Internal Audit of the Republic of the Union of Myanmar Country Office

July 2014

Office of Internal Audit and Investigations (OIAI)
Report 2014/19

unite for children

unicef

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Myanmar Country Office. The audit was conducted during the period 11 to 26 March 2014, and covered governance, programme management, and operations support during the period from 1 January 2013 to 28 February 2014.

The UNICEF country office is based in Yangon, and has a total workforce of 183 approved posts (29 international posts, 79 national officers and 83 general service staff). Of these approved posts, 131 are in Yangon, with the remaining 52 stationed in eight zone offices. The 2011-2015 UNICEF Board-approved country programme has a total budget of US$ 274 million for the five-year period. Of this, US$ 83.6 million is regular resources (RR) and US$ 190.4 million is other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that 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 donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Two are being implemented as high priority—that is, they concern issues that require immediate management attention. These issues were as follows:

- The 2011-2015 country programme had not been prepared within a development assistance framework and was not informed by a Government development plan. Further, a lack of national and sub-national data on children and women reduced the country office's ability to ensure the planned activities were appropriate. The office has agreed to strengthen its programme design and planning by aligning the country programme to the UN's strategic framework or the United Nations Development Assistance Framework, and will ensure that it is informed by the Government of Myanmar's development plan. The office will also support processes to ensure the country programme is informed by current data and will clearly define baselines, targets and verification methods.
- There were inadequacies in procurement for services and in reporting and oversight over contractors, including construction contracts. The office has agreed to enhance procurement processes through pre-qualification of suppliers, involvement of Supply Division in procurement decisions for construction contracts, appropriate monitoring and assessment of supplier performance, and updating of the information in UNICEF records.

Conclusion

The audit concluded that, subject to implementation of the agreed actions described, the controls and processes over the Myanmar office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Myanmar country office has prepared action plans to address the issues raised.

The country office, with support from the East Asia and Pacific Regional Office (EAPRO), and OIAI will work together to monitor implementation of these measures.

Contents

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, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit Observations

1 Governance

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

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators 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 behavior, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above, except identification of office priorities and performance measurement (which were both assessed as low risk), were covered in this audit.

The audit noted that supervisory structures were in place, and both statutory and non-statutory committees had updated terms of reference. The table of authority was up-to-date and staff had acknowledged in writing the financial authorities delegated to them. There were also financial limits for items such as the release of purchase orders, and release and approval of liquidation of cash transfers.

The office had ensured that all staff had had ethics training and completed the online ethics course.

The UN country team (UNCT) is in the process of formulating an Interim Strategic framework as a precursor to a United Nations Development Assistance Framework (UNDAF). The UNICEF office was closely involved in the formulation of this interim strategy. It was also the lead in a number of clusters for humanitarian assistance and thematic groups for development.

However, the audit also noted the following.

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is 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 country office had completed a RCSA workshop in 2010, and in 2013 a task force had been formed to update it. The updated information had been uploaded in InSight, which is part of the performance management facility in VISION, UNICEF's management system. The risks identified in the RCSA were high-level risks faced by the country office as a whole, and related mainly to external risks outside the control of the office. However, the office had not yet established a systematic in-depth risk identification and mitigation process at the sectional or zone office level that would have helped identify additional internal risks.

It is important to embed the risk-management process in the office's work, including definition of risk owners, timelines for mitigating actions and management of an office's risk appetites. This is particularly true in a situation such as that in Myanmar, where accelerated changes in the operating environment will affect each sector differently, and decisions on whether or not to proceed may be critical. Moreover, the office was making significant changes to its programme focus and thus also to its structure, which again would affect each section or office differently.

Agreed action 1 (medium priority): The office agrees to improve the risk-management process by implementing the following measures:

i. Ensuring regular review of risks to the planned results of the country programme at sectional, zone and country office level.
ii. Addressing all significant risks identified by those reviews, systematically monitoring implementation of an action plan that has risk owners and timelines.
iii. Ensuring the office and sectional workplans are informed by their most recent risk assessment.

Staff responsible for taking action: Deputy Representative and Section Chiefs
Date by which action will be taken: 30 September 2014

Office structure

During the 2013 mid-term review the office proposed a number of changes to its structure in order to try and achieve more coherent delivery of the programme at country-office level, and enhance capacity at field-office level to engage partners and other stakeholders at state level. At the time of the audit, the programme budget review (PBR)[1] had just taken place and some of the structures were not fully implemented. The PBR raised pertinent questions around roles, reporting lines, coordination and risk assessment that needed to be adequately

[1] The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

addressed as the office made the changes.

As part of the MTR[2] of the 2011-2015 country programme, the office reviewed the field offices and the field-coordinators' post, in order to ensure UNICEF was in a position to adapt to the Government intention to decentralize. The review noted that: "UNICEF's own capacity at the Field Office level needs to be urgently enhanced, especially for undertaking advocacy, networking and playing a convening role on children's issues at the subnational level." Following this, two zone office posts were upgraded to international professional.

In light of the above, the audit noted the following.

Workplans: One of the purposes of state level/zone office planning was to reduce service-delivery type activities and influence policy at sub-national level, in line with the overall re-focusing of the programme. In 2013, the zone offices did not have individual workplans, as they had originally been structured to provide mainly sector-specific monitoring information, hence they developed plans only for monitoring visits, agreed with the relevant individual sections at country-office level. Following the MTR and the realignment of the programme, in 2014 the office piloted the development of workplans for two zone offices. The country office stated that the changes in an office structure and, where relevant, its workplan would be driven by its ability to engage with state authorities. However, the staff of the zone office concerned were not actively involved in the workplan's development.

Responsibilities, authorities and reporting lines: With the increase in capacity at a field-office level, and the proposed formulation of zone-office workplans, there was a need to review the delegated authority and responsibilities of the heads of zone offices. As things stood, the heads of zone offices merely compiled and reported on activities that had been decided on at a country-office level. The heads of zone office did not have complete knowledge of their offices' operating costs, and in the absence of workplans, activities were not costed.

As stated above, at the time of the audit, monitoring was planned, performed and reported on a sectional basis; the programme sections in the country office would direct the field monitors as to what activities to undertake, and the heads of zone offices merely ensured that the plans were executed. There had not been a review or clarification of the reporting lines, despite the increase in field staff capacity and the intended responsibilities of zone offices. The heads of zone offices were also responsible for reviewing the performance evaluation reports (PERs) of the monitors, even though they had no real authority over what they did.

Capacity gaps: The 2013 MTR recommended the restructuring of the programme's results framework. As a result of these changes, the country office reviewed key staff positions and where necessary obtained approval for posts through the PBR. Staff had since been placed in those positions. However, there had been no overall analysis of staff capacity and identification of any skills gaps. There had not been any significant change in staffing since the humanitarian response to Cyclone Nargis in May 2008.

Agreed action 2 (medium priority): The office agrees to:

i. Ensure zone offices are fully involved in the development of their workplans, and that these workplans reflect a review of the accountabilities and responsibilities of heads of zone office and reporting lines within the office.

[2] Halfway through the country programme cycle, offices generally hold a progress review, known as the mid-term review (MTR), with the help of the Regional Office.

ii. Assess the relevance of including budgets in the zone-office workplans.
iii. Perform a comprehensive skill and capacity assessment and address the gaps identified from the assessment in preparation for the next country programme.

Staff responsible for taking action: Deputy Representative, Chiefs of Field Offices and Programme Section Chiefs
Date by which action will be taken: 30 June 2016

Governance: Conclusion

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

2 Programme management

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

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

All the areas above were covered in this audit.

The audit noted that, the office linked results in Partnership Cooperation Agreements (PCAs) to the overall planned results of the programme.

All donor reports were quality assured and submitted on time.

Programme design and planning

The audit reviewed the way in which the office's 2011-2015 country programme had been drawn up, and made the following observations.

Development framework: The Nay Pyi Taw Accord is the first framework of its kind for aid effectiveness and support to development of national policies and plans in Myanmar. The UN in the country is also drawing up an Interim Strategic framework as a precursor to a United Nations Development Assistance Framework (UNDAF). However, UNICEF's 2011-2015 country programme had been prepared without such a framework and therefore could not be fully aligned to Government developmental efforts.

The audit's discussions with implementing partners suggested that UNICEF was perceived as a provider of services that implemented projects at township level, and that focused on humanitarian assistance. The office informed the audit that after the MTR, a decision was made to also focus on advocacy work so as to influence policy and improve the effectiveness of programming at a national and sub-national level.

Situation analysis (SitAn): Offices are expected to perform a SitAn at least once during a programme cycle. The SitAn contains information on the situation of children and women in the country, and will be used to inform the design of the programme.

The last SitAn had been issued in July 2012. In it, it was stated that there had been limitations stemming from constraints such as the reliability, availability and timeliness of data, and that it had relied on the Multiple Indicator Cluster Survey (MICS) and the Integrated Household Living Conditions Survey (IHLCS) that had been conducted in 2009-2010. It was also stated that the report did not contain sufficient information on child protection or on adolescents and women.

Moreover, the last national population census had been conducted in 1983. The lack of population data affected the availability and reliability of determinant data – that is, data about a population used for epidemiological purposes. The office stated that this concern would be partially addressed with the undertaking of the national population census in 2014, followed by MICS modules and the Integrated Household Living Conditions Survey in the same year. Also, a Monitoring & Evaluation (M&E) working group had been created by the UN Country Team; this would focus on how to improve the quality of data available and the capacity of the government to perform data collection and analysis.

Further, the UNICEF guidance on conducting SitAns, issued in March 2012, states that an examination of the bottlenecks and barriers related to provision of services for children and women is essential if action is to reach all children. In the 2012 SitAn, the capacities of the systems required to provide services were not assessed. For example there was no analysis of either the availability of essential materials or inputs (e.g. drugs, vaccines, learning materials and financial resources), nor of the distribution channels, logistics and infrastructure necessary to provide services. The report also lacked a C4D (communications for development) analysis.

The lack of determinant data meant that changes in the situation of children were difficult to assess. This posed a challenge to programme design and planning – as did the non-alignment of the programme to a development framework.

Workplans: The audit also reviewed a sample of the section workplans. The baselines, and the means of verification of progress, outlined in the workplans were unclear and did not directly link to the defined results. For example, some workplans quoted “field monitoring reports and partner reports” as baselines. This underscored the lack of a reliable data-collection system.

There were also some weaknesses in output formulation. For example a water, sanitation and hygiene (WASH) output was expressed as: “…sufficient safe water sanitation facilities and improved hygiene practices meet the core commitment of children and women in humanitarian situation.” It was unclear as to what would constitute “sufficient”; moreover the related indicators did not indicate how the improved hygiene practices would be assessed. A review of the 2013 education workplan noted that there were no clear linkages between Output 3, “improved quality of teaching and learning”, and the key activities defined in the workplan.

Agreed action 3 (high priority): The office agrees to strengthen its programme design and planning by:

i. Ensuring that the country programme is fully aligned with the UN’s strategic framework or the United Nations Development Assistance Framework, and is informed by the Government of Myanmar's development plan.

ii. Planning and supporting a situation analysis (SitAn) or other process to ensure the programme design is informed by current data. Specifically, the office will perform analysis of barriers and bottlenecks for equitable outcomes for children in prioritized/key sectors. The office will also conduct a commodity assessment to provide information on access to, and costs of, essential commodities that can affect the programme's ability to meet the needs of children and women.

iii. Ensuring that baselines and means of verification are clearly defined, and are linked to defined results.

iv. Reviewing outputs and ensuring that they are specific and measurable, and that there are clear linkages between the outputs and the key activities planned.

Staff responsible for taking action: Representative, Deputy Representative and Section Chiefs
Date by which action will be taken: 31 March 2015

Fundraising

The office has an approved OR budget of US$ 140 million over the 2011-2015 country programme cycle. For the period January 2011 till June 2013, it had raised a total of approximately US$ 92 million in OR, out of which US$ 65 million (70 percent) was for one sector, Education. Because much of this was from only two donors through the Multi-Donor Education Fund, those donors contributed more than half (54 percent) of the office's OR. Included in the funds provided was $10 million that had not been originally planned for.

The audit noted significant differences in the funding of different programmes. As of the end of 2013, Education programmes had mobilized more funds than planned (122 percent) due to unexpected additional funds provided by the main donors. In contrast, other programmes, such as Water Sanitation and Hygiene and HIV/AIDS, were underfunded by 70 percent and 55 percent respectively. The office's fundraising strategy had not been fully implemented at the time of the audit.

Agreed action 4 (medium priority): The office agrees to implement the approved fundraising strategy, ensuring there is clear assignment of responsibility for key actions. These should include processes to mobilize resources for underfunded programmes, and a monitoring mechanism that regularly monitors the impact on the achievement of results for project activities that remain underfunded.

Staff responsible for taking action: Representative and country management team
Date by which action will be taken: January 2015

Budgeting and funds management

Some of the workplans had inadequate budgeting and costing of activities. For example, in the costing of a school improvement plan, the target number of School Improvement Plan (SIP) grants planned for 2013 was for 1,309 schools in 25 townships, for a total of US$ 1,309,000. However, the actual result was that 365 schools in 16 of the 25 targeted townships submitted requests for SIP grants, amounting to US$ 179,685. This was caused in part by the lack of information at sub-national level. The office, in hindsight, cited reasons such as: counterparts in conflict-affected areas having difficulties in preparing their submissions; the large number of requests for water and sanitation facility construction, which could not be undertaken in the rainy season; the unavailability of required matching funds, resulting in smaller grants being requested; and limited counterpart capacity for the new activity.

In 2013, an Education programme submitted a proposal amounting to U$ 22.1 million that was approved and funded by the donors. However, the section's commitment against that budget as of 31 December 2013 amounted to only US$ 15.2 million, or 69 percent of its planned budget with an expenditure of only $12.6 million (56 percent of the budget). The office explained that the low implementation rate was mainly due to inaccuracies in the costing of activities in the submitted budget, inadequate monitoring of the budget's implementation during the year, and lack of capacity in the sector to absorb all the funds in one year.

Agreed action 5 (medium priority): The office agrees to strengthen the budgeting and costing of the workplans, and ensure that planned activities and related budgets are informed by reliable data. They will also reflect the assessed absorptive capacities of the implementing partners to use donor funds within agreed time periods. The office will also ensure periodic monitoring of budget implementation.

Staff responsible for taking action: Deputy Representative and Section Chiefs
Date by which action will be taken: 31 December 2014

Partnerships

In 2013, the office signed 33 programme cooperation agreements (PCAs) with international and local NGOs. Cash transfers to NGOs amounted US$ 13.6 million, which was 52 percent of the total cash transfers released in 2013. The audit's review of partnership management noted the following.

Project Cooperation Agreement Review Committee*:* The office had established a PCA review committee with clear terms of reference and adequate membership. For all the NGOs sampled by audit, the PCAs had been presented and reviewed by the committee prior to the signing of the agreements. However, the audit noted that sampled PCA proposals included large procurement components. For those proposals, the committee had not reviewed NGO procurement processes; neither was there an assessment as to which items were better procured by UNICEF versus procurement through the NGOs. Examples of such items included hygiene kits, education kits and motorcycles.

Project Cooperation Agreements*:* There were delays signing some PCAs and these affected programme implementation. For example, in one instance, the delay in the signing of the PCA and disbursing funds resulted in the activity commencing in August, after the start of the school year (July). In another instance, because of the delays in signing the PCA and disbursing funds, the office asked an NGO to complete construction of latrines as scheduled in the yet-to-be-signed PCA. Reducing the time for implementation of an activity like this increases the risk of inadequate quality of construction work.

It was noted that NGOs had several signed agreements with different sections. There had been no overall mapping of the NGOs, and the office did not have a full picture of a given NGO's capacity, or of the potential for the convergence of various programme activities in different areas.

Partner capacity: Two of the sampled PCAs included construction work, i.e. WASH facilities (latrine, water tank, wells etc.) For those PCAs, the minutes of PCA review committee meetings did not show that there had been a technical analysis of the planned construction work as required by UNICEF supply rules.

Sample NGOs reviewed had been audited, micro-assessed and/or spot checked.[3] However, there was no evidence the issues identified in the assurance activity reports had been shared with or discussed by the PCA review committee. This lack of critical analysis, or presentation of the relevant assessed information to the committee, would not have helped it confirm that a proposal complied with UNICEF policy, or that the proposed partner was suitable for the planned activities.

Agreed action 6 (medium priority): The office agrees to strengthen the programme cooperation agreement (PCA) review process by:

i. Ensuring, where there are proposals to use implementing partners for procurement, that the programme cooperation agreement (PCA) review committee process includes review of the procurement processes of the partner(s); and that justification is given for not using UNICEF internal procurement processes.
ii. Ensuring timely signature of PCAs (before the planned start dates of the activities).
iii. The mapping of partners to ensure that the overall capacity of the partner and potential for programme convergence is taken into account.
iv. Assessment of PCA budget proposals, with an adequately-documented review of NGOs' construction capacity. This review should be done in consultation with Supply Division whenever necessary.
v. Sharing the results of the micro-assessments of the partners with the PCA review committee as part of the review process.

Staff responsible for taking action: Deputy Representative, Chief of Operations and Section Chiefs
Date by which action will be taken: 31 March 2015

Harmonized Approach to Cash Transfers

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs. To manage the risks involved, HACT also includes a macro-assessment of the public financial system in a country, micro-assessment of the individual partners, and assurance activities that include programme monitoring and spot checks.

The UN in Myanmar had yet to agree upon HACT implementation in the country.

Macro-assessments*:* In March 2012 the World Bank undertook a Public Financial Management Performance Review – in effect, a macro-assessment. The review noted that, despite the limitations of the system, the Office of the Auditor General (OAG) was having a significant positive impact on the management of public finances in Myanmar. According to the report, the OAG had adopted international (INTOSAI) audit standards[4] and conducted mostly financial audits with some procurement and performance audits.

[3] Micro-assessments and spot checks are part of the Harmonized Approach to Cash Transfers (HACT), the framework that UNICEF and other agencies have adopted for cash transfers. This is discussed in the following observation.
[4] INTOSAI is the International Organization of Supreme Audit Institutions, a global network of government auditors general or chief financial officers/comptrollers.

***Micro-assessments**:* No micro-assessments had been conducted on any of the government implementing partners. The UNICEF country office treated all government departments as high risk and required them to submit all supporting documents for the advances received. The supporting documents were received and certified by programme before being passed on to finance, who performed additional checks prior to posting the liquidation. This process is not a very effective and efficient way of managing cash transfers compared with the HACT principles of enhancing counterpart capacity, reliance on counterpart systems and comprehensive risk-management procedures.

***Micro-assessments of NGOs**:* The office had performed micro-assessments of NGOs at the beginning of the programme cycle. For the micro-assessed partners the office applied the HACT principles in respect of cash transfers to NGOs. The NGOs that were micro-assessed were required to use the FACE form[5] and to undergo spot checks. However, the audit noted, during a visit to one of the NGOs, that the accounting firm selected to perform the micro-assessments had also been contracted as an external auditor by that NGO. This was a potential conflict of interest.

Assurance plan: The annual plan for micro-assessments and spot checks was drawn up and managed by the Finance section. Although two Programme staff members were included in the team that performed spot checks, the checks focused exclusively on the financial aspect and were not tied into the performance of activities for which the funds had been provided. The plan did not, therefore, have any linkages with programmes. In addition, the spot checks were not clearly linked to a risk-management process. For example, of the 11 partners that received over US$ 100,000 in 2013, six were rated as medium risk and four were rated low risk. Despite the difference in the risk ratings, the spot checks were linked to a two-year cycle rather than the assessed risk of the partner.

HACT requires each Implementing partner expected to receive more than US$ 500,000 over a period of five years to undergo a scheduled audit. The office's procedure was to perform scheduled audits on an NGO once they had received US$ 500,000 in cash transfers. However, the audit noted that in 2013, although scheduled audits were undertaken for 14 partners, a partner that had received US$ 900,000 did not have an audit.

Agreed action 7 (medium priority): The office should:

i. Explore the possibility of conducting assurance activities of Government implementing partners through the Office of the Auditor General.
ii. Ensure the micro-assessment of all implementing partners, including Government partners, are completed as required under the Harmonized Approach to Cash Transfers policy.
iii. Consider using an alternative audit firm to perform the micro-assessment when the appointed firm performs the external audit of the same NGO.
iv. Prepare and implement a comprehensive risk-based assurance plan that includes special and scheduled audits with clear linkages to programme monitoring.

---

[5] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

Staff responsible for taking action: Deputy Representative, Chief of Operations, Section Chiefs and Finance Specialist
Date by which action will be taken: 31 December 2014

Programme monitoring and reporting

Country offices normally work together with partners on programme monitoring. Due to lack of data reliability, programme monitoring was undertaken by the UNICEF office staff. However, the office's programme sections were engaging with specific government counterparts to help build their monitoring systems.

Sampled results reported in the results assessment module of UNICEF's management system, VISION, and in donor reports were supported by data from various reports. However, the audit was informed during a field visit that some of that data in those supporting reports was not accurate and was unavailable in areas where access was restricted. It was also noted that in the absence of good-quality indicators, means of verification (MOV), baselines, and targets, the office did not have a reliable system to report on results. It relied mainly on NGO reports, and UNICEF field monitors, to monitor and report on the implementation activities, without adequate validation process of the results achieved.

The audit reviewed a sample of monitoring reports and found that they had failed to raise the following issues.

School numbers and inputs: In 2013, the government township education section estimated that there were 120 schools, and this figure was used for the order of supplies. When these were distributed, however, only 113 schools were found. The audit's visit to the township warehouse noted a number of undistributed items of education material in the warehouse (190 education kits with school bags), some of which had been there since 2011. The explanation provided was that seven schools had been closed at the time of distribution. The closure of the schools and the need to adjust supply distribution had not been reported to UNICEF. It was also noted that data being provided to UNICEF by the NGO partners (Government township distribution reports and field-monitoring reports for education supplies) were not validated against the IDP[6] camps committee records or with government staff at township level.

WASH activities: During the audit's visit to an IDP camp, it was found that a water tank built in July 2013 was not working. The audit was informed that it had functioned for only a few months. There were also latrines funded by UNICEF and another donor, constructed by the same NGO. The NGO staff could not identify all the latrines funded by UNCEF, or the wells constructed through the funding provided by the other donor. The information available with the zone office was not very clear, as it indicated a global number for all the camps rather than specific numbers for each of them. Staff from the NGO who accompanied the audit team were not aware of the programme and had to confirm the location of latrines by phone. The audit was informed that none of the WASH team from UNICEF had visited the camp, and the only report available was from a consultant, who stated that activities were 100 percent completed.

Agreed action 8 (medium priority): The office agrees to put in place a comprehensive monitoring and reporting framework that is informed by appropriate quality indicators,

[6] Internally displaced persons.

means of verifications, baselines and targets. The framework will include periodic coordinated programme monitoring and verification missions and, where appropriate, third-party verification of activities in areas to which UNICEF does not have access.

Staff responsible for taking action: Deputy Representative, Chief Operations, Chiefs of Field Offices and Section Chiefs
Date by which action will be taken: 31 March 2015

Programme management: Conclusion

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

3 Operations support

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

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

All of the above areas were covered in this audit, excluding information and communication technology.

The audit found that the office had adequate controls over the management of the cash-on-hand account. There was also an adequate system for control of vehicle and fuel usage. Consultants had their work references checked and their performance evaluation was always prepared prior to final payment.

There was an updated business continuity plan (BCP) at country-office level, and it had been tested.

Cash transfer management

The total expenses on direct cash transfers (DCTs) from January 2013 to February 2014 was US$ 20.7 million; this was 40 percent of the office's total expenses for that period.

However, there were a number of instances where substantial refunds on cash transfers were made to UNICEF. The audit reviewed two instances in detail; they involved a Government partner, with 47 percent and 59 percent of the advances being refunded five months after receipt of the advance. In both instances, the reason given was that there had been an over-estimation of the costs of the activity (particularly the travel allowances) or the number of people who would attend. The same partner also had instances of long-outstanding cash advances. The audit was informed that this was because the slow internal processes of the partner meant that they could not implement the activity on time. There was also the case of an NGO that was unable to get the right personnel and expertise on the ground in time and refunded 93 percent of the cash transfer after three months; in a second instance, it refunded 45 percent of the advance. This indicated lack of thorough analysis of both the budgets presented to UNICEF and the absorptive capacity of the partner.

Agreed action 9 (medium priority): The office agrees to ensure that cash transfers are released based on agreed budget estimates that have been thoroughly reviewed against the workplan, and to ensure that the amounts released are based on the partner's capacity to implement the agreed activities within the agreed timeframes

Staff responsible for taking action: Deputy Representative and Programme Chiefs
Date by which action will be taken: 31 December 2014

Planning for programme inputs

Supply plans regarding both commodities and technical services are required by Section 4 of UNICEF's Programme Policy and Procedure Manual (PPPM), and by Chapter 3 of the Supply Manual. The audit reviewed a sample of supply plans and traced them back to the 2012- 2013 multi-year workplan (MYWP) for the selected sections.

The MYWP did not clearly indicate what the programme inputs with respect to cash, technical services and commodities would be required. For example in Early Childhood Development (ECD) it referred to an increase in children accessing ECD, but did not state what inputs would be used to effect that increase; therefore linkage to the ECD commodity supply plan was unclear with the largest cost being US$ 742,000 for 35 library bookshelves.

In the Young Child Survival and Development supply plan, the audit noted that in the 2013 annual workplan, seven IRs[7] referred to supply components; however, the supply plan only covered one of the seven. A number of the commodities required were therefore not in the plan. They included reagents and rapid test kits (budget $15,000), de-worming tablets (overall budget US$ 341,000; unfunded, US$ 304,000), and life-saving equipment and medicine for new-borns (budget US$ 395,000).

With regard to inputs in the form of technical services, lack of linkage on contracting to the workplan was highlighted in one instance where there was a delay in the process of recruiting a consultant because of confusion between two sections as to who was responsible for the project. If the project had been clearly tied to a deliverable in a workplan, this confusion would not have arisen.

In the same instance, the consultant selected was significantly more costly than the second choice but this was justified on the basis of their experience and quality of work. However, significant revisions had arisen in the work required, again and a new contract has been issued. This again pointed to a lack of linkage between activities carried out and the workplans. Overall, there was no clear linkage between the workplans and the consultancy requirements or hiring process.

Agreed action 10 (medium priority): The office has agreed to establish a process to ensure that:

i. Programme inputs are clearly linked to the activities included in the workplans and

[7] UNICEF programmes plan for results on two levels. A programme component result (PCR) is an output of the country programme, against which resources will be allocated. An intermediate result (IR) is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

all inputs are appropriately planned for.

ii. Terms of reference (ToRs) for required technical inputs are reviewed for completeness before such contracts are issued.

iii. Proposed service providers are selected based on assessed capacities to meet the ToR requirements so as to avoid unnecessary and costly amendments of issued contracts.

Staff responsible for taking action: Deputy Representative, Programme Chiefs, Supply Specialist and HR Manager
Date by which action will be taken: 31 December 2014

Registration of suppliers

Country offices are expected to maintain up-to-date information on potential suppliers in their local market, and to carry out market surveys from time to time to ensure that they have this information.

The office had arranged a market survey by two external consultants in 2010-2011, but it did not identify any new potential suppliers.

The office did have a goods and services roster that consisted of pre-qualified suppliers that it had done business with, or requested to bid. The roster for construction companies, for example, consisted of bodies that had been asked to bid for a particular piece of work. In the bid file for those works, however, it was noted that the process by which the shortlist was arrived at was not documented or clear. It was also noted that the institutional roster still needed to be improved as the shortlisting process for inclusion was not clearly documented. In addition, the office did not maintain rosters of consultants/contractors in accordance with Administrative Instruction CF/AI/2013-001; this requires the use and maintenance of rosters of candidates that have been pre-screened (for example, reference checks should be done).

Up-to-date rosters of pre-qualified potential suppliers speed up procurement and allow offices to identify and proactively manage potential suppliers, especially in new and/or uncompetitive markets. The pre-qualification process also ensures UNICEF compliance with applicable UN mandatory rules and checks of suppliers are performed against the UN Security Council resolution 1267 list.[8]

Agreed action 11 (medium priority): The office agrees to improve supplier registration by:

i. Ensuring all necessary rosters for service providers (vendors, consultants) are put in place, regularly reviewed and updated, using various forms of solicitation to identify a wider pool of potential suppliers.

ii. Ensure that all pre-qualification procedures, including checks for conformity to UN Security Council resolution 1267, are documented.

Staff responsible for taking action: Chief of Operations, Supply Specialist and HR Manager
Date by which action will be taken: 30 September 2014

Contracting and performance management

[8] UNSC Resolution 1267 concerns which individuals, groups and entities are eligible to do business with the UN.

From January 2013 to February 2014, the country office issued institutional purchase orders worth US$ 2.6 million and consultant/contractor purchase orders of US$ 1.5 million. The audit noted the following.

Construction contracts: The office was involved in a number of construction projects. In March 2013 it issued a tender for the construction of Temporary Learning Spaces as a response to an emergency. Seven companies were selected to tender for the construction work. The criteria used to shortlist the seven companies were not recorded. Although the project was supposed to have been completed in June 2013, it had been extended to 2014 and there had been numerous quality and supervision issues, as it turned out UNICEF did not have a consultant with the skills required to supervise the contract.

In another instance, the audit noted that WASH construction in schools was performed through a cash transfer to a Government counterpart. Although the budget for the construction was over US$ 100,000, UNICEF's supply division was not informed and therefore a local purchase authorization, as required by UNICEF procedures, was not obtained.

Procurement through civil society organizations (CSOs): There were instances noted of procurement through CSOs (hygiene kits and education kits). The Supply Manual requires the office to provide a statistical record of such procurement to Supply Division on at least an annual basis. The record should include the name of the partner, the goods, services and/or works procured, the lead time and prices, and any information on performance. The reporting to Supply Division was not done.

Consultants and contractors*:* In the sample reviewed by the audit, there were a number of instances where the terms of reference (ToRs) was unclear. In one instance the office's Contract Review Committee (CRC) rejected the ToRs as incomplete. This was because the ToRs were not formally reviewed and approved prior to presentation to the CRC.

Long-term agreements (LTAs): As with institutional contracts, the process by which the office drew up shortlists for bidding for LTAs was not adequately documented. It was also noted that there were a significant number of actual procurement awards to a few suppliers under LTAs, particularly in LTA for goods (LLTA code in VISION). For the period under review, of the nine suppliers listed in VISION as having LLTAs, four had purchase orders issued against their LTAs worth approximately US$ 470,000. One of the four received a number of purchase orders that constituted 87 percent of this total. In one instance, the CRC had noted this and asked that consideration be given to other suppliers. The use of multiple suppliers would also ensure that the pricing UNICEF received remained competitive.

Also, the audit reviewed a purchase order issued on 18 June 2013 against an LTA through UNICEF's Supply Division (SD) that was expiring on 23 June 2013. The delivery date on the purchase order was 15 September, but on 10 October 2013 the office received notification from SD that the supplier had not received the purchase order. So although the purchase order had been issued, there had been no follow-up on the unfulfilled sales order. This suggested weaknesses in monitoring procurement done against LTAs.

Performance management*:* Performance evaluations were not kept on the supplier files for any of the institutional contracts, and were therefore not used to review the roster or as reference. In one particular instance a company had performed poorly and had not delivered, but although this was discussed within the office, it was not formally documented in an evaluation and kept for future reference. There were no performance evaluations for LTAs either.

VISION information: Completed contracts were not systematically closed in VISION. Fifty-two institutional contracts and 59 consultant contracts with a validity end date on or before 28 February 2014 were still categorized as open in VISION. Some necessary information was not entered in VISION, such as nationality, former staff etc. for consultants, or type or sourcing and CRC date for institutional contracts. Without complete and timely data entry, the office cannot make full use of the monitoring reports in VISION – which would assist prompt identification of anomalies, as well as more accurate planning and forecasting.

Agreed action 12 (high priority): The office agrees to enhance the procurement process through the following measures:

i. The pre-qualification and shortlisting for bidding will be clearly documented, as well as the criteria for identification of the shortlisted supplier.
ii. For construction contracts, proposed construction works will be reported to Supply Division if they meet the required threshold for such reporting. The office will also ensure that it had an adequate process and resources to monitor the satisfactory delivery of construction works according to issued contracts.
iii. There will be periodic reporting to Supply Division of procurement made through civil society organizations.
iv. Monitoring procurement from local suppliers, to ensure that orders, including those against long term agreements (LTAs), are placed on an equitable basis.
v. Performance evaluation will take place with respect to all institutional contracts and LTAs, and the results will be systematically filed for future reference.
vi. There will be a regular review and clean-up of contract information in VISION, ensuring it accurately reflects the contract position and is used for management and review of contracts.

Staff responsible for taking action: Chief of Operations, Programme Chiefs, Supply Specialist and HR Manager.
Date by which action will be taken: 31 January 2015

Supply management and transport contracts

The audit's review of these areas noted the following.

UNICEF warehouses: The office had leases on two warehouses, in Yangon and a temporary one in Mytikyina.

The audit visited the warehouse in Yangon and noted that most of the items stored there were pre-positioned emergency stock such as Hygiene Kits, Family Kits and roofing sheets. The family kits were not arranged properly so as to allow for easy verification of the quantities held. There were also containers of bleach that were spoilt. Although the corrosion had been noticed as far back as September 2013, the Property Survey Board (PSB) had yet to meet to consider this and other write-offs that had been proposed by the logistics section.

Stock count and reconciliation with VISION: The audit was provided with the stock count sheets for the 2013 stock count. The sheets had been extracted from VISION and signed and confirmed by the counters. However, the units used for the physical count were not correctly entered in in VISION. For example, 3,067 Family Kits were recorded in VISION as "Skirt, medium 3,000, Shorts, boy, M 3,000". This could not be confirmed visually as the kits were packed in units of one carton box. The audit could not therefore reconcile the units that it test-counted with the data entered in VISION. The office stated that the contents of the kits had been itemised in this way because they had had some problems with the coding.

The office also stated that the Hygiene Kits in Myitkyina were for cross-line UN convoys to the area outside government control. These amounts were still under UNICEF control and in a UNICEF warehouse, and there was no document to confirm receipt from, or dispatch to, any partner. Despite this, they had been removed from VISION (and were therefore also not insured in case of an accident).

Implementing partners' logistics and warehouse capacity: The audit noted that supplies were provided to implementing partners without proper assessment of their warehouse management capacity. During a field trip, the audit visited storage facilities kept by a government partner and by an NGO that received nutrition and health supplies. The partners visited did not maintain inventory reports of items kept in their stores. The NGO visited, which received US$ 139,000 worth of health and nutrition supplies, did not have adequate temperature-controlled storage. Discussion with partners, and the field-office monitoring report, confirmed that the partners' logistical and warehouse management capacity needed to be strengthened.

Transport contracting: The audit reviewed a sample of LTAs for haulage contractors and noted that no purchase orders/contracts were issued against them. Rather than raising purchase orders (POs) against the LTA, the office had made payments against vendor invoices with a VISION Document Type "KR", which charged expenditure directly. The POs would have recorded the legal obligation and outlined the specific deliverables. Without POs, there was a risk that standard checks could be bypassed. These standard checks include review by the Contract Review Committee, and competitive selection and monitoring of transporter contracts as outlined in Supply Manual. Supply Division confirmed that where LTAs have been signed, all contracts/purchase orders should be raised against the LTAs, and that purchase orders should be used to monitor the expenditure levels.

Agreed action 13 (medium priority): The country office agrees to ensure that:

i. Supply items held in the warehouses are properly arranged so that physical verification can be done at any time.
ii. Damaged supplies are identified and disposed of in a timely manner, following the Property Survey Board procedures.
iii. All UNICEF-managed stock is entered correctly in VISION, and that when physical stock counts are performed the counts are reconciled to the VISION data.
iv. Supply items are only removed from VISION on receipt of the goods-received note from the recipient party.
v. The implementing partners' capacity for the management of UNICEF-provided supplies is properly assessed, and where necessary strengthened.
vi. Supply end-user monitoring is instituted to ensure that supplies handed over reach the intended beneficiary.
vii. Purchase orders/contracts are issued against long-term arrangements for transportation, and that there are processes to monitor total expenditure for each contractor.

Staff responsible for taking action: Chief of Operations, Supply and Logistics Specialist, Chief Field Offices and Programme Chiefs
Date by which action will be taken: 31 December 2014

Operations support: Conclusion

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

Annex A: Methodology, definition of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control

processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

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

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

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

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

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

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