

Internal Audit of the Government of the Netherlands-Supported WASH Programme of the Kenya Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/24



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Government of the Netherlands-Supported WASH (water, sanitation and hygiene) programme of the Kenya Country Office. The objective of the audit was to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over the management of the Government of Netherlands-supported WASH programme of the Kenya country office.

The audit focused mainly but not exclusively on the period from January 2012 to May 2013, and covered the following areas:

- **Management of the WASH programme:** planning, funding arrangements, monitoring and evaluation of results.
- **Assurance activities:** development and implementation of assurance plans for the appropriate use of funds, including spot checks, programme monitoring and scheduled audits.
- **Donor reporting:** timeliness and quality of reporting on the use of funds and achievement of results for the Government of Netherlands-supported WASH programme.

In December 2007, the Government of the Netherlands and UNICEF signed an agreement on a Programme of Cooperation aimed at accelerating the Millennium Development Goals for Water and Sanitation in Kenya with a timeframe of six years (1 January 2008 to 31 December 2013), subsequently extended by one year. The programme was originally designed to bring safe and sustainable sources of drinking water and hygienic sanitation facilities to 1.3 million new users in 20 arid, semi-arid and flood prone districts and two post-election violence affected districts in Kenya. The total programme budget was US\$ 70.5 million for the period 2008 to 2013. A grant of US\$ 41 million was approved by the Government of the Netherlands. The balance of US\$ 29.5 million was contributed by the Government of Kenya (US\$ 11 million) through the ministries of water, education and health, the programme recipient communities (US\$ 10.9 million), and UNICEF (US\$ 7.6 million).

UNICEF oversees the overall implementation of the WASH programme, working with other development partners within the Sector-Wide Approach (SWAp) to reduce transaction costs and support the sector fund for rural Kenya. The Ministries for Water and Irrigation, Health and Education provide the principal mechanisms to implement the programme. Funds are channelled through the Water Services Trust Fund (WSTF) of the Government of Kenya for the water component of the WASH programme. A Programme Monitoring Unit is housed at the former Ministry of Water and Irrigation (MOWI).

The UNICEF country office is based in Nairobi and has permanent zone offices in Kisumu, Garissa and Dadaab. The latter was established as a result of the Horn of Africa crisis in 2011. A temporary zone office in Lodwar, also for the emergency, was established in mid-2011. The WASH section of the Kenya country office has 10 staff, of whom six are funded from the Government of the Netherlands-supported programme.

Actions 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. Four of them are being implemented as a high priority. They

are as follows:

- In collaboration with key partners, the office agrees to take immediate necessary measures to develop and implement a plan to accelerate improvement of internal controls, governance and risk management of the WASH programme. This would include: identification of key risks and mitigation measures; revision of programme targets and timelines; establishment of review mechanisms to monitor annual workplans of key partners; and strengthening of internal capacity of the UNICEF WASH section.
- The office will review and support capacity building of the Programme Monitoring Unit (PMU) housed in the former Ministry of Water and Irrigation of the Government of Kenya; request PMU to develop annual workplans and report on progress against the plan; and update the terms of reference of PMU as appropriate.
- The office agrees to review and update the Memorandum of Understanding (MoU) between UNICEF and the Government of Kenya; and include a requirement for periodic review and reporting on compliance with all key expectations of the MoU. It will also assign responsibilities and significantly strengthen its oversight of the MoU to ensure adequate planning, payment, and reporting on the use of cash transfers, in accordance with the MoU and UNICEF policies.
- The office will: implement an adequate assurance plan for the WASH programme; train staff; conduct spot checks on the use of funds; follow up on the implementation of recommendations stemming from micro-assessments and spot check reports; and share assessment reports with partners.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the management of the Government of Netherlands-supported WASH programme in the Kenya country office, as defined above, needed improvement to be adequately established and functioning. The measures to address the observations made are presented with each observation in the body of this report. The Kenya country office, with support from the Regional Office, and OIAI will work together to monitor implementation of these measures.

Contents

Summary	2
Objectives and scope	5
Background	5
Audit observations	7
Satisfactory key controls	7
Planning and oversight	7
Programme monitoring unit	11
Monitoring results	13
Sustainability and evaluation	16
Donor reporting	17
Compliance with MoU	19
Capacity assessment and assurance activities	22
Conclusion	25
Annex A: Methodology, and definition of priorities and conclusions	26

Objectives and scope

The objective of the audit was to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over the management of the Government of Netherlands-supported WASH programme of the Kenya country office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit focused on the period from January 2012 to May 2013, and covered the following areas:

- Management of the WASH programme: planning, funding arrangements, monitoring and evaluation of results.
- Assurance activities: development and implementation of assurance plans for the appropriate use of funds, including spot checks, programme monitoring and scheduled audits.
- Donor reporting: timeliness and quality of reporting on the use of funds and achievement of results for the Government of Netherlands-supported WASH programme.

Background

WASH is one of the three principal components of UNICEF's Child Survival and Development Programme in Kenya, the other two being health and nutrition. National capacity development remains the key strategy of the UNICEF WASH programme. In line with the commitments made in the Paris Declaration, UNICEF continues to support the building of national capacities at sectoral and cross-sectoral levels. National level activities include WASH-related advocacy and support to sector policy and strategy development, while at field level the programme supports the implementation of WASH projects for poor and vulnerable rural communities in targeted districts.

In December 2007, the Government of the Netherlands and UNICEF signed an agreement on a Programme of Cooperation aimed at accelerating progress towards the Millennium Development Goals for Water and Sanitation in Kenya with a timeframe of six years (1 January 2008 to 31 December 2013). The Programme Proposal assigned responsibilities to the WASH section in UNICEF for overall programme implementation, and for ensuring the project is moving towards planned targets.

The programme was originally designed to bring safe and sustainable sources of drinking water and hygienic sanitation facilities to 1.3 million new users in Kenya. The area covered was 20 arid, semi-arid and flood-prone districts (now subdivided into 76) and two districts affected by post-election violence (now subdivided into seven). The target groups were poor people in rural areas who currently do not use safe drinking water and/or sanitation facilities and do not practice appropriate hygiene, especially hand washing.

The total programme budget from 2008 to 2013 was US\$ 70.5 million, of which US\$ 41 million was from the Government of the Netherlands. The balance of US\$ 29.5 million was contributed by the Government of Kenya through the Ministries of Water and Irrigation,

Education and Health (US\$ 11 million); UNICEF (US\$ 7.6 million); and communities (US\$ 10.9 million).

UNICEF oversees the overall implementation of the WASH programme, working with other development partners within the Sector-Wide Approach (SWAp) to reduce transaction costs and support the sector fund for rural Kenya. The ministries for water, health and education provide the principal mechanisms to implement the programme. Funds are channelled through the Water Services Trust Fund of the Government of Kenya for the water component of the WASH programme.

A Project Implementation Unit (later renamed Programme Monitoring Unit, or PMU) was established at the former Ministry of Water and Irrigation (MOWI) to monitor, supervise, and report on the programme and serve as secretariat support to the Programme Steering Committee (PSC). The PSC, chaired by MOWI's Permanent Secretary, has members from the Ministries of Health, Education, Planning, Finance and UNICEF. The mandate of the PSC includes approval of planning documents, overall responsibility for monitoring of programme activities and outputs, audit results, and decisions on major implementation issues that cannot be solved at the component level.

UNICEF signed a Memorandum of Understanding (MoU) with WSTF¹ and MOWI in April 2009, which will expire on 31 December 2013. From 1 January 2009 up to 31 December 2012, WSTF had received US\$ 13,755,890 from the Government of Netherlands' contributions.

As WSTF has offices in Nairobi only, it channels government and donor funds to Water Service Boards (WSBs) to assist the communities to develop the proposals and use the funds. The WSBs, funded through WSTF, are separate legal entities responsible for appraising community proposals, contracting, licensing and regulating water service providers, the monitoring and MIS systems, and water user support.² WSBs provide the necessary links to the communities. WSBs forward the proposals to the PMU for review and approval; they are subsequently forwarded to WSTF. Following internal review, WSTF submits the proposals to UNICEF for funding. The overall supervision of the water programme component is undertaken through the PMU in conjunction with WSTF and UNICEF.

The country office is based in Nairobi and has three permanent zone offices located in Kisumu, Garissa and Dadaab. The latter was established as a result of the Horn of Africa crisis in 2011. A temporary zone office (for duration of 12 months) established in Lodwar during the Horn of Africa emergency. The WASH section of the office has 10 staff, of whom six are funded from the Netherlands-supported programme.

¹ The Water Services Trust Fund was established as a corporate body under the Water Act 2002 and a trust deed drawn up by the Minister for Water and Irrigation. The Trust was registered on May 10, 2004. The Act, which aimed to harmonise and streamline management of water resources, supply and sanitation services. provided for the creation of several other institutions, including the Water Services Boards (see footnote below).

² The WSBs are non-commercial State Corporations responsible for the efficient and economical provision of water services within their jurisdictions. There are seven of these – Coast, Tana, Athi, Rift Valley, Lake Victoria South, Lake Victoria North and Northern.

Audit observations

Satisfactory key controls

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

Government partners were involved in the development of WASH rolling work plans (RWPs) which were jointly signed by line ministries. The development of programme component results and intermediate results in the RWPs was done by UNICEF jointly with government counterparts and partners. The UNICEF Kenya country office conducted mid-year and year-end annual programme reviews of the WASH programme. Priorities and emerging issues were identified for implementation within the framework of the Country Programme Action Plan (CPAP).³

The Project Steering Committee (PSC), responsible for oversight of the implementation of the WASH programme, met three times in 2012, with the participation of the PMU. The minutes showed that action points were recorded and followed up in subsequent meetings. The PSC and UNICEF also followed up on the implementation of the recommendations of the 2011 Mid-Term Review of the WASH programme.

Planning and oversight

The annual targets of the Government of the Netherlands-supported WASH programme had not been met since the start of the programme in 2008. The Mid-Term-Review (MTR) of the programme, completed in July 2011, found that the WASH programme used 27 percent of resources and met only 30 percent of its overall targets in the first three years of the programme. The MTR critically reviewed programme performance and made key strategic decisions such as: extension of the programme period by one year to the end of 2014; reduction of the number of programme components from seven to five; refocusing the community water component from the original seven Water Service Boards (WSBs) to just three; and re-planning resources reallocated to the three Boards in a revised Agreement.

The MTR had focused on the first three years of the programme; the audit reviewed a later period, but it too noted that programme targets had not been met. Those for 2011 were set high in order to make up for targets or coverage that were not achieved in the previous years. A modest 30 percent progress against the planned results was achieved in 2011 as compared to 70 percent in 2010. The Programme Steering Committee (PSC) minute of 27 January 2012 also noted that there was very poor progress in some components of the programme such as the Health Facility WASH. However, good progress was noted in School WASH, which was attributed to partnership with NGOs.

Although it reported mid-way through 2011, the MTR was able to foresee that progress would not meet the targets for that year, and attributed this to several factors. The Horn of Africa drought had affected several programme districts with resulting impacts on the capacity of the Government of Kenya, NGO partners and the targeted communities. The year 2011 was a transition year for staff in UNICEF, as the Section Chief retired during the

³ The CPAP is a formal agreement between a UNICEF office and the host Government on the Programme of Cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments.

third quarter of the year, while preparation for a new global financial management system, VISION, during the last quarter further slowed down programme disbursements. Governance challenges in the Lake Victoria Water Service Board region also slowed progress. Finally, the MTR acknowledged that the MTRs of both the UNICEF Country Programme and the UNICEF WASH programme had themselves occupied considerable staff time of the Government of Kenya and UNICEF.

In 2012, the annual targets for the five programme components had not been achieved. For instance, in component 1 (Water Supply), only 169,000 new users of safe water were reached against a target of 512,000. The main reasons reported by the office included lack of capacity, poor prioritization, changes in staff and contractual disagreements with contractors. In 2012, it was reported that the programme faced several constraints and challenges such as staff shortages and lengthy procurement periods, which had an impact on overall progress in the year. In several WSBs, resignations and replacements of key decision-makers affected progress and completion of many projects. Nevertheless, the office reported that overall, more projects were initiated in 2012 than any other year in the last three years. This was attributed to continued systems building and capacity development of implementing partners, including communities. Table 1 (below) summarizes the main cumulative results as of 31 December 2012:

Table 1: Summary of actual against planned results of WASH programme

Programme Component	Planned results	Actual results	% achieved from 2008-2012 (5 yrs)	% to be achieved in 2013-2014 (2 yrs)
1. Water Supply	1.6 million new users	963,504 (1)	60%	40%
2. Household sanitation and hygiene education	2.8 million new users	1,250,250	45%	55%
3. School water supply, sanitation and hygiene education	473,000 school children	306,709	65%	35%
4. Health facility WASH	90 health facilities	38 health facilities funded (2)	42%	58%
5. Institutional capacity building and strengthening	56 partner institutions with improved capacity; and 9,413 staff/people with skills in programme implementation	77 partner institutions; and 7,791 staff/people including 2,000 in 2012	138% 83%	17%

Source: WASH Programme Database (not audited by OIAI)

(1) As of the time of the audit in May 2013, the expected number of new users from completed and ongoing projects increased to 984,304.

(2) This consisted of health facilities that were completed and in use, and 26 that were being built.

The office increased its financial implementation in 2012. It spent 91 percent of the WASH programmable amount in 2012 as compared to 55 percent in 2011. As of 31 December 2012, 62 percent of the total six-year budget of US\$ 70.5 million had been spent, and the programme had achieved about 60 percent of its targets in component 1, 45 percent in component 2, 65 percent in component 3 and 42 percent in component 4. As of 31 December 2012, the Government of Kenya had contributed 29 percent (US\$ 1.547 million) of its planned financial contributions, as compared to 69 percent (US\$ 28.2 million) by the Government of Netherlands, 78 percent (US\$ 5,940,000) by UNICEF Kenya, and 76 percent (US\$ 8,271,000) by the community.

It took five years (2008-2012) to achieve 60 percent of planned results for component 1 and 45 percent for component 2. However, the plan was to achieve the last 40 percent of component 1 and 55 percent of component 2 in 2013-2014. Interviews with WSTF and the PMU indicated that the planned results would likely not be met by December 2014 and a further extension would be required. Current plans for 2013-2014 seemed unrealistic and not sufficiently based on past performance and key constraints to programme implementation.

Capacity of key partners: Prior to entering into an agreement with UNICEF, the Government of the Netherlands had commissioned an independent feasibility and support study. This had stated that a programme like the WASH programme would take a learning period of two to three years before reaching effective implementation, and that planning and budgeting for the learning curve would be necessary.

Interviews with staff from UNICEF, WSTF, WSB, MOWI, PMU and NGOs, and a desk review of the relevant documentation, indicated weak capacity of WSBs as one of the main causes of programme implementation delays. In the water programme component, capacity gaps of individual WSBs had been identified through the conduct of micro-assessments for the purpose of HACT. However, this was completed late – one to three years after inception of the programme. The capacity assessment was done by UNICEF, though the responsibility for it had been assigned to WSTF in the Memorandum of Understanding (MoU) between UNICEF, MOWI and WSTF.

The assessment reports of several WSBs revealed significant capacity gaps that should have been known at the beginning of the programme so that it could have either established a capacity-building strategy or used alternative implementing partners. Following the MTR in 2011, it was decided to stop using four of the seven WSBs. While the MoU allows recommending the use of alternative channels for funding if there is a risk of programme implementation falling behind schedule, this option had not been formally examined in light of weak capacity of WSBs.

Risk management: The audit found insufficient analysis and remediation of key risks during the mid-year and annual programme review exercises with key partners. (Such key risks could have included: weak capacity of WSB and local contractors; weak oversight capacity of the PMU and WSTF; weak risk-management capacity in the WSTF and the WSBs; lengthy procurement processes; and inadequate technology). A consolidated project risk-management report would have been useful, to document the key risks and thus help track the status of mitigation actions.

Oversight and quality assurance review: UNICEF had received incomplete financial reports from the WSTF, and did not enforce the reporting requirements of the MoU such as the

submission of interim quarterly financial reports and workplans. Further, the MoU did not require WSTF to submit to UNICEF any annual and quarterly financial reports of WSBs; UNICEF could have requested them anyway in order to exercise rigorous oversight of their performance, but it had not done so. UNICEF did not also request or require the PMU to prepare annual workplans or to report quarterly and/or annually to UNICEF on its activities and results; such reporting would have helped maintain awareness of key risks, causes of delays and actions taken to address underperformance.

Capacity-building needs, training and resources in the UNICEF WASH section: The observations in this report show the need to reinforce the capacity of the WASH section. At the time of the audit, the office had commenced a review of the overall WASH programme as part of the country programme review process. In particular, it had hired a consultant to review the capacity in the WASH section and identify the capacity-building needs and resources required.

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

- i In collaboration with key partners, identify and rigorously assess risks and constraints that can prevent achievement of the WASH programme's annual planned results and completion by 2014; develop detailed mitigation actions during 2013 mid-year and annual programme reviews; and document the risk analysis in a consolidated project risk-management report to be updated regularly by PMU, with input and assistance from WSTF, WSB, MOWI and UNICEF.

Responsible staff member and expected time of completion: *WASH Manager, Chief of Child Survival and Development (CSD), WASH Specialist, and ERM Focal Point. They will:*

- *organize briefing meetings with key partners (implementing ministries, WSTF, PMU and NGOs) to present the audit observations and recommendations and relevant programme review recommendations by 15 August 2013; and,*
- *organize a joint workshop for all partners to discuss and identify risks/constraints and finalize a risk-management plan with clear mitigation actions, timelines and responsibilities by 31 August 2013.*

- ii In collaboration with WSTF and PMU, conduct scenario analysis and present realistic plans to achieve planned results in light of key residual risks. This may include revising the number of planned activities and selected partners; expanding NGOs' roles (NGOs can be engaged for implementation in areas where WSBs are experiencing capacity difficulties); and supporting capacity building of WSB's procurement unit and mechanism.

Responsible staff member and expected time of completion: *WASH Manager and WASH Specialist, with support of the Technical Assistant. They will organize planning fora, workshops and advocacy meetings to support WSTF and PMU in conduct of scenario analysis for realistic target setting, and – in relation to that review – the roles and responsibilities of each partner; and reflect it as an annex to the revised MoU (see agreed action 4) by 30 September 2013.*

- iii In collaboration with PMU and WSTF, assign responsibilities for and establish a quality assurance review mechanism to review and monitor annual and quarterly

workplans of the WSTF and of WSBs (including planned activities, expected outputs, timelines, partners and costs), to ensure clear progression towards the achievement of total planned results.

Responsible staff member and expected time of completion: *WASH Manager, Chief of CSD and the Head of Programme. They will undertake a quality check assurance exercise to sample methods and procedures used for project management and quality assurance by 31 August 2013.*

- iv Review the existing internal capacity in the WASH section and identify capacity-building needs, training and resources required to accelerate the implementation of the programme and achievement of programme objectives.

Responsible staff member and expected time of completion: *Chief of CSD and Head of Programme, and WASH Manager. They will review existing internal capacity of the WASH section to engage with and support the PMU and WSTF (informed by the ongoing WASH Programme review) by 31 August 2013. The office will also ensure that the Head of Programme and Chief of CSD will appoint temporary assistance for executing the actions within this action plan; and reinforce and monitor capacities within the WASH section and within the PMU by 1 September 2013.*

Programme Monitoring Unit (PMU)

The agreement between UNICEF and the Government of Netherlands established a project management structure. It was decided that, given the size of the proposed funding and geographical coverage of 20 districts (75 percent of the land mass of Kenya), the programme would require a dedicated and focused team to manage and steer it.

To this end, a Project Monitoring Unit (PMU) housed at the former Ministry of Water and Irrigation (MOWI) was established with responsibilities to monitor, supervise, report, and serve as secretariat support to the Programme Steering Committee (PSC); and for the day-to-day management of the project. The PSC, chaired by the Permanent Secretary of MOWI, has members from the Ministries of Health, Education, Planning, and Finance, and from UNICEF. The Government of the Netherlands may designate a representative. The mandate of the PSC includes approval of planning documents, overall responsibility for monitoring of programme activities and output, monitoring of auditing procedures and results, and decisions regarding major implementation issues (such as budget and procurement) that cannot be solved at the component level.

The audit made the following observations with respect to the PMU.

Terms of reference (ToR): The name of the PMU was later changed from Project Implementation Unit to Programme Monitoring Unit and the day-to-day management of the project was removed from its mandate. However, the ToR were not amended to reflect this key change.

Staffing: At the beginning of the programme, the office carried out an internal review of its existing capacity in the WASH section and identified gaps. In 2006, it was established in the programme proposal from the Government of the Netherlands⁴ that the existing capacity of

⁴ Annex 2 of the arrangement with the Government of the Netherlands.

the UNICEF WASH section of the Kenya country office would need to be increased by an L4 post (internationally recruited), two water and sanitation professionals, and two support technicians to manage the project in UNICEF. The WASH section increased its capacity. However, the international L4 post remained vacant until October 2008 and was then funded from Other Resources funds⁵ till December 2012.

The PMU was supposed to consist of a Government of Kenya appointed officer from MOWI, a UNICEF-seconded international recruited (L4) officer, representatives from the Ministry of Education and Ministry of Health, and an officer from the Government of the Netherlands. The office had not seconded an international recruited L4 to the PMU, and the Government of the Netherlands had not assigned an officer. This had likely reduced the capacity of PMU to fulfil its mandate.

Effectiveness: In 2012 and 2013, the PMU did not establish an annual workplan with defined planned results, activities, timelines, key performance indicators and associated costs. Further, the PMU had not prepared quarterly progress reports or an annual report to account for the implementation of programme monitoring activities and report achievement of results against the workplan and budget. This has made it difficult for UNICEF and the PSC to monitor progress and identify problems early enough to take action.

The capacity and effectiveness of PMU had not been assessed since the inception of the programme. The audit's interviews revealed that the PMU was overwhelmed by its workload. The office had not provided it with capacity-building support in the areas of monitoring and evaluation, or reporting.

Besides insufficient staffing resources in the PMU, weak oversight by UNICEF explains its lack of an annual workplan and regular reporting. Specifically, UNICEF had not explicitly envisaged, in the MoU and Arrangement with the Government of the Netherlands, a mechanism to monitor and evaluate the effectiveness of the PMU.

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

- i In coordination with the Programme Steering Committee (PSC), the Water Service Trust Funds (WSTF) and the former Ministry of Water and Irrigation (MOWI), request the Programme Monitoring Unit (PMU) to prepare an annual workplan with a description of expected results, activities, indicators, targets, timelines and resources to be approved by the PSC; and to report semi-annually and annually to PMU members, including UNICEF, on progress against planned results.

Responsible staff member and expected time of completion: *WASH Manager and WASH Specialist with support of the Technical Assistant. They will help the PMU to develop an annual workplan; revise the ToR of the PMU to include semi-annual and annual reporting responsibilities on progress against targets; and develop monitoring indicators/matrix based on the revised ToR and PMU AWP by 31 October 2013.*

⁵ UNICEF offices have two types of funding. Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources 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. An office is expected to raise the bulk of the resources it needs for the country programme itself, as Other Resources.

- ii In coordination with PSC, WSTF, MOWI and PMU, establish mechanisms to assess the effectiveness of PMU.

Responsible staff member and expected time of completion: *WASH Manager, WASH Specialist, and Monitoring and Evaluation Specialist. They will advocate that the Project Steering Committee (PSC) review and adopt a PMU monitoring matrix and establish a mechanism for regular reporting by 30 September 2013.*

- iii In coordination with PSC, WSTF and MOWI, review the capacity of the PMU; identify training and capacity building needs, and resource requirements; and provide training and support to PMU in the areas of monitoring, evaluation and reporting.

Responsible staff member and expected time of completion: *WASH Manager and WASH Specialist with support of the Technical Assistant. They will help the PSC carry out an internal review of the capacity of PMU; and, based on the gaps identified, develop a capacity-development plan and support training and capacity-building needs and resources by 31 October 2013.*

Monitoring results

The audit reviewed whether the office put in place standards, tools and processes to measure, monitor and report on progress towards the achievement of programme results.

Project monitoring: In 2012, the WASH programme section based in Nairobi and the four field offices carried out 68 monitoring trips, including six joint visits with the donors, WSTF, WSBs and NGOs, to provide support to implementing partners. With a total of 10 staff in the WASH section, this is an average of 6.8 trips per staff – that is, less than one trip per month. The office has not established standards for the frequency of field visits per month per WASH specialist. Though the rolling workplan of the WASH programme has established an indicator for the number of monitoring visits, the office did not report against this indicator in the 2012 donor report to the Government of the Netherlands.

In 2012, the office engaged one NGO to carry out third-party monitoring. It also involved the Government of Kenya partners in provision of verification support and monitoring of activities in areas where UNICEF staff were unable to travel.

The audit visited four projects in Kisumu and met with community-based organizations that confirmed that the water supply projects provided access to safe and drinkable water, and improved living conditions of women and children. However, the audit also noted delays in project completion for various reasons, including weak community contribution, insufficient capacity of local contractor, and flood. The audit visited a NGO and found that the planned spot check had not been carried out (see section on *Capacity assessment and assurance activities*, below). Further, according to interviews with WSTF, it had conducted several field-monitoring visits; however, the trip reports had not been shared with UNICEF to inform it of achievement of results and key constraints to implementation.

The audit reviewed a sample of the UNICEF office's trip reports and noted that the purpose of the trip was well described, with comments on status of projects and action points. However, the sampled trip reports did not indicate a reference to the annual workplan activities and expected results to be monitored. The action points were generally specific and measurable; however, responsibilities were not assigned to specific persons with

timelines.

The office prepared monthly travel plans. However, it had not developed quarterly or annual risk-based programme monitoring plans jointly with key partners, including WSTF and the Programme Monitoring Unit (PMU), so as to coordinate field visits and make efficient use of resources.

The PMU conducted 26 field trips in 2012. The reports were shared with the country office. However, they were not included in a database of trip reports to ease sharing of reports among WASH officers and other sections. There was no joint database storing all trip reports completed by UNICEF, PMU and WSTF.

Output level monitoring was conducted by independent audit firms under a harmonized audit arrangement with WSTF. These reports were received and reviewed by the UNICEF WASH section. The audit was informed that follow-up of the implementation of recommendations was carried out by WSTF, not UNICEF WASH section. WASH section followed up with WSTF on implementation of audit recommendations and their closure.

Mid-year and annual reviews: The office used the VISION Results Assessment Module to monitor intermediate results of the WASH programme. The template includes a description of the intermediate result indicators, baselines, targets, status of implementation, and source of data/information supporting the reported value or status of the indicator; and a link to the provided evidence.

In 2012 the office conducted mid-year and annual reviews of its WASH programme with key partners. The review process included a review of progress against the planned activities, review of constraints and challenges, lessons learned and recommendations for acceleration of programme activities in the second half of the year. However, the office also noted that insecurity in some parts of the North-East created difficulties in monitoring project implementation. This resulted in reliance on monitoring by third parties, which included NGOs, PMU and selected district public health offices and district water offices. Progress by intermediate results was reviewed. However, the proposed actions and strategies were not clearly linked to the identified constraints to programme implementation. For instance, there was no proposed action for the identified constraint of slow and costly connection to power grid for complete and equipped water supply schemes.

The implementation of recommendations stemming from the 2011 mid-term review and 2012 annual programme review were followed up and documented. However, the follow-up of major recommendations from project monitoring visits was generally done informally and not systematically documented.

Insufficient review of implementation of programme activities, constraints and achievement of results during field visits, mid-year and annual programme reviews could reduce the office's capacity to properly assess whether funds were used for intended purposes and achieved expected results. It could also reduce its ability to identify causes of delays and propose solutions. The above shortcomings were mainly due to: lack of standards for frequency of field visits per WASH officer; lack of indicators to monitor and report on the number of visits; insufficient coordination of field visits between UNICEF, PMU, WSTF and other partners; staff vacancies in the WASH section; and gaps in the trip-report tool (which does not require a reference to rolling workplan intermediate results and indicators of progress).

Agreed action 3 (medium priority): The country office agrees to:

- i In collaboration with the Water Services Trust Fund (WSTF) and the Programme Monitoring Unit (PMU), develop jointly an annual risk-based project monitoring visit plan with key partners (and donor) so as to coordinate visits; focus on key risk projects (such as those experiencing significant delays or poor results) and partners; and ensure sufficient coverage.

Responsible staff member and expected time of completion: *WASH Manager, WASH Specialist and the Monitoring and Evaluation (M&E) Specialist. They will prepare a strategy for risk-based monitoring and undertake joint field monitoring visits with WSTF, PMU, donor and other stakeholders by 30 September 2013.*

- ii Set standards for the frequency of field monitoring; and measure and report on the number of field monitoring visits.

Responsible staff members and expected time of completion: *WASH Manager and M&E Specialist. They will issue a standard on minimum frequency of monthly field visits by various staff and make provision for reporting against targets, by 31 August 2013.*

- iii Amend trip-report template to require a reference to rolling workplan intermediate results (IRs) and indicators of progress.

Responsible staff members and expected time of completion: *WASH Specialist, and the Planning and M&E specialists. They will roll out a trip-report template to include reference to RWP IRs and indicators by 31 August 2013.*

- iv Ensure mid-year and annual programme review clearly links identified constraints to programme implementation with specific and measurable action points.

Responsible staff members and expected time of completion: *WASH Manager and Planning and M&E specialists. They will incorporate clear strategies and actions within the mid-year and annual review and planning processes to identify chronic and recurring problems/constraints and establish specific measurable action plans to address them by 30 September and 20 December 2013 respectively, and on a quarterly basis subsequently.*

- v Establish a cost-effective system to monitor implementation of key recommendations stemming from monitoring visits.

Responsible staff member and expected time of completion: *WASH manager and WASH Specialist. They will identify a focal point in the section to compile a matrix on recommendations from all reports, and follow up with concerned parties by 30 September 2013; the concerned Programme Specialist will update status of action; and the WASH Manager will sample compliance through the monthly section meetings. This work will be done by 30 September 2013 and on a quarterly basis subsequently.*

- vi Establish a joint database to store all trip reports from UNICEF, PMU, WSTF and

other key partners to enable sharing information on programme implementation, constraints and proposed actions.

Responsible staff members and expected time of completion: *WASH Manager, WASH Specialist and M&E Officer. They will create a central electronic folder and filing system for hard copies to store trip reports by key partners of the programme by 31 December 2013.*

Sustainability and evaluation

The agreement between UNICEF and the Government of Netherlands, signed on 6 December 2007, required UNICEF to carry out an annual sustainability check until 2015. This was to take the form of an annual audit of the cumulative new water supply and sanitation users reported by the partners, based on a representative sample drawn at random from the communities where new project users were reported. The audit found that the office had not carried out this annual sustainability check since the inception of the programme in January 2008.

Further, the audit found no progress report received by the WASH section on sustainability reviews carried out by WSTF, Water Service Boards (WSBs) and other partners and results. The WASH section has not requested and/or obtained a global sustainability monitoring plan from WSTF and/or PMU to carry out post-completion monitoring of completed water projects by WSBs in conjunction with districts to ensure sustainability.

The audit noted that, in 2012, the office had recruited a national officer to mainstream sustainability of WASH facilities and services at community level and to strengthen community engagement. At the time of the audit, the office was planning to contract an independent agency to carry out an annual audit of the cumulative new water supply and sanitation users reported as achieved by the programme. The office had also prepared a five-year integrated monitoring and evaluation plan (IMEP) for the country programme. The office had completed two reviews: a mid-term review in 2011; and a 2010 review to examine the programme objectives, strategies and achievements against the planned results. However, no programme evaluation had been done on the WASH programme in the past five years. The office indicated that, based on a Country Management Team decision taken in 2012, a comprehensive WASH programme review for both the regular and humanitarian aspects was ongoing. The results are expected to feed into the design of the new Country Programme and contribute to addressing some of the capacity and competency challenges that the WASH section has been facing.

Insufficient evaluation of the results of the WASH programme and the sustainability of the programme intervention reduced the office's capacity to assess the efficiency, effectiveness and sustainability of the key programme interventions – such as the water programme component (Is the water safe and drinkable? Is the project sustainable?). The above shortcomings were mainly due to insufficient oversight and to lack of monitoring of sustainability action plans of WSBs (but also to the office's need to attend to other priorities, such as the Horn of Africa emergency).

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

- i Immediately plan and carry out sustainability checks of sampled projects to verify whether reported new users of water supply and sanitation facilities are still using

their facilities and that the facilities provided have continued to function properly; and take immediate and adequate measures to make sure that the national counterparts correct the situation as necessary to ensure sustained use.

Responsible staff member and expected time of completion: *The office already has approved ToRs for the sustainability check study, but it cannot be commissioned until fund disbursement recommences for the Government of the Netherlands-funded WASH programme. The office will ensure that the WASH manager will carry out sustainability checks six months after the release of funds.*

- ii In collaboration with the Programme Monitoring Unit (PMU) and the Water Service Trust Fund (WSTF), assign clear responsibilities to Water Service Boards (WSBs) to develop and implement a functionality and sustainability monitoring plan; and to carry out post-completion monitoring of completed water projects in conjunction with districts to ensure functionality and sustainability.

Responsible staff member and expected time of completion: *WASH manager and WASH Specialist. They will organize workshops to assist the WSB's review, and analyse the sustainability-check study; and develop a functionality and sustainability monitoring plan three months after the completion of the study (see agreed action 4.i above).*

- iii Assign responsibilities and identify critical aspects of the WASH programme that require programme evaluation such as the efficiency and effectiveness of specific technology; and the impacts of the programme on communities and children.

Responsible staff member and expected time of completion: *WASH manager, who will implement the study on the impact of WASH interventions on school enrollment, retention and transition, particularly on girls' education, that had been planned prior to this audit. The WASH manager will also ensure that the planned sustainability check study will capture the efficacy and adequacy of various technologies used in meeting the needs of the communities, including ease of operation and maintenance. Both studies are dependent on commencement of fund disbursement by the Government of the Netherlands for the WASH programme. The office agrees to implement both studies within six months after the release of funds by the Government of the Netherlands.*

Donor reporting

The country office is expected to submit reports on results and utilisation of resources received from donors. Donor reports should present an accurate description of the results achieved, using donor resources in line with the proposal submitted to the donor. The audit reviewed the quality and timeliness of the donor report submitted to the Government of the Netherlands for the year 2012, and the management of donor reports by the office.

The UNICEF office issued 45 donor reports in 2012; and all of them were issued on time. The WASH section issued six donor reports to various donors, including the Government of the Netherlands. In 2012, all reports were reviewed and finalised through an internal quality assurance process, using an assessment tool established by the office. Further, at the time of the audit, the office was developing standard operating procedures (SOP) for donor reporting. These define the process of developing donor reports, the responsibilities of staff,

and timelines for submitting donor reports. Since 2011, the office had also introduced other measures, including a donor-reporting schedule, report preparation guidelines and checklist.

In May 2012 the Government of the Netherlands provided feedback to the office on the quality of the donor report covering 2011. It indicated that the report contained a detailed analysis of strong and weak points in the implementation of the programme; and that it was better than the reports of the previous years. (The UNICEF Regional Office also assessed the report as good.) However, the Government of the Netherlands expressed concerns about poor results achieved in 2011 and proposed specific actions. The office replied by informing the donor of actions taken to increase implementation capacity, such as recruitment of staff.

The audit reviewed a sample of result statements described in the donor report submitted to the Government of the Netherlands in March 2013 for the year 2012. It found that they were well supported with information from various sources, including the WASH database of completed projects. The report included a good description of activities, and information on coverage and beneficiaries. However, the audit identified the following shortcomings in the report:

- The report provided a good comparison of achieved results with planned objectives for programme components 1, 2 and 3. However, there were no figures for results for components 4 and 5. The report missed the opportunity to present a table that showed targeted and actual results for 2012, and cumulative results; and the percentage of achieved results for each component together with the funds budgeted and actually used for each component. Further, the report did not provide quantitative information to establish whether sustainability had improved.
- Table 1 of the donor report, on progress against annual programme targets, included a description of the activities, monitoring indicators and a brief assessment of progress towards the targets. However, on several occasions the monitoring indicator was not used to describe progress against the targets. Further, the number of monitoring visits carried out by UNICEF was not indicated, though that number was a monitoring indicator for several programme components. The targets were also not always indicated in the assessment, making it difficult to assess progress. For component 1, the number of expected beneficiaries did not match the total number in table 1, being 6 percent out.
- The report included the planned budget (annex 1) and the actual expenditure (annex 7). However, there was no analysis of actual expenditures against planned budget in the report. As the two annexes were presented separately, the reader could not easily determine whether and when the planned budget was spent for each component and key activities. In fact, only four out of the 75 listed activities showed expenditures within 10 percent of the planned budget.
- Though the donor report provided information on causes of delays in programme implementation, it did not clearly indicate why the targets set for 2013 and 2014 were realistic and would be met.

The shortcomings identified in the donor report submitted to the Government of the Netherlands were mainly due to: insufficient application of standards imparted through training in report preparation undertaken by the office in 2012; insufficient internal oversight in the WASH section; and insufficient use of the quality assurance review checklist in the WASH section.

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

- i Ensure the donor-report checklist is filled out for each donor report by the WASH section and submitted to the contribution management unit for quality assurance review.

Responsible staff members and expected time of completion: *WASH Manager, Monitoring and Evaluation (M&E) Officer and Donor Report Specialist. They will comply with respect to completing the donor report checklist by 31 July 2013.*

- ii Reinforce quality assurance review mechanisms to ensure careful cross-checking with the donor report checklist prior to submission to ensure compliance with standard content requirements set in the Programme, Policies and Procedures Manual.

Responsible staff members and expected time of completion: *WASH Manager, M&E Officer and Donor Report Specialist. They will reinforce the donor report quality assurance workflow within the section by 31 July 2013.*

- iii Identify training and capacity building needs, and resource requirements; and provide training and support as needed.

Responsible staff members and expected time of completion: *WASH Manager, Planning Specialist and Donor Report Specialist. They will identify individual capacity gaps among staff and organize training to improve quality of donor reports as part of an office-wide plan by 31 December 2013.*

Compliance with the Memorandum of Understanding (MoU)

The audit reviewed compliance with the MoU that UNICEF signed with WSTF and MOWI in April 2009. This MoU, which expires at the end of 2013, sets out the arrangements for cooperation.

Planning cash transfers: According to the MoU, the WSTF is expected to submit quarterly plans and budgets, along with expenditure statements and progress reports for the preceding quarter. These quarterly plans and budgets, once approved by the Trustees Board meeting, should be used as the basis for requisitioning transfer of funds from UNICEF to the relevant WSTF account. However, the WSTF did not prepare quarterly plans and budgets as required. Instead, there were individual proposals from the Water Service Boards (WSBs) and cash transfer requests were submitted to UNICEF as and when received.

The WSTF commented that while quarterly workplans and budgets were required, it faced challenges in getting funding proposals from the communities, which did not have the technical capacity for preparing proposals; they were therefore not received on time. However, if such delays in receipt of funding proposals contributed to delays in implementation of programme activities, this should have been indicated in the quarterly plans and budgets (which had not been submitted by WSTF as expected).

Requesting cash transfers: Contrary to the MoU, the requests for cash transfers were not accompanied with expenditure statements and progress reports for the preceding quarters. Thus requests did not contain information on funds previously given and unspent balances. In addition, the requests from WSTF did not contain information about the start and end

date of activities for which funds were being requested.

Disbursing cash transfers: The audit reviewed sampled transactions and noted that cash transfers were not disbursed to WSTF and other partners within the standard of 30 days for processing direct cash transfers. In five of 10 transactions reviewed, the processing time within UNICEF ranged from 31 to 83 days (median 45 days) from the date of receipt of partners' requests to the date of processing the bank transfer letters. Also, the disbursement of direct cash transfers to other partners in the programme with programme cooperation agreements was not consistently done in accordance with the agreed schedule, resulting in delays in release of funds – as noted in four payments to NGOs which were made within 85 to 336 days after the agreed schedule. The delays in disbursement of cash transfers, which had an impact on timely implementation of programme activities, were partly due to late submission of requests by partners and inadequate oversight by the programme section to ensure that payments were processed in accordance with established standards.

Financial reporting: The MoU prescribed specific financial reports that WSTF was responsible for submitting to UNICEF. These included annual audited financial reports, interim quarterly financial reports and consolidated financial reporting of recipient beneficiaries (i.e. the WSBs). The annual financial report for the period ending 30 June 2012 had been submitted to UNICEF. However, as of the end of the audit (2 May 2013), the interim quarterly financial reports of WSTF for years 2011, 2012 and 2013 had not been submitted. The interim quarterly financial reports were required to provide necessary information on activity income and expenditure for the WSTF, expenditure compared to budget and explanations for significant variances, and interest earned on funds held in the bank account. There should also have been a management letter from the auditors concerning the audit of WSTF undertaken for the period and measures taken by the management to address the issues raised in the audits.

Lack of these quarterly financial reports limited UNICEF's assurance on whether funds transferred to WSTF, and to WSBs through WSTF, were properly accounted for and used for the intended purposes.

Risk management: The MoU did not specify any formal processes for risk management. The 2012 WSTF annual report to UNICEF included a section on risk mitigation. It indicated that WSTF had adopted a risk management framework and policy, and that its effectiveness was subject to review by the WSTF internal audit function. However, the WSTF annual report did not provide a detailed analysis of key risks and mitigation actions undertaken by the WSBs to manage them. As of June 2012, only one WSB had fully implemented the risk management framework. It was therefore unclear whether the risks of fraud and corruption had been properly assessed and managed in WSTF and WSBs.

Agreed action 6 (high priority): The country office agrees to assign responsibilities for and strengthen its mechanisms for oversight of the MoU to ensure that planning, requesting and reporting for cash transfers is done in accordance with the requirements of the MoU and UNICEF policies. The country office, in consultation with all parties to the MOU, agrees to review and update the MOU (which is due to expire on 31 December 2013) to clarify and strengthen financial procedures and reporting.

Responsible staff members and expected time of completion: *WASH Manager, Chief of Child Survival Development (CSD), Head of Programme with support of Technical Assistance. They will review and update the MoU to clarify financial procedures and reporting by 30*

September 2013; and assign responsibilities to improve the oversight of the MoU by 30 October 2013.

Specifically, the following measures will be taken:

- i WSTF to provide internal audit reports, and interim and final financial reports, of each WSB to UNICEF.

Responsible staff members and expected time of completion: *WASH Manager and Chief Operations Officer. They will write to WSTF requesting submission of audited financial statements from each WSB by 30 September 2013.*

- ii UNICEF to conduct spot checks of both WSTF and WSBs as part of the HACT procedures.

Responsible staff member and expected time of completion: *Chief Operations Officer, who will issue an administrative instruction requiring spots checks of WSTF and WSB as part of the Harmonized Approach to Cash Transfers (HACT) guidelines by 31 August 2013.*

- iii In collaboration with WSTF and PMU, amend the reporting requirements of the annual and quarterly report submitted by WSTF to UNICEF to include as annexes 1) a risk matrix explaining key risks (including risk of fraud and corruption in the procurement of contracts and other project-related activities), together with mitigation actions (including handling of allegations of fraud and corruption) and timelines; and 2) key performance indicators (KPIs) to measure the financial and programmatic performance of each WSB and WSTF. Examples of KPIs to disclose include: number and dollar value of completed projects that were either completed or not completed on time; number and dollar value of on-going projects that exceeded the target completion date presented by range of delays; estimated time to complete on-going projects that exceeded the target completion date and action plan to accelerate completion.

Responsible staff member and expected time of completion: *WASH Manager and WASH Specialist. They will review reporting guidelines on the content of reports from WSTF and include additional elements including a risk matrix, key performance indicators, etc. by 30 September 2013.*

Agreed action 7 (medium priority): The country office agrees to monitor the timeliness of cash transfers disbursed to the partners to ensure cash transfers are disbursed in a timely manner, to minimize delays in programme implementation. The office will assign responsibilities accordingly.

Responsible staff members and expected time of completion: *The office will ensure the following:*

- *The Finance/Accounts specialist will assign to the Accounts Assistant/Internal Control Officer (on temporary assistance) the full mandate to monitor and follow-up on both cash disbursements as well as liquidation of direct cash transfers (DCTs) to ensure timely disbursements and liquidation of advances by 1 July 2013.*
- *The Finance/Budget officer will circulate a checklist for DCTs (requirements, good*

practices, and Dos and Don'ts) to all programme staff with a view to minimizing the back and forth movement of payment requests. This will be done immediately and half yearly thereafter.

- *The Accounts Assistant will strengthen the cash forecasting function to ensure there is adequate cash to cover planned disbursements, and will report on compliance with this requirement on a quarterly basis.*
- *The Chief of Operations with assistance from the Finance/Accounts Specialist will conduct HACT refresher training for all programme staff by the third quarter of the year.*

Capacity assessment and assurance activities

The office is responsible to put in place effective controls to assess the risks of partners; and ensure that funds transferred to partners are used for intended purposes and planned results are achieved.

UNICEF Kenya country office signed a MoU with the Water Service Trust Funds (WSTF) and the former Ministry of Water and Irrigation (MOWI) to implement important aspects of the water component of the WASH programme. The financial contributions from UNICEF were transferred to a specific WSTF account from which disbursements were made to the approved community projects through the respective WSBs. UNICEF contributions were accounted for separately. Other aspects of the WASH programme, such as sanitation, were implemented by NGOs and government partners.

Capacity assessment of partners: UNICEF hired external institutional contractors to conduct capacity assessment (called micro-assessment under HACT⁶) of both the WSTF and seven WSBs from 2009 to 2012. WSTF was rated as low risk while two WSBs were rated as significant risk and the remaining five WSBs were rated as moderate risk partners. However, the office had not followed up on the implementation of the 96 recommendations (41 rated as high priority) made in the micro-assessment reports of the WSTF and the WSBs. As of April 2013, the status of the recommendations was unknown by the office.

The audit visited a WSB in Lake Victoria South who confirmed having received the micro-assessment report from the office. However, the audit could not find evidence that it was the case for the remaining WSBs. The audit visit to WSTF noted that it had also not received a copy of the final micro-assessment report done in 2011.

In addition to the WSTF and the WSBs, the office collaborated with nine NGOs in the WASH programme in 2012. All of these partners had been micro-assessed (two rated as high risks); 88 out of the 168 recommendations (or 52 percent) stemming from these micro-assessment reports were rated as high priority. However, none of the recommendations had been followed up for implementation by the office.

Assurance activities of WSTF and other partners: With respect to WSTF and WSBs partners, the office was of the view that the assurance activities required under HACT did not apply,

⁶ The Harmonized Approach to Cash Transfers (HACT) aims to reduce transaction costs by simplifying rules and procedures and strengthening partners' capacities in managing the cash transfers. Instead of demanding detailed documentation from the partner, it adopts a risk-based management approach to cash transfers to implementing partners based on micro-assessment of individual partners' financial and programmatic capacity as well as establishment of assurance mechanisms through programmatic monitoring, spot-checks and scheduled audits.

because of the sector-wide approach (SWAp) to the implementation of the WASH programme. UNICEF financial participation in the SWAp was through the transfer of cash to an account where the funds were not comingled. The UNICEF Programme Policy and Procedures Manual (PPPM) provides advice on the accounting of cash transfers as advance and expense (section 2.92 of the Manual). However, it does not include sufficient guidance regarding the implementation of assurance activities in a context of a SWAp. As a result, the office had not fully implemented HACT.

The office had not established a distinct assurance plan that specified the extent of spot checks, programme monitoring and scheduled audits of funds transferred to WSTF (and to WSBs through WSTF). Nevertheless, it carried out some assurance activities. For instance, the MoU with WSTF and MOWI included some monitoring and evaluation activities that would provide assurance on the use of funds and achievement of results. For instance, the MoU included the performance monitoring and review of the sector to be led by the MOWI; and the annual financial and procurement audits of WSTF, and annual audit of each grant of funds disbursed to WSBs. The office, as well as the Programme Monitoring Unit (PMU,) had carried out some programme monitoring activities (see observations on *Monitoring results* and on *Programme monitoring unit*). However, the office had not carried out spot checks to verify utilization of cash transfers made to WSTF, as key implementing partner, in 2012 and 2013. Though the office had received annual audited financial statements of WSTF, the lack of financial spot checks coupled with lack of quarterly financial reports from WSTF and WSBs (as noted in the observation under *Management of the MoU*) limited the office's assurance on whether funds given to WSTF (and WSBs through WSTF) were utilized for intended purposes. The office informed the audit team that the funds channelled through WSTF are earmarked by amount of funding by project and by location and WSB. WSTF, PMU and the office are responsible for monitoring the implementation of these projects by region and maintaining a database of all funded projects linked to tranches of funding released to WSTF and onward to WSBs.

The office had established a risk-based standard for conducting spot checks, whereby two, three or four spot checks were required during the year for partners rated as low risk, moderate risk and significant/high risk respectively. Most of the WASH programme partners were rated as moderate, significant and high risk. Despite the risk rating, only five spot checks were done in 2012 (two NGOs and three government partners) and none was done in 2013 (as of April).

The audit also noted that some of the spot checks done were not carried out following established standards. For instance, the standard templates for conducting spot checks were not completed in three of the five spot checks completed. Also, of the two that used required templates, the templates were not fully completed as required.

Weaknesses on assurance activities were partly due to inadequate assignment of responsibilities for conducting spot checks within the WASH section. Although the WASH section informed the audit that all WASH officers had responsibility for spot checks, a review of eight sampled performance evaluation reports (PERs) of staff members noted that seven of them did not include the assignment for conducting spot checks. In addition, the office had not prepared an assurance plan that included spot checks, programme monitoring and scheduled audits of NGOs and government implementing partners, including WSTF. As a result, it could not establish the level of resources required to obtain assurance that the funds were used for intended purposes, or monitor progress so as to report to the Country

Management Team (CMT) on HACT implementation. Further, the status of implementation of assurance activities was not a standing agenda item in the WASH section's meetings.

Agreed action 8 (high priority): The country office agrees to assign responsibilities and:

- i. Include the review of the status of implementation of assurance activities as a recurrent agenda item in the WASH section meetings.

Responsible staff member and expected time of completion: *The office will ensure that the Chief of WASH, Monitoring and Evaluation (M&E) Officer and WASH Specialist will make implementation of assurance activities a recurrent agenda item at Section meetings and undertake compliance checks by 31 July 2013.*

- ii. Implement an assurance plan (including spot checks, programme monitoring and scheduled audits) and conduct spot checks, and include these responsibilities in the staff members' performance evaluation reports. The office should prepare a consolidated plan incorporating the assurance plan of each field office.

Responsible staff member and expected time of completion: *The office will ensure that the Chief of WASH, WASH Specialist and M&E Officer will develop and implement an annual assurance plan by 30 September 2013.*

- iii. Regularly train staff on the HACT guidelines, including the use of tools such as the spot check template; and ensure staff assigned to perform spot checks have sufficient expertise in bookkeeping and basic financial accounting to determine whether the sampled funds were properly justified with supporting documentation and were used for intended purposes, and whether goods/services were received.

Responsible staff member and expected time of completion: *The office will ensure that the WASH Specialist, Internal Controls Officer HACT and Programme Budget Officer will organize training and refresher training on HACT guidelines in conjunction with Operations. This will be conducted on an ongoing basis.*

- iv. Develop and implement a plan to immediately follow up on the implementation of recommendations made to partners in the micro-assessments, spot-check reports, programme monitoring, and external audits done by UNICEF, PMU and/or WSTF.

Responsible staff member and expected time of completion: *The office will ensure that the WASH Specialist, M&E Officer and Programme Budget Officer will develop a plan of action to implement the recommendations from various parties where feasible by 30 September 2013.*

- v. Establish mechanisms to share micro-assessment reports and HACT guidelines with partners.

Responsible staff member and expected time of completion: *The office has taken steps to hire an Internal Controls Officer HACT who will be the focal point for sharing these reports and guidelines. The office will ensure that the WASH Specialist, Internal Controls Officer HACT and Programme Budget Officer will share the reports and guidelines with partners by 31 July 2013.*

Agreed action 9 (medium priority): DPS, in consultation with DFAM, agrees to review and update the relevant sections of the Programme Policy and Procedures Manual (PPPM) to provide clear guidance on the implementation of the Harmonized Approach to Cash Transfers (HACT) in the context of sector-wide approach to programme implementation where UNICEF contributions are accounted for separately.

Responsible staff member and expected time of completion: *DPS will review and update the PPPM to provide clear guidance on the implementation of HACT in the context of a sector-wide approach to programme implementation once the revision of the framework on cash transfers to implementing partners—currently being led by an inter-agency HACT Advisory Committee at the time of the audit—is finalized. DPS Programme Specialist is expected to complete the work by December 2013.*

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the management of the Government of Netherlands-supported WASH programme in the Kenya country office, as defined above, needed improvement to be adequately established and functioning.

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 audit recommendations 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, OIAI 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, OIAI 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.