

Audit of The former Yugoslav Republic of Macedonia Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/17



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of The former Yugoslav Republic of Macedonia Country Office. The audit was conducted during the period 11 to 27 March 2013. The audit covered the period from January 2012 to February 2013.

The former Yugoslav Republic of Macedonia is a landlocked country of 2 million people, of which about 453,000 are under 18 years of age. The country ranked 78th out of the 186 countries on the UNDP Human Development Index for 2011 and its gross national income per capita was US\$ 11,090 in 2011. It is an upper middle-income country which has enjoyed real domestic product growth of up to 5.3 percent per year since 2003. However, there are continuing high rates of child poverty and social exclusion, and disparities in access to services and in health and education outcomes.

The country office is based in Skopje; there is no zone office. It has a total workforce of 19, with no vacant posts as at 6 March 2013. The country programme for 2010-2015 consists of two main programme components: *System strengthening for child rights* and *Child rights monitoring and social policy*. The goals of the country programme include encouragement of government resource allocation to basic social services, including for excluded and marginalized children; improvement in primary education attendance rate among excluded children; reduction in regional disparities in key child health indicators and in perinatal and infant mortality; reduction in the number of children in residential care; and encouraging the diversion of juvenile offenders to non-punitive and prevention services. According to the Country Programme Document (E/ICEF/2009/P/L.12), the country office has a total budget of US\$ 16.5 million for the 2010-2015 country programme.

Actions 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. However, the audit did not rate any of these as high priority (that is, requiring immediate management attention).

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes in The former Yugoslav Republic of Macedonia Country Office were generally established and functioning during the period under audit.

The measures to address the issues raised are presented with each observation in the body of this report. The country office has prepared action plans to address the issues raised. The office, with support from the Regional Office for Central and Eastern Europe and Commonwealth of Independent States (CEE/CIS), and OIAI will work together to monitor implementation of these measures.

Contents

Summary	2
Objectives	4
Observations	4
Governance	4
Satisfactory key controls	4
Alignment of risks to office priorities	5
Segregation of duties	5
Governance: Conclusion	5
Programme management	6
Satisfactory key controls	6
Resource mobilization strategy	6
Harmonized Approach to Cash Transfers (HACT)	7
Integrated Monitoring and Evaluation Plan (IMEP)	9
Payment of cash transfers	9
Programme management: Conclusion	10
Operations support	11
Satisfactory key controls	11
Learning plan	11
Operations support: Conclusion	12
Annex A: Methodology, and definition of priorities and conclusions	13

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 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 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 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 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:

Supervisory structures were established and functioned effectively and efficiently. There was an established performance measurement system with indicators that were regularly monitored. Management and staff accountabilities were clearly communicated and understood, and the staffing structure was aligned to the needs of the approved country programme.

Alignment of risks to office priorities

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. During the RCSA exercise completed by the office in 2011 and updated in 2012, the office identified eight risks that were rated high to medium. However, the annual management plan (AMP) for 2012 reflected only one of these risks as a management priority. It also included another management priority that had not been identified as a risk during the RCSA exercise.

The lack of alignment between the risks identified in the RCSA and the priorities defined in the AMP may lead to the definition of inappropriate priorities or to non-identification of the highest risks.

Agreed action 1 (medium priority): The office agrees to ensure that priorities defined in the annual management plan, and high risks identified through the RCSAs, are aligned so that the management plan focuses on the most appropriate priorities.

Action expected to be completed by: July 2013.

Responsible staff member: Representative, Deputy Representative and M&E Officer.

Segregation of duties

The 2012 Table of Authorities had been prepared and updated during the year, following the most recent guidelines from the Division of Financial and Administrative Management (DFAM). The office had prepared letters designating authorities and had had them signed by the staff members concerned. However, the audit noted six conflicts in the duties assigned to staff members; five were medium-risk and one low-risk, according to the risk-level definition in DFAM's Segregation of Duty Guidance. There were no mitigating measures in place for four of the conflicts. Those conflicts related to the receiving, paying and approving officer functions (as officer-in-charge), the paying officer responsible for bank accounting, and approving officer for accounts payable. Insufficient segregation of duties in the assignment of roles may increase the risk of fraud or error and make it harder to detect them promptly.

Agreed action 2 (medium priority): The office agrees to ensure that appropriate compensating controls are established where prescribed segregation of duties cannot be avoided, including for roles delegated to staff members on an alternate basis.

Action expected to be completed by: Implemented immediately and then on-going.

Responsible staff member: Operations Manager.

Governance: 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 control processes over governance 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.

Satisfactory key controls

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

There was an adequate planning process for the development of the country programme and rolling workplans, and adequate data were used for programme design. The results to be achieved were specific, measurable, and timebound. The office had adequate annual and donor reporting systems.

Resource mobilization strategy

The office has a planned other resources (OR)¹ budget of US\$ 12 million over the country programme cycle, and had already raised US\$ 6.5 million at the time of the audit. However, there was no comprehensive fundraising strategy/plan covering all the main funding sources, including governmental or inter-governmental organizations, the private sector,

¹ Funds available to country offices are in two basic categories, Regular Resources (RR) and Other Resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not be used for other purposes without the donor's agreement. The office will normally be expected to raise OR itself, up to a ceiling that is indicated in the country programme budget.

inter-organizational (pooled funds) or foundations, as prescribed by the UNICEF guidance on resource mobilization.²

The country office had issued a strategy covering the private sector for 2011-2012. It focused on two programme areas: Violence Against Children and Early Childhood Development Centres. The office was developing an updated strategy for 2013-2015, building on lessons learned during the previous period and also covering the private sector. However, the strategy only covered one of the two most underfunded programmes – Early Childhood Development, which had a shortfall of US\$ 0.9 million. It did not cover the Health programme, which had a shortfall of US\$ 1.5 million. The lack of a comprehensive resource mobilization strategy/plan could significantly impede programme implementation.

Agreed action 3 (medium priority): The office agrees to develop a comprehensive and integrated resources mobilization strategy that covers all recommended funding sources, and to ensure that all the country programme areas are included in the strategy.

Action expected to be completed by: August 2013.

Responsible staff member: Representative, Communications Officer, Programme Officers.

Harmonized Approach to Cash Transfers (HACT)

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT) policy. Under HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs. HACT requires offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. It includes a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during a programme cycle.

Offices should also have an assurance plan regarding proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and scheduled audits. HACT is required for three other UN agencies, and country offices should coordinate with them to ensure best use of resources.

In 2012, the office paid cash transfers totalling US\$ 597,657.71 to 15 different implementing partners (government and NGOs). The audit noted the following.

Macro-assessments: In 2006 a macro-assessment of the government financial management system was commissioned by UNDP in cooperation with UNICEF. A draft report, which identified several areas for improvement, was produced in December 2006 but the final report, which was supposed to integrate the Ministry of Finance's comments, was never issued. As a consequence, no action plan was ever drawn up to address the areas identified in the assessment as needing improvement. Moreover, no updated macro-assessment exercise has been done since. UNICEF, through its Representative, is currently pushing for a new macro-assessment to be done in 2013.

² Programme Policy and Procedure E-Manual, last updated 23 January 2012; Chapter 4, Section 4.7: *Resource Mobilization*.

Micro-assessments: There was limited cooperation among the UN agencies in the implementation of HACT. The HACT working group did not meet regularly and the only micro-assessments done jointly by UNDP and UNICEF, which were of the Ministry of Education and of the Ministry of Health, had been completed in 2007. As there was no list of partners common to the UN agencies, the UNICEF country office had decided to move forward, and in 2009 and 2010 it completed micro-assessments of all its other partners receiving more than US\$ 100,000. At the time of the audit, the office was planning to conduct a new micro-assessment for the Bureau of Development of Education, its direct implementing partner in the Ministry of Education and Science. Regarding the Ministry of Health, the need for a new micro-assessment will be reviewed against the planned budget for programme implementation and will also depend on who will be UNICEF's direct implementing partner in the Ministry.

Assurance activities: The scale of assurance activities for a given partner is guided by the risk rating and by the extent of cash transfers received. Assurance activities include periodic on-site reviews that may include spot checks by the UN agency staff, special audits, and programmatic monitoring of activities. (There should also be scheduled audits for partners that receive over US\$ 500,000 over the course of a country programme, but the office did not expect there to be any such partners in the current programme cycle.) The following issues were noted.

In 2010, the office had established a spot-check plan based on the risk rating resulting from the micro-assessments. As of the end of 2012, seven out of the 10 planned spot check missions had been implemented. The country office stated that it would develop a new plan in 2013, taking into account the checks still to be completed and the follow-up visits for the ones already performed.

The audit also noted that although some monitoring missions were performed by the programme officers during that period, they were not part of the HACT assurance activities as envisioned by the HACT framework. These monitoring activities were not planned based on the implementing partners' risk profile as determined by the micro-assessments. Also, although the office had established targets for monitoring visits, these targets were not met. For example in 2012, the office only met 44 percent of the monitoring targets. Furthermore, the office did not have a formal reporting format observations arising from the programme visits.

The partial implementation of HACT could limit the country office's ability to verify that cash transfers were effectively and efficiently used for the intended purposes. It may also reduce efficiency gains that would be expected from full implementation in cooperation with other UN agencies.

Agreed action 4 (medium priority): The office will adhere to the requirements of the Harmonized Approach to Cash Transfers to implementing partners, acting jointly with other UN Agencies where possible. In particular, it agrees to:

- i. continue pushing for the macro-assessment update to be conducted in 2013;
- ii. plan for an update of the micro-assessments performed in 2007;
- iii. prepare an integrated assurance plan combining audits, spot checks, programmatic reviews and capacity-building missions, taking into account the checks already performed and the ones to be completed; and,

- iv. define a formal field trip report template for programmatic reviews and other types of monitoring visits and ensure that it is completed by the programme officers.

Action expected to be completed by: July 2013 and then on-going.

Responsible staff members: Representative, Operations Manager and Deputy Representative.

Integrated Monitoring and Evaluation Plan (IMEP)

An IMEP had been prepared for the period 2010-2015, and included evaluations, surveys and studies to be implemented over the country programme cycle. However, the IMEP did not include any evaluation of the Health programme, although it was expected to represent about 13 percent of country-programme expenditure.

The IMEP 2012 included a total of 10 studies and surveys, out of which three were completed, three were in progress, two were cancelled and two were postponed as at the end of the year. The number of activities in the IMEP did not correspond to those included in the office annual report, which indicated that four studies, two surveys and two evaluations had been conducted and completed in 2012. It was also noted that the IMEP did not include two evaluations that were completed jointly by the office and UNDP. The office had managed to implement only 30 percent of the activities envisaged in the IMEP. However, the audit established that had the IMEP contained all the activities that did subsequently take place, the implementation rate would have been about 73 percent.

An IMEP that is incomplete or not fully implemented may reduce the office's ability to make informed decisions on programming based on knowledge of results achieved and lessons learned.

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

- i. include the Health programme in a revised integrated monitoring and evaluation plan;
- ii. ensure that the revised integrated monitoring and evaluation plan includes all studies/surveys or evaluations conducted; and,
- iii. ensure that the integrated monitoring and evaluation plan is used as the basis for reporting the status of implementation of planned activities contained in it.

Actions expected to be completed by: September 2013 for action i; June 2013 for action ii; for action iii, immediately and then on-going.

Responsible staff members: Deputy Representative, and Monitoring and Evaluation Officer.

Payment of cash transfers

Seven out of 41 cash transfers made in 2012 were paid after the expiry date of the related programme cooperation agreements (PCA) or small scale funding agreements (SSFAs). These payments totalled US\$ 53,839 (about nine percent of cash transfers made). The office stated that disbursements to these implementing partners had not been processed during the period December 2011-February 2012 because of migration to VISION. The implementation of the planned activities was therefore delayed and in the meantime also some of PCAs/SSFA expired. The country office stated that agreements had not been extended

because it had significant experience with the partners and because the implementation of activities was closely monitored.

The audit did not note any misuse of the funds transferred. However, payments without legal contracts or agreements are against UNICEF rules and could compromise the office's position if the funds are not used for the intended purposes.

Agreed action 6 (medium priority): The office agrees to ensure that all cash transfer payments are made against programme cooperation agreements or small scale funding agreements that have not expired.

Action expected to start: Immediately.

Responsible staff members: Representative, Deputy Representative, responsible budget owners, Operations Manager and Finance/Accounts Assistant.

Programme management: 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 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.

Satisfactory key controls

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

- Bank reconciliations were performed on a timely basis by authorized staff members.
- The bidding, selection and contracting processes established by the office respected UNICEF rules and procedures.
- Assets were adequately identified and recorded in the accounting system.
- Staff changes were recorded correctly and staff entitlements records were properly maintained.
- Continued availability of systems was ensured, as was security of data and of physical equipment.

Learning plan

The office had defined neither its learning priorities nor its skills gaps, and could not therefore set priorities for learning in the office. This resulted in an incomplete learning plan for the office; some staff members were not included, while others had very few training days during 2012.

Moreover, when the office reported on the training plan's implementation, it did not include training events that took place, but had not been in the plan. This included learning events that were paid for by the Regional Office and were reported in the 2012 annual report. It

also excluded some web-based training sessions that were taken by staff in 2012.

Agreed action 7 (medium priority): The country office should develop a training strategy that is linked to the office priorities and skills gaps, and to the professional development needs of individual staff members.

Action expected to be completed by: July 2013.

Responsible staff member: Representative, and office training committee.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over operations support, as defined above, 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. 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.