses in Addis Ababa and noted the following:

i. About US$ 1.4 million-worth of programme supplies that were neither bonded, pre-positioned for immediate response to disasters, nor covered by the min/max strategy,[2] had been in the warehouse for more than six months.
ii. More than US$ 9,000-worth of programme supplies such as calcium hypochlorite and folic acid had expired but were still in the warehouse. More than US$ 108,000-worth of programme supplies were about to expire within three months from the date of the audit visit. Of these, more than US$ 37,000-worth were to expire within one month.
iii. A test count of 10 sample items noted over US$ 30,000-worth of programme supplies in the warehouse that were not accounted for in VISION, due to oversight.
iv. A batch of 8,064 cartons of Plumpy'nut worth US$ 373,500 that had arrived in August 2012, but had been identified through post-shipment testing as contaminated during the manufacturing stage, had remained in the warehouse even though an agreement had been made with the manufacturer to dispose of and replace them.

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[2] Min/Max strategy is a strategy adopted by the office for keeping a safe minimum of stocks of key products to absorb variability in demand and long lead times, ensuring the availability of the supply at any given time.

Agreed action 11 (medium priority): The office agrees to improve oversight of the effectiveness of controls, governance and risk management of programme supplies in warehouses. The office agrees to:

i. Perform a physical count in the warehouses and reconcile the results with the data in VISION.
ii. Implement a procedure for periodic review of the programme supplies in the warehouses.
iii. Review the expiring programme supplies and decide what to do with them.
iv. Promptly and properly disposed of the contaminated Plumpy'nut and the expired programme supplies in accordance with the local laws and prevailing guidance. In the meantime, the office will isolate them from the rest of the inventory.

Action stated by the office as completed. The responsible staff member is the Chief of Supply and Logistics.

Information and communications technology (ICT) system integrity

The audit reviewed whether the confidentiality, integrity and availability of information and the ICT infrastructure were adequately safeguarded. This is particularly important for the Ethiopia country office, given that 240 of the 400 users had access to VISION.

ICT system vulnerabilities: The audit carried out a technical review of the office's internal network and identified software vulnerabilities that included non-updated applications, weak configurations, and technical flaws that could be exploited. Some of these vulnerabilities pertained to the configuration of the main ICT services (e.g. VISION, Active Directory, Lotus Notes, etc.) which are managed by ITSSD in HQ.

The confidentiality of information passing through the wireless network in the Addis Ababa office was protected only through the Wired Equivalent Privacy (WEP) algorithm. According to widely accepted industry standards, this encryption methodology was declared obsolete in 2003.

Access credentials: The audit tested the level of confidentiality established over system access credentials. Of the 31 VISION users sampled, 17 users had not maintained the confidentiality of their access credentials. This impaired the controls established to ensure accountability over the activities carried out through the ICT systems. It could also result in breaches of personal privacy of staff and unauthorised disclosure of corporate information. The audit noted that periodic messages were sent out by ICT staff to raise awareness on ICT best practices, including system access credentials. However, there was no mechanism to monitor sharing of access credentials.

Access to ICT systems: Of almost 400 network users in the country office, 25 had access rights beyond their contract expiry dates. This situation could result in former UNICEF staff having access to the ICT resources. The actual setting of the expiry date for each user was performed at the HQ level upon submission of an Electronic Standard Access Form (ESAF) by the office. The instances detected by the audit were due to mismatches between the ESAF and what was entered by HQ in the systems. However, there was no systematic review of the access rights provided by HQ against the office's requests.

Virus protection: The audit noted 42 computers that had outdated antivirus definitions and, in 12 of these cases, the antivirus definitions were more than one month old. The status of the update of virus protection in each computer was available through a centralised dashboard, but the office had not acted upon it.

Agreed action 12 (medium priority): The office agrees to strengthen ICT controls and promote best practices. It intends to:

i. Address the identified vulnerabilities that can be technically resolved locally.
ii. Systematically verify the updates in each item of computer equipment.
iii. Strengthen the measures in place to raise staff awareness on ICT best practices and in particular on the protection of access credentials.
iv. Implement a revised process for granting access to the ICT systems in order to align user access privileges with their contract details, and correct any discrepancies.

Action stated by the office as completed. The responsible staff member is the ICT manager.

Operations support: Conclusion

Based on the audit work performed, OIA concluded that the controls and processes within operations support, as defined above, needed improvement to be adequately established and functioning.

Annex A: Methodology, priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning

during the period under audit.

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

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

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

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

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

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.