

Internal Audit of the Kingdom of Bhutan Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/21



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Kingdom of Bhutan country office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit covered the period from January 2012 to 25 April 2013.

Landlocked Bhutan borders China in the north and India in the south. The country is mountainous, and much of it is at high altitude. It has a population of 726,000, of which about 34 percent are under 18 years of age. Bhutan has not graduated from the Least Developed Countries (LDC) category; its gross national income per capita was US\$ 2,210 in 2011 (World Bank Atlas Method).

The country office is based in Thimphu; there is no zone office. It has a total workforce of 35, with one vacant post as at 25 March 2013. The UN in Bhutan has adopted *Delivering as One* (DaO), a process under which the UN agencies in a country work closely, have a common action plan, and share services. The 2008-2012 UNICEF country programme, which is integrated into the common action plan, had four main components: Health, Nutrition and Sanitation; Quality Education; Enabling Environment for Child Protection; and Planning, Monitoring and Communication. In 2012 expenditure was US\$ 5.3 million, of which US\$ 3.1 million was on cash assistance.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. One of them is being implemented as a high priority, and is as follows:

- The office agrees to comply with the joint HACT assurance plan by conducting sufficient spot checks and programmatic monitoring, and ensuring that joint on-site reviews are conducted as planned.

Conclusion

The audit concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over audited areas were generally established and functioning during the period under audit. The measures to address the observations made are presented with each observation in the body of this report. The Bhutan country office and OIAI will work together to monitor implementation of these measures.

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Objectives and scope

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In 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 under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain 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 included 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 for 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 of the above areas 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 identified management priorities and planned results, and had assigned accountabilities for each result. It had established governance bodies such as the country management team (CMT), programme implementation group (PIG), joint consultative committee (JCC), and senior management team (SMT), and had defined their respective terms of reference.

Following the release of the results of the 2011 global staff survey,¹ the office had implemented an action plan to address each area identified for improvement.

Annual management plan

The UN in Bhutan operates through Delivering as One (DaO). DaO is an initiative launched in 2007 under which the UN agencies work together through a joint programme, with the intention of reducing transaction costs and making best use of their comparative advantages. DaO was originally implemented in eight pilot countries; Bhutan was not one of these, but is one of a number of countries where the system has since been adopted. The UN agencies have a common UN Development Framework (UNDAF) and country programme action plan (CPAP),² harmonized common services, a joint emergency/pandemic preparedness plan, and a joint business continuity plan (BCP). The UNICEF country programme is integrated into the joint action plan under the thematic areas of Poverty Reduction, Health, Education, Good Governance, Environment and Disaster Preparedness. As per guidance, UNICEF Bhutan prepared its 2012 annual management plan (AMP) accordingly.

However, although the AMP briefly introduced inter-agency collaboration mechanisms in the context of DaO, it did not clearly describe how the office should manage its programmatic and operational activities in the context of these external managerial bodies. There was also no indication as to how the information and decisions made in the various external fora fed into the office managerial structures, or which management committee in the office was responsible for their implementation.

While the AMP assigned responsibilities to each staff member, they were mainly those relevant to the functioning of the office, and did not include those responsibilities relevant to functioning as an agency under DaO. For example, the audit found that while the AMP assigned staff to various UN thematic groups, it only specified their participation. It did not mention exactly what they were responsible for regarding these DaO management bodies, and how information from or about them was to be further shared and monitored by the office, or how actions arising from them were to be implemented.

Agreed action 1 (medium priority): The office agrees to incorporate into its annual management plan all of the relevant external management bodies that exist because of Delivering as One, and to establish a process for addressing how information and decisions from these bodies will be addressed and monitored by the office. It will also clearly assign and describe the responsibilities of each staff member assigned to participate in the DaO management bodies.

¹ UNICEF's Global Staff Survey, launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymised.

² The UN Development Framework (UNDAF) is prepared by the UN agencies with the host Government and gives definition and focus to the development assistance provided by the UN System. The CPAP is a formal agreement between UNICEF (or in this case, the UN agencies in the country, acting jointly) and a host Government; it sets out the expected results, programme structure, distribution of resources and the partners' respective commitments.

The responsible staff member is the Deputy Representative. The action is expected to be completed by the end of June 2013.

Functioning of oversight bodies

The audit reviewed the functioning of governance bodies and the extent to which they helped the office achieve planned results. As stated earlier, the office had established governance bodies with clear terms of reference (ToR).

Country management team (CMT): The CMT is responsible for determining policy and direction on issues relevant to the functioning of the Country Office at all levels. The office's ToR for the CMT state that it should meet monthly, to advise the Representative on major issues related to office management, programme, operations and DaO.

The CMT had met four times in 2012, and once in 2013 (in March). The audit noted that the issues taken up in the CMT meetings were mostly administrative in nature. It had reviewed some performance indicators, but they did not include those relating to DaO, or those concerning implementation of the management priorities and results identified in the AMP and workplans – such as assurance activities under the Harmonized Approach to Cash Transfer, or HACT (see observation in Programme section, below).

Programme Implementation Group (PIG): The PIG is a monthly meeting established by the office to strengthen planning, coordination, and information-sharing among programmes and sections, including operations and communication functions, and to serve as a forum to monitor programme performance.

The PIG had met seven times in 2012. The meetings included monitoring of programme implementation status, direct cash transfers, supply inputs, expiring grants, progress on rolling workplans and other relevant operational issues. However, the minutes did not include discussion of issues arising from external management fora in which the office was participating through DaO. Furthermore, while the minutes included relevant action points, the standing agenda did not include follow-up on previous minutes, and the audit could not determine whether such follow-up had taken place.

Agreed action 2 (medium priority): The country office agrees to establish controls to ensure the following:

- i. Country Management Team meetings should be more strategic and include, as a standing agenda item, review and discussion of the status of implementation of management priorities, management plans and workplans, as well as issues arising from participation in Delivering as One.
- ii. Programme Implementation Group meetings should include, as a standing agenda item, aspects of programme delivery arising from Delivering as One, and follow-up of action points identified in the previous meetings.

The responsible staff members are the Representative and the Deputy Representative. The action is expected to be completed by the end of June 2013.

Risk management

Enterprise Risk Management (ERM) is an essential element of UNICEF organizational governance and accountability. ERM is a systematic and integrated approach to management of opportunities and risks that could affect the achievement of the planned results. It allows managers to deal systematically with uncertainty. ERM includes performing a risk and control self-assessment (RCSA) to systematically identify risks and opportunities, assess those risks following a prescribed methodology, and determine the most appropriate response, taking into consideration the significance of the risk and the office's risk-tolerance level. A key output of the RCSA is the Risk and Control Library, which lists the risks identified and the measures chosen to manage them.

The office had conducted its last RCSA in 2011, when it identified the following three high risks; the aid environment, DaO implementation, and talent management. Following the RCSA, the office had developed a comprehensive 2011 ERM action plan that included recommended actions to mitigate identified risks, assignment of responsible staff, and indicators and expected dates of completion. However, the office had not followed up on the ERM action plan during 2012. Moreover, the office had indicated that the CMT would regularly monitor implementation of the action plan, but there was no evidence that it had done so. Neither did the agenda and meeting minutes of other office teams and committees suggest systematic consideration of the areas of significant risk as identified in the Risk and Control Library or the 2011 ERM action plan.

Agreed action 3 (medium priority): The office agrees to follow up on the integration of Enterprise Risk Management into its day-to-day activities. Specifically, the office should ensure that the relevant office committees systematically review action plans to manage high and medium-high risks. It should also update its Risk and Control Library, taking into consideration the planned results for the new country programme.

The responsible staff members are the Operations Manager and the Deputy Representative. The action is expected to be completed by the end of June 2013.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the area of 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 mobilization 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, except for supply inputs. These were omitted because the risk assessment did not indicate any significant uncontrolled risks.

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 considered aid environment and predictability of funding as one of the high risks to the programme. It had therefore devoted efforts to fundraising, and had developed a resource-mobilization strategy. It had engaged with different national committees to ensure continued funding, and had sought opportunities from global thematic funds.

Results and activities

Chapter 4 of the UNICEF *Programme Policy and Procedures Manual* states that workplans should outline the activities to be undertaken to achieve both the Programme Component Results (PCRs) and Intermediate Results (IRs) as identified in the country programme action plan (CPAP). The workplans identify the implementing partner(s) and the total budget required to carry out the activities. Effective work plans will have PCRs and IRs that are SMART – that is, specific, measurable, achievable, realistic and time-bound.

The office had 20 PCRs, 110 IRs, and 235 activities in the 2012 CPAP. The audit reviewed the stated results together with the activities in the joint 18 months rolling workplans, and noted that the results and activities were sometimes broad and not focused enough. They

used words like “promote”, “strengthen”, “facilitate”, and “improve” that are difficult to measure. In addition, the sampled planned activities were not always clearly linked to IRs and indicators.

Agreed action 4 (medium priority): The office agrees to review the PCR/IR results matrix and ensure that the workplans include specific, measurable, achievable and realistic PCRs and IRs; and planned activities are clearly linked to IRs and indicators.

The responsible staff members are the Deputy Representative and the Monitoring and Evaluation Officer. The action is expected to be completed by January 2014.

HACT assurance activities

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, reducing 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, including review of financial management procedures, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. 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 regularly. The risk assessments and assurance activities are supposed to be carried out in cooperation with the three other UN agencies that have also adopted HACT.

HACT was introduced in Bhutan in 2008 in parallel with the 2008-2013 United Nations Development Assistance Framework (UNDAF), and full HACT compliance was reported to have been achieved in 2010. At the time of the audit, the assessments and assurance activities were being carried out and were being used and referred to by implementing partners. Both micro- and macro-assessments were promptly done, and the office was using the FACE form.³

UNICEF Bhutan and the other UN agencies had developed a joint UN HACT Assurance Plan for 2012. The plan included a total of 35 implementing partners; UNICEF was responsible for HACT assurance activities with the eight partners for which it was the lead agency. The micro-assessments had rated six of these eight partners as medium risk, and the remaining two as low risk. However, of those eight partners, on-site reviews (spot checks) were conducted for only three.

The audit also sampled HACT assurance activities over the Health, Nutrition and Sanitation

³ FACE stands for Funding Authorization and Certificate of Expenditures. UNICEF and its partners can use the FACE form to approve or request disbursement of funds and authorization to incur expenditures, to report on expenditures and to certify the accuracy of data and information provided by the partner. The FACE form is meant to be part of the HACT process, although it can be used independently of it.

(HNS) programme, which was the largest of the DaO's programmes in 2012, accounting for US\$ 9.5 million, or 35 percent of the DaO's total expenditure. UNICEF's funding for the HNS programme was almost half the total cash contribution to the joint workplan. The 18-month joint rolling workplan included in total 139 activities in 2012, and UNICEF was responsible for 76 of those. However, programmatic monitoring was conducted for only 11. Also, the HNS rolling workplan included one joint field-monitoring visit, but this did not take place.

Agreed action 5 (high priority): The office agrees to comply with the joint HACT assurance plan by conducting sufficient spot checks and programmatic monitoring, including ensuring that joint on-site reviews are conducted for those implementing partners for which UNICEF is the lead agency.

The responsible staff members are the Finance Officer and the Monitoring and Evaluation Officer. The action is expected to be completed by January 2014.

Programme management: Conclusion

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

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, except for asset management, human resources management, inventory management, and safety and security. These were omitted because the risk assessment did not indicate any significant uncontrolled risks in these areas.

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 conducted monthly bank reconciliations for all its bank accounts, and the related reports were submitted within the prescribed period.

Compliance with UNICEF policy on internal controls

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012.

Access to VISION is given through the provisioning of a user identification (ID) that has "roles" assigned to it. Heads of Offices, and their delegates, approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls and its supplements*. Each office is also required to maintain a manual Table of Authority (ToA); the Head of the Office should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments.

The audit reviewed the VISION role mapping, ToA, and delegation of financial signing authority. It found that the VISION role map was outdated, and was last updated at the beginning of 2012 during the initial VISION rollout. The role map contained the names of staff that had left the office, including the former Representative and Deputy Representative. Also, the office did not formally delegate financial signing authority, requiring each staff member to acknowledge the understanding of given roles (this should be done in writing). However, the audit reviewed the currently assigned roles and found no conflicts between them.

Agreed action 6 (medium priority): The office agrees to comply with the UNICEF Financial and Administrative Policy No 1 on Internal Controls by ensuring:

- i. the VISION role map is regularly updated and reviewed,
- ii. the ToA is prepared as required by the guidance and regularly reviewed by the Head of Office; and,
- iii. roles and responsibilities of each staff member as assigned in VSION are formally delegated.

The responsible staff member is the Operations Manager. The action is expected to be completed by the end of June 2013.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the area of operations support were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions, and questionnaires. The audit compared the documented controls, governance and risk management practices provided by 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. The Representative and their staff then work with the audit team on action plans to address the observations. These action 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 audit recommendations

- 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 that the controls and 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 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 at the end of the audit 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 at the end of the audit 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 audit recommendations. 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.