Internal Audit of the Kingdom of Lesotho Country Office

October 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/41

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Kingdom of Lesotho Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit team visited the office from 3-20 June 2013, and the audit covered the period from January 2012 to 31 May 2013.

The country office is based in Maseru; there is no zone office. It has a total workforce of 33. The country programme for 2013-2017 consists of four main programme components: HIV and health; Child protection; Basic education; and Social policy, planning, monitoring and evaluation. The total budget is approximately US$ 45.26 million, of which 5.26 million is expected to be from Regular Resources (RR), while the Other Resources (OR) component is US$ 40 million. 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 may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always 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. In the case of the Lesotho programme, OR accounts for 88 percent of the approved budget.

During 2012 and 2013 (up to May), the total expenditures were US$ 10.8 million, of which 49.5 percent pertained to cash transfers to implementing partners.

Action agreed following the audit

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

- Since the office started the implementation of the Harmonized Approach to Cash Transfers (HACT) in 2010, it had not micro-assessed the implementing partners and had only partially implemented an assurance plan. The office stated that, as a compensatory measure, it had visited the implementing partners' offices and examined in detail the original supporting documentation of all expenditures incurred by them before each direct cash transfer was liquidated. However, the audit's visit to implementing partners found insufficient supporting documentation for DCT-related expenditures. The office agreed to expedite, in coordination with the UN country team, the micro-assessment of implementing partners; implement an assurance plan; and follow up with the implementing partners visited by the audit to correct the identified weaknesses and secure reimbursements from them for any unsubstantiated reported expenditures.
- There were control weaknesses in the processing and documentation of cash transfers. The activities for which cash transfers to implementing partners were requested did not directly correspond to the workplan. The request forms were not completely filled in, and the names of the implementing partners on the forms differed from the names on the cheques/bank transfers; they also differed from those in the vendor master records in UNICEF's management system, VISION. The implementing partners requested cash transfers late, and the office took time to process them, further delaying programme implementation. The office has agreed to implement procedures to ensure cost-effective planning, authorization, release

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and liquidation of cash transfers; and conduct training for implementing partners and UNICEF staff.

Conclusion

The audit concluded at the end of the audit that the control processes over the 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 Lesotho country office, with support from the Regional Office, and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI)   October 2013

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Objectives

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In 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 included the following:

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

All of the above areas were covered in this audit.

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

The office had identified management priorities and results, and assigned accountabilities for each result. The staffing structure was aligned to the needs of the approved country programme. Advisory teams and statutory committees, such as the country management team (CMT), programme co-ordination group (PCG), project cooperation agreement (PCA) review committee, and contract review committee (CRC), had been established with clearly defined terms of reference.

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In response to the results of the 2011 global staff survey,[1] in which a significant proportion of respondents reported that they had observed or experienced biased and/or prejudicial treatment, the office held a training for all staff on ethics in the workplace. The staff were reminded of their obligations in upholding the highest level of integrity and ethical behaviour.

Risk management

The audit 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), a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

The Lesotho country office had initially conducted an RCSA in October 2010. It identified the key risks and risk responses, and developed an action plan in a risk and control library. Since then, it had reviewed the key risks and the risk responses and updated the action plan for 2011 and 2012. However, it had not fully implemented or monitored the implementation of the measures in the action plan – including those related to resource mobilization and HACT implementation, discussed later in this report. Also, the simplified ERM/RCSA implementation process requires the conduct of an RCSA during preparation of a new country programme (and halfway through it). However, the office had yet to conduct an RCSA, or at least update its risk and control library, for the new programme cycle 2013-2017, although it presents new risks and opportunities.

Agreed action 1 (medium priority): The office agrees to give priority to the implementation of the action plan to mitigate the risks identified in the RCSA, and to the update of the risk and control library. The office will also give priority to the monitoring of implementation of the action plan, and will monitor the status of its implementation at the Country Management Team meetings.

Staff responsible for taking action: Representative and Deputy Representative
Date by which action will be taken: 30 September 2013

Functioning of advisory teams

Country offices are expected to maintain appropriate teams and committees to monitor and guide their operations and the implementation of the country programme. The audit noted the following.

Country management team (CMT): According to its terms of reference, the CMT is an advisory body to the Representative with an oversight function. It advises the Representative on policies, strategies, and human and financial allocations, and on

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

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monitoring and evaluation of programme implementation and performance. For the CMT to fulfil its role, it should consist of key staff members, meet regularly and discuss key items in accordance with its mandate.

The CMT had met regularly during 2012 and 2013. It reviewed the ongoing demands of programme implementation, such as signing of annual workplans (AWPs), the status of unliquidated direct cash transfers (DCTs), and donor reports due. However, it did not review key programme results or implementation of management priority areas as identified in the management plan and workplans. It also did not review the status of implementation of the action plan in its risk and control library (see also previous observation, *Risk management*). As noted below, the office had yet to develop an adequate monitoring system. Moreover, its membership included a driver and excluded the chief of child protection. The office has informed audit that the omission of the chief of child protection had since been rectified and the change included in the annual management plan.

Programme coordination group (PCG): The PCG met infrequently in 2012-2013. It also lacked terms of reference. During its meetings, it reviewed the overall programme implementation, funding status and the status of unliquidated DCTs. However, it reviewed neither the status of implementation of the activities in the annual workplan (AWP), nor the key recommendations and follow-up action identified during project visits (see also the observation *Programme monitoring*, below). Management stated that the PCG did discuss the implementation of activities, but these discussions were not recorded in the minutes of meetings. It was therefore not possible to follow up on the completion of agreed actions stemming from these meetings. This had reduced the effectiveness of the PCG.

Project Cooperation Agreement (PCA) review committee: The office had established a PCA review committee to advise the Representative in writing on proposals for cooperation with non-governmental organizations (NGOs). The PCA review committee prepared minutes of its meetings with recommendations to the representative. However, the audit reviewed a sample of meeting minutes and found they did not record discussions on selection of the NGOs, the appropriateness of the project document, or the budget. They simply stated that the PCA committee was satisfied with the selection of the NGOs. Neither was there any micro-assessment of the NGOs or a simplified assessment of their financial management capacity submitted to the PCA review committee for review.

Agreed action 2 (medium priority): The office agrees to ensure the effective functioning of the advisory teams by:

i.   Assigning key staff as members of the country management team and including, as standing agenda items in CMT meetings, review and discussion of the status of implementation of management priorities, results as per management plans and workplans, and the action plan in the risk and control library.
ii. Formally defining the terms of reference of the programme coordination group.
iii. Identifying the key areas to be reviewed during Project Cooperation Agreement review committee meetings – e.g., the selection of the civil society/non-government organization, the project document, and the budget – and ensuring that deliberations on these areas are documented.
iv. Assigning responsibility to the CMT for oversight of the effective functioning of the PCG and PCA review committee.

Staff responsible for taking action: Representative and Deputy Representative

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Date by which action will be taken: 31 October 2013

Assignment of authorities

With the implementation of UNICEF's new management system, VISION, the office had assigned roles to staff members and mapped these roles in VISION. In addition, the representative had issued a table of authorities (ToA) that delegated authorities to staff as authorizing, purchase-orders releasing, receiving, certifying, approving and paying officers. The latest one had been issued in March 2013. The audit noted the following weaknesses:

i.   A staff member had been delegated the incompatible functions of approving the DCT expenditures reported by implementing partners (as part of the Programme L2 functional role), and verifying them (as part of approving officer functional role). The staff member could therefore have processed the entire liquidation of DCTs on their own. The office indicated that it was aware of the conflict, and that the assignment of the Programme L2 role to the approving officer was intended mainly for approval of budget allocation/activities related to the institutional budget and cross-sectoral funds. However, the audit maintained that assignment of functional role Programme L2 to an approving officer posed a significant risk, given that posting of payment of cash transfers, approval of reported DCT expenditures and verification of the same could all have been done by the same staff member.

ii.   Only one staff member had been delegated the authority of an approving officer. Since the same individual was the only operations section staff member who was delegated the authority of a paying officer and was therefore able to perform the payment run in VISION, a conflict in the segregation of duties existed that increased the risk of irregularities and/or undetected errors.

iii.   Two staff members were provided with the role and rights of an approving officer in VISION, although the Representative had not delegated them such authority. Consequently, unauthorized staff could post payment requests in VISION and could verify DCT liquidations. At the same time, the sole approving officer, who was the one person who should have been granted that role in VISION, had not been given it.

iv.   A staff member who had been involved in the processing of payments and maintenance of accounts was also assigned the bank reconciliation role in VISION. As such, the staff member could prepare bank reconciliation statements, and could have concealed errors and inappropriate transactions in VISION. The office has since informed the audit that it has resolved this conflict in segregation of duties.

v.   Programme staff were granted rights in VISION to adjust the inventory records after physical counts, recording impairment write-downs or disposals – although this was an accounting function. The office indicated that the rights were erroneously given to the programme staff and that they did not exercise them.

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

i.   Review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.

ii.   Review the registration of the table of authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.

iii.   Institute periodic monitoring of the assignment of roles in VISION and the delegated authorities in the table of authorities approved by the Representative.

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Staff responsible for taking action: Operations Manager
Date by which action will be taken: 30 November 2013

Governance area: Conclusion

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

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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 time-bound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

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

The office, relying on collaboration with, and information generated by, the Government, other UN agencies and key development partners, led the development of the situation analysis (SitAn) in 2011. The SitAn described the state of affairs with respect to children's and women's rights in Lesotho. It was produced in preparation for the new 2013-2017 country programme, and to inform the Government's 2012/13-2016/17 National Strategic Development Plan (NSDP) and the 2013-2017 UN Development Assistance Framework (UNDAF).

The 2013-2017 country programme reflected the 2013-2017 UN Development Framework (UNDAF), whose outcomes and outputs supported the strategic objectives of the the NSDP. The key actions in the UNDAF results matrix that were attributed to UNICEF were covered in the country programme.

The office had established a process for ensuring timely reporting to donors. All but one of the donor reports due in 2012-2013 were sent on time.

The office had commissioned two evaluations of significant programmes, and had disseminated the results of the first evaluation. At the time of audit, the office was

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developing its management response to the first evaluation; the second evaluation was on-going.

Planning

The office had developed the 2013 annual workplans (AWPs) jointly with implementing partners. The AWPs, which outlined the planned activities, the timeframe for each activity, the implementing partners involved in each activity and the budget, were endorsed by the implementing partners. However, like the 2012 AWPs, they were endorsed late (in April 2013). Although this was the first month of the government's fiscal year, it was more than a quarter after the start of the planning year. This meant that the activities planned to be implemented during the year had to be implemented in just three-quarters of it.

The audit reviewed a sample of 11 intermediate results (IRs)[2] under the three major programmes, and noted that majority of IRs were not specific and measurable and, at times, not time-bound. The IRs were generally broad and included the use of words like "support", "strengthen", "provide support", "enhance capacity" or "improve" that were difficult to measure.

Moreover, the activities and timeframes in the AWPs were not appropriately registered in VISION. This hindered monitoring of, and reporting on, their implementation. Also, the timeframe for the 11 sampled IRs and activities recorded in VISION were not consistent with the agreed ones in the AWPs. Staff salaries, procurement, contracts and some hard-to-understand actions were registered as activities instead. Also, the programme component result (PCR) related to social protection, which was part of child protection according to the country programme document (CPD), was instead grouped with social policy, planning, monitoring and evaluation.

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

   i.   Consider the use of rolling workplans, in view of the government's fiscal year; and ensure the timely development and endorsement of these plans, including the establishment of a timetable to be used for the process.
   ii. Provide guidance, and institute a quality assurance mechanism, for a) the development of a workplan to ensure that the expected results are specific, measurable and time-bound, and b) the appropriate registration of the workplan in VISION, including the recording of activities and the grouping of programme component results.

Staff responsible for taking action: Deputy Representative and Heads of Sections
Date by which action will be taken: 31 January 2014

Resource mobilization

According to chapter 4 of the Programme Policy and Procedures Manual (PPPM), country offices should develop a clear and comprehensive fundraising strategy for securing approved

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[2] In their programme planning, UNICEF offices work towards programme component results (PCRs); these are the outputs of the country programme, against which resources will be allocated. An intermediate result, or IR, is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

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Other Resources (OR) in support of the country programme.

The 2013-2017 country programme had an approved budget of US$ 45.26 million, of which the OR component was US$ 40 million, 88 percent of the approved budget. At the end of 2012, the office had an unspent allotment of about US$ 8.6 million, which had been carried over to the new country programme. Since then and up to the time of audit (June 2013), the office had not received additional funding. The amount seemed to cover the first year's OR funding requirement, assuming that the OR component was to be evenly distributed over the five-year country programme. However, analysis of the funding requirements by programme component results (PCRs) indicated significant funding gaps that were jeopardizing the implementation of activities and achievement of planned results. The PCRs under the flagship programme HIV and health were in dire need of funding in 2013, and so was the basic education programme. Only 6 percent of the OR component of HIV and health, and 13 percent of the basic education programme, had been funded. Moreover, the office was heavily dependent on one donor, contributing 77 percent of the available OR funds. Loss of the contribution from this donor would be a serious threat to implementation of the country programme.

In its Risk and Control Self-Assessment (RCSA) exercise, the office had rated aid environment and predictability of funding as high risk. It had, in December 2012, contracted a consultant to develop a resource-mobilization strategy.[3] The strategy, which was finalized in May 2013, called for a number of steps, including the following:

   i.   Revitalize the resource-mobilization taskforce and appoint the resource mobilization focal point.
   ii. Schedule strategic field trips for those donors with significant funding, with the proviso that the costs and benefits of such trips would be evaluated first.
   iii. Continue to communicate with UNICEF headquarters and the regional office regarding funding gaps, absorption rates and other contribution management issues.
   iv. Increase the engagement of national committees in donor countries
   v.   Work with Botswana, Namibia, South Africa and Swaziland country offices and the Regional Office.
   vi. Seek external support for fundraising, proposal writing and donor tracking.

At the time of the audit (June 2013), the office had so far contracted an institutional contractor to develop a fundraising package based on three identified flagship areas. It had drafted concept notes to be used in the development of this package. However, it had yet to revitalize the resource mobilization taskforce and convene a taskforce meeting, work with the other four country offices, or increase national committee engagement. It had requested funding support from the regional office but had yet to communicate with headquarters divisions like Public Sector Alliances and Resource Mobilization Office (PARMO) and Private Fundraising and Partnership (PFP) to close the funding gap.

Agreed action 5 (medium priority): The office agrees to give utmost priority to raising funds for the country programme, ensuring that the recommended steps in the resource mobilization strategy are promptly taken, and that the donor base is diversified.

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[3] While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

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Staff responsible for taking action: Representative
Date by which action will be taken: 31 October 2013

Harmonized Approach to Cash Transfers (HACT)

Country offices are required to implement HACT for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP.[4] HACT replaces a system of rigid controls with a risk-management approach to cash transfers to implementing partners. It aims to reduce transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes micro-assessments of the individual implementing partners (both Government entities and NGOs).

HACT also requires assurance activities regarding appropriate use of cash transfers. These include spot checks of partner implementation, including review of financial management procedures, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Unfavourable findings from assurance activities should result in a review of the procedures used with that partner. A key component of HACT is that the risk assessments and assurance activities should be carried out regularly. In cases where partners also work with other UN agencies, offices should coordinate with other UN agencies that have also adopted HACT so as to minimize the costs of micro-assessments and assurance activities.

The office had implemented HACT, as had the other UN agencies in Lesotho.

Micro-assessments: Since the country office implemented HACT in 2010, it had not micro-assessed the implementing partners nor conducted at least a simplified assessment of their financial management capacity. Despite this, the office had provided advances in the form of direct cash transfers to implementing partners. In the beginning of 2013, the UN country team in Lesotho had planned to conduct micro-assessment of its common implementing partners. At the time of the audit (June 2013), however, it was still in the process of selecting an accounting firm for this task.

Assurance activities: The office indicated that, as there had been no micro-assessment of implementing partners, it considered them all to be high risk. However, while it had conducted limited programme monitoring (see the next observation, *Programme monitoring*), and also spot checks, it had not conducted any audits. Neither had it developed an assurance plan specifying the type and frequency of assurance activities for each implementing partner, including spot checks, programme monitoring and audits. Instead, it had gone to the implementing partners' offices and conducted detailed examination of the original supporting documentation of all expenditures incurred by them before each direct cash transfer (DCT) was liquidated. This defeated the purpose of HACT, under which a risk-based approach is meant to be used so that such checks are done only as required.

Starting in 2013, the office had developed a plan for spot checks in addition to the detailed review of the supporting documentation prior to liquidation of direct cash transfers (DCTs). However, there was no rational basis for timing and frequency of the spot checks (especially since the micro-assessments, which could have provided a risk-based rationale for these, had not been done). Thus implementing partners receiving significant DCTs were to receive

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[4] UN Develoment Programme, UN Population Fund and World Food Programme.

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relatively few, or no, spot checks, whereas those receiving smaller or even insignificant amounts were subject to more.

Given the importance of cash transfers as a proportion of total expenditures (49.5 percent), the audit visited four implementing partners – one government implementing partner, an international NGO, and two local NGOs. Between them, these partners received approximately US$ 5.5 million, or 83 percent, of the total US$ 6.7 million DCT released in 2012 and in 2013 up until May. In all of these visits, the audit noted one or more of the following weaknesses:

  i.   The finance staff of the visited partners did not have the lists of the authorized activities and expenditures for which liquidations were to be made. They could not therefore ascertain whether the expenditures incurred, recorded and reported were indeed as per agreed plan and budget.
  ii. Bank reconciliation statement preparation was assigned to a staff member who was also involved in the processing and recording of payments, which were incompatible duties. Consequently, errors and inappropriate transactions could easily be concealed (see also observation *Assignment of authorities*, p8 above).
  iii. There was a bank account established by the implementing partner solely for the agreed activities – but funds were withdrawn from it without any sufficient supporting documentation. The implementing partner's staff were unable to explain or substantiate the withdrawal. Such withdrawals might not have been for the agreed activities.
  iv. The implementing partner was unable to present any supporting documentation for the direct cash transfers that had been reported by them and liquidated by the UNICEF office. There was no assurance that the expenditures liquidated by UNICEF were valid. This also cast doubts on the validity of the office's detailed examination of the original supporting documentation, if it had in fact been done.
  v.   The implementing partner requested direct cash transfers more frequently than quarterly as expected, and the office provided them. This was time-consuming and added no value for either the partner or UNICEF.
  vi. Direct cash transfers were not recorded in the partner's accounting system because (they said) their system had been "crashed" since April 2013, the month the implementing partner received the cash transfers. As such, there was insufficient evidence for how the cash transfers were managed or spent.
  vii. The implementing partner had been encountering recurrent delays in the implementation of activities and had low absorption capacity for DCTs. This had resulted in long-outstanding direct cash transfers.
  viii. The implementing partner's staff were unaware of HACT and its attendant requirements. While some of them had attended HACT training, they were not conversant with the reporting requirements. Their lack of awareness was a major cause for the noted weaknesses.

See also observation *Cash transfers* (p17 below).

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

  i.   Expedite, in coordination with the UN country team, the micro-assessment of implementing partners, giving priority to those receiving the largest amount of cash transfers and/or showing weaker programmatic and financial capacity as revealed through field visits.

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ii.   Determine the most appropriate type of cash transfer for each implementing partner, depending on the level of risk established from the micro-assessment.

iii.   Implement an assurance plan that should include scheduled audits, spot checks and programmatic assurance, taking into consideration the level of funds transferred, and the risk ratings assigned, to each implementing partner.

iv.   Design appropriate methodology for spot checks and assign competent team(s) or hire consultants for their execution.

v.   Conduct training of implementing partner staff and its own office staff on HACT procedures.

vi.   Follow up with the four implementing partners visited by the audit regarding measures to correct the weaknesses identified during the audit visits; and secure reimbursements from them for any reported expenditures that were not substantiated.

Staff responsible for taking action: Representative; Operations Manager; and Heads of Sections
Date by which action will be taken: 30 September 2014 for i to v; and 30 November 2013 for vi.

Programme monitoring

The audit reviewed whether monitoring of programme implementation was carried out. Such monitoring should include the use of inputs, work schedules and planned outputs, to confirm proper implementation of programme activities and ensure that deficiencies can be promptly detected and addressed.

The office had conducted mid-year and annual reviews with implementing partners. It had established procedures for preparing field-monitoring trip reports. However, there was no field-monitoring plan, and field-monitoring trips were *ad hoc*. Trip reports, if prepared, were filed in the shared drive with the intention that they would be accessed by other programme staff for their information and action. There was no information as to the number of field-monitoring trips made in a year, or whether trip reports were prepared for each one.

The major findings and recommendations from these field-monitoring trips were not systematically discussed or reviewed in either programme or country management team meetings. Also, where significant recommendations and follow-up actions arose from field trips, the office did not track their implementation to completion. The absence of an assurance plan (see previous observation), together with the weaknesses noted in field monitoring, reduced the office's awareness of the implementation status of the planned activities and ultimately the achievement of results.

Moreover, although the office's annual workplans gave the baselines, indicators and targets for each of the IRs, it had not established the means of collecting the data so as to report progress against them. Thus, although an update on programme implementation had been a standing agenda of the country management team (CMT) meetings, the CMT had not been provided with the data needed to review progress against the specified indicators.

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

i.   Establish a database of major findings and recommendations from field-monitoring trips, and track the implementation of the agreed actions arising from those trips.

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ii.   Establish a mechanism for the collection of data and monitoring and reporting on progress against targets for each of the intermediate results in the annual workplans.

Staff responsible for taking action: Deputy Representative; and Monitoring and Evaluation Specialist
Date by which action will be taken: 30 November 2013

Programme management: Conclusion

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

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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.

The audit did not cover procurement and inventory management in this audit. The volume and value of the procured supplies were insignificant and the country office did not maintain a warehouse for storage of supplies.

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

The office had developed a table of authority (ToA) assigning staff with financial authorities – authorization of expenditures, release of purchase orders, receiving goods/services, certifying their receipt, approving payments and effecting payments. It had also assigned a principal staff member and an alternate to maintain vendor master records. The staff assigned for vendor master maintenance were not involved in the processing of payments. The office had a checklist of essential supporting documents to guide staff in the processing of payment requests.

The office, together with other UN agencies in Lesotho, had developed a common business continuity plan (BCP). This identified critical UN personnel to carry out critical business functions and outlined the equipment required. The office had also designed a "communication tree" to enable it to communicate to staff in an efficient and orderly manner in case of an emergency.

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Cash transfers

During the period of 2012 and 2013 to May, the office spent US$ 5.3 million (49.5 percent of total expenditure) in cash transfers to implementing partners. In addition, it provided implementing partners with direct cash transfers as advances amounting to US$ 6.7 million in 2012 and in 2013 up to May). The audit reviewed samples of release and liquidation of cash transfers, and made the following observations.

Correspondence to workplans: The form used by the implementing partner to request and liquidate cash transfers is the Funding Authorization and Certificate of Expenditure (FACE) form. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The completed FACE forms should mirror the workplans. However, this was not the case for the activities indicated on the FACE forms relating to 17 of 22 cases sampled. Six of these did not indicate the activities but rather the budget items or cost components. The implementation period indicated in eight of the 22 sampled FACE forms differed from those in the AWPs. Further, the requested amounts on five of the 22 sampled FACE forms were higher than the budgets for the activities in the workplan.

The above shortcomings created risks that activities implemented might be other than those in the approved workplan. They also made it harder to monitor implementation, as field monitoring is carried out against the activities and cash transfers listed in the FACE forms – and these differed from those in the workplans.

Payment of cash transfers: The audit also reviewed 22 sampled payments related to requests for direct cash transfers, with an aggregate amount of US$ 6.1 million. The following weaknesses—caused mainly by lack of awareness of cash-transfer procedures—were noted:

i.   In 15 cases, the payees' names differed from the names of the requesting implementing partners on the FACE forms. Furthermore, in 18 cases, the payees' names differed from the vendor master records of the implementing partners in VISION. There was therefore no assurance that the bank accounts were those of the implementing partners.

ii. In three cases, the office paid less than the amounts requested by the implementing partners, but without noting the reason on the FACE forms. The implementing partners did not therefore know which planned activities and budgets were approved and funded for implementation. This could lead to an unfunded activity being carried out and unauthorized expenditures being charged.

iii. The FACE forms were not completely filled in and yet direct cash transfers were paid. For example, 15 FACE forms did not indicate the duration of the activities for which the cash transfers were being requested. So direct cash transfers were made without regard as to whether the requested amounts were meant for a quarter's expenditures (which is the maximum), or for a longer period.

iv. Although the profiles of implementing partners with authorized signatories were maintained by the office, they were not updated. In five cases, the payees' names were not consistent with the names of the implementing partners in the profiles. Also, in three cases, the FACE forms were not signed by authorized representatives of the implementing partners. As such, cash transfers might have been made to unauthorized recipients.

v.   In two of nine payments to NGOs, the project cooperation agreements (PCAs) were not attached to the FACE forms for the approving and paying officers to ascertain the terms of payment. It was also noted that the electronic copies of the PCAs had

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not been uploaded to VISION, which would have enabled them to check without the hard copies. Consequently, cash transfers might be disbursed outside the terms of the agreement, including the budget and timing of installments.

vi.   In 15 cases, the implementing partners requested direct cash transfers for activities after the planned start dates. The requests were made as late as 102 days after the planned start dates. The average delay for these 15 cases was 29 days. Moreover the office took an average of 24 days to process the sampled requests, causing further delay in implementation of these activities.

Liquidation of cash transfers: At the time of the audit in June 2013, the office had outstanding (unliquidated) direct cash transfers worth approximately US$ 8.4 million. About US$ 1.7 million of this had been outstanding for over six months. One of the main causes for the long outstanding DCTs was the provision of cash transfers beyond the three-month requirement.

The audit reviewed a sample of 20 liquidations of direct cash transfers and noted that there was no assurance that the reported activities had indeed been implemented as planned. Fifteen of the 20 sampled liquidation transactions did not include monitoring reports or activity reports to confirm that the activities were indeed implemented. Further, it had taken the office an average of 26 days (with a maximum time of 119 days) to approve and verify the liquidation of the 20 samples. Direct cash transfers are released for three months' activities and are meant to be liquidated within six months of their release. However, the protracted process of approval and verification meant that this was not done – and also affected subsequent releases.

In discussions with government implementing partners, NGOs and office staff, the audit noted that there was insufficient understanding of the guidance on the Harmonized Approach to Cash Transfers (HACT), particularly the use of the FACE form and the release and liquidation of cash transfers. This was due to insufficient training of both UNICEF staff and partners. In addition, there was inadequate oversight, and a lack of review of internal work processes.

Agreed action 8 (high priority): The office, with assistance from the Regional Office, agrees to:

i.   Review the current process, implement adequate procedures for planning, authorization, release and liquidation of cash transfers, including defining responsibility for the supervision of the staff, and confirm the validity of payments to the implementing partners referred to in items i and iv above.
ii.   Conduct training on cash-transfer procedures for implementing partners and UNICEF office staff.
iii.   Regularly pursue with implementing partners the liquidation of outstanding direct cash transfers, so as to liquidate them within six months of their release.

Staff responsible for taking action: Deputy Representative and Heads of Sections for i and ii; and Operation Manager for iii.
Date by which action will be taken: 31 March 2014.

Vendor master records
With the implementation of VISION in January 2012, country offices' vendor master records

relating to suppliers, contractors and implementing partners have had to be created and maintained in the system. The office had therefore assigned a staff member and an alternate to maintain the vendor master records, and had introduced a form for requesting their creation. But there was no process to ascertain, as part of creation and maintenance of master records, that the vendors (suppliers, contractors, and implementing partners) were legitimate and that their bank accounts were valid.

The audit also found that 41 of the 370 vendor master records in VISION were duplicates. Some of these had already existed in the legacy system (ProMS), while others had been created manually by the designated staff following the migration. A number of the vendors were created under different vendor account groups. Of the 41 duplicated master records, seven which were marked "not in use" or "no longer in use" had been blocked for posting but were not marked for deletion in VISION.[5]

In the review of payment transactions related to cash transfers and contracts, the audit found that the names of the payees differed from the names of the implementing partners requesting cash transfers and the contractors securing payment for services rendered. There was therefore a risk that the bank accounts were not those of the implementing partners. Moreover, purchase orders were raised for the same vendors but with different vendor master records.

Duplicated master records could complicate the analysis of payment transactions with the same vendor and may increase the risk of overpayments or double payments (although the audit team did not identify any). In the case of implementing partners specifically, there is a further risk in that direct cash transfers might be made to an implementing partner that had advances outstanding for over six months, in contravention of UNICEF policy.

Agreed action 9 (medium priority): The office agrees to institute measures to ensure the vendor master records are complete, accurate, correctly classified, and periodically reviewed; and that they are not duplicated. In addition, it agrees to review the existing vendor master records and carry out a clean-up exercise to remove duplicates and invalid records.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 December 2013

Access to ICT resources

The office had an established procedure for providing users with access to core UNICEF ICT resources such as the network, e-mail, Intranet and VISION Transaction Management system components. However, review of the access provided to all 30 staff members noted that the access rights of 19 users were either before or after their respective contract expiry dates. Also, the names of five staff members registered as system users were not consistent with their names as written in their employment contracts.

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[5] In VISION, two actions are needed when it is decided to stop using a vendor account – marking for deletion, and blocking for posting. The office marks the account for deletion, and it will then be deleted when HQ next executes the programme for deletion of vendor accounts that have been so marked. Blocking for posting prevents a vendor account from being posted to in the meantime.

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Agreed action 10 (medium priority): The office agrees to revise the current procedures for provision of access rights to UNICEF network and systems to ensure that the names of staff members and the expiry dates of their employment are based on their respective appointments/contracts.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 30 September 2013

Operations support: Conclusion

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

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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

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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.