Internal Audit of the Argentina Country Office

September 2014

Office of Internal Audit
and Investigations (OIAI)
Report 2014/26

oiai

unite for
children

unicef

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Argentina country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities, and covered the period from January 2013 to April 2014. The audit team visited the office from 21 April to 2 May 2014.

The Board-approved 2010-2014 country programme consists of four main programme components: *Health and nutrition for women and children*; *Inclusion and quality education for children and adolescents*; *Child protection*; and *Monitoring and communication for child rights*. There is also a cross-sectoral component. At the end of 2013, the Argentina country office requested the extension of the 2010-2014 country programme for one year in order to align it with an extended United Nations Development Assistance Framework (UNDAF). (A UNDAF is a broad agreement between the UN and a government that stipulates how the UN will assist the country's chosen development path.) The extension was also requested so as to align the programme with the Government's planning cycle, ending in December 2015. The one-year extension request was approved by the Regional Director and was approved by the UNICEF Executive Board in June 2014.

The original 2010-2014 approved country programme had a budget ceiling of US$ 40 million, of which US$ 36.25 million was expected to be from Other Resources (OR), while the Regular Resources (RR) component was US$ 3.75 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. They include income from voluntary annual contributions from governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. OR are contributions that 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 OR.

The approved planning ceiling was increased to US$ 68.65 million in 2014 of which OR ceiling increased to US$ 64.9 million and the RR ceiling remained the same. Almost all (95 percent) of the OR were received through private-sector fundraising (PSFR), mostly from individual pledge donors, within Argentina itself. This income has been increasing regularly.

The office houses a processing centre, the Southern Cone Processing Centre (SCPC), which provides operations-related services to UNICEF in Argentina, Chile, Paraguay and Uruguay.

The office has a total workforce of 47 approved posts, of which 19 posts were related to private fundraising, and six posts were related to the SCPC.

Action agreed following 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. The following are being implemented as a high priority; that is, to address issues requiring immediate management attention. They are as follows:

- The office staffing structure presented to the programme budget review (PBR) did not include outsourced staff from two companies that represented more than 30 percent

of the approved number of staff posts. The outsourced staff had been performing staff functions. The office has agreed to assess its staffing needs, and the cost and effectiveness of the current outsourced support and contractual arrangements; and to reflect the results of that assessment in a submission to the PBR for review and approval.

- There were inadequacies in programme planning and implementation. Workplans were signed late and there was unclear linkage between activities and the results. There was also no record of agreement on the targets and indicators. There were delays in the implementation of planned programme activities due to weak planning and delays in releasing agreed funds. The office has agreed to address these planning and implementation issues.
- The office did not perform reconciliation between donations received, bank information and DonorPerfect reports. The office agrees, with the support of the Regional Office, to assign responsibility and ensure periodic detailed reconciliation process of income received with the information recorded in the bank statements, in VISION and DonorPerfect is performed.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office needed improvement to be adequately 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 Argentina country office has prepared action plans to address the issues raised.

The Argentina country office, with support from the Latin American and Caribbean Regional Office (LACRO), and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) September 2014

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.

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

Audit Observations

1 Governance

Governance processes are established to support the country programme and operational activities. The scope of the audit in this area includes the following:

- **Supervisory** structures including advisory teams and statutory committees.
- **Definition** of the country office's priorities and clear communication to staff.
- **Staffing structure** and its alignment to the needs of the country programme.
- **Performance measurement** including standards and indicators relating to office priorities and objectives to which management and staff are held accountable by way of reporting mechanisms.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management** covering external and internal risks to the achievement of the office's objectives.
- **Ethics** including actions to promote ethical behavior and to ensure that staff are aware of UNICEF's ethics and zero tolerance fraud policies, and procedures for reporting and investigating actions that violate these policies.

All the areas above were covered in this audit.

The audit made the following observations.

Office structure and staffing

UNICEF's Private Fundraising and Partnerships office (PFP) produces guidance on Private Sector Fundraising (PSFR) contributions. According to the guidance, maximizing growth in this area requires a commensurate expansion of fundraising capacity, and country offices are advised to review their fundraising structure on an annual basis. Moreover, PSFR should be seen as a separate area that contributes to UNICEF as a whole, rather than solely to the organization's in-country needs. Staffing structures to enable contributions growth should not therefore be constrained by limits placed on the expansion of capacity in other functional areas of an office. Neither should they be constrained by the size of the country programme.

The Argentina country office's fundraising activities had significantly increased over the years. PSFR had an annual income amounting to US$ 18 million in 2012 and US$ 22 million in 2013. The 2010-2014 approved country programme had a budget ceiling of US$ 40 million, but this had been increased to US$ 68.65 million in 2014. This increase reflected the development of PSFR-related activities, which had also increased the country programme demands on finance and operations functions. The office's operations support relied on the Southern Cone Processing Centre (SCPC) plus two staff in operations in the Argentina country office (an operations assistant and an administrative and human resource assistant). The SCPC staff were not however involved in key operations of the PSFR such as the reconciliations of income received. As noted elsewhere in this report, limited staff capacity had constrained reconciliations between collections received in the bank account and information recorded in VISION and DonorPerfect.

In 2013, with the PSFR budget increase and after the mid-term review of the country programme, the office staffing structure was revised. However, the office did not include strengthening operations functions in its March 2013 PBR submission[1] because the existing operations structure was in line with Latin American and the Caribbean Regional Office (LACRO) guidance on optimal operations structure.

In its PBR submission, the office indicated that it did not intend to have individuals on special service agreements or temporary assistance contracts performing staff functions for the period 2014-2017. However, a number of functions were to be undertaken by corporate contractors. In 2013, the office had 14 outsourced staff (which formed an additional 30 percent of the approved 47 posts) and in 2014, an additional 15 staff were contracted (about 32 percent of approved posts) through two contractors. The total costs of the two contracted companies for 2013 and 2014 amounted to US$ 1.06 million. However, the cost and the number of outsourced staff were not reflected in the PBR submission (although the office indicated that this information was available to the PBR if necessary).

The audit noted that one company was charging an additional 95 percent of total outsourced person cost as overhead cost; as a result, consultants hired through the company were 33 percent more expensive than a UNICEF staff member. Furthermore, some outsourced staff were performing staff work. A review of the terms of reference of five consultants showed that those consultants had work that was ongoing, and was not linked to specific deliverables and payments made. Work of this description should normally be performed by staff members. The second contractor provided in-house call centres and allowed the office to expand capacity with temporary call centres during PSFR campaigns. The office indicated that staff outsourced from the second contractor were 54 percent more expensive than UNICEF staff.

According to the Regional Office[2] guidelines for the 2014 integrated budget review issued in April 2014, if a country office has assessed that it needs additional operations or human resources staff in light of its experience with the regional hubs, it can submit a request with a strong justification to the PBR and indicate whether the additional staff cost is affordable and

[1] The PBR (programme budget review) 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.

[2] The Latin America and Caribbean Regional Office, based in Panama.

sustainable under its present Institutional Budget (IB) allocation[3] for 2016-2017.

The lack of full disclosure of the cost of implementing the country programme and PSFR activities prevented adequate review of the office's staffing strategies by the PBR.

Agreed action 1 (high priority): The office agrees to review the current staffing structure in light of its expanding private sector fundraising activities and related operating costs, and submit a comprehensive proposal to the programme budget review for review and approval. The review should consider the need for outsourced services, and should also factor in any role of the Southern Cone Processing Centre.

Target date for completion: February 2015
Responsible staff members: Representative, CMT and the Local Staff Association

Delegation of authorities and segregation of duties

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012. Access to VISION is given through the provisioning of a user identification (ID) that has "roles" assigned to it. Heads of Offices, and their delegates, approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls* and its supplements. Each office is also required to maintain a manual Table of Authority (ToA).

UNICEF uses a program called Approva to help monitor segregation-of-duties conflicts. As of the end of March 2014, the Approva report for the office reflected 20 users' violations, of which nine were rated as high priority. Examples included four staff members who had the roles of both Receiving and Certifying Officer, and five staff with both the Authorizing and Releasing officer roles. The audit noted that the office had not developed and documented steps to mitigate the risks represented by the violations.

The office had produced a role-mapping document that had been approved by the Representative in December 2013. However, there were discrepancies between the office role-mapping and those in the ToA. Moreover, the document did not include responsibilities of SCPC staff members, although these were relevant to various work processes of the office (see also the following observation, *Staff responsibilities*).

Lack of segregation of duties was also noted in budget management; a PSFR staff member who recorded income also decided on grant allocation.

Agreed action 2 (medium priority): The office agrees to review, and keep up-to-date, the Table of Authority in Approva and remove, where possible, conflicts in assigned roles; and, where these cannot be removed, establish and document mitigation measures that ensure that staff members assigned with conflicting roles do not exercise them on the same transactions.

[3] Simply put, the institutional budget covers those costs that are not provided for in specific programme budgets, but must be met for the organization to function in support of those programmes.

Target date for completion: September 2014
Responsible staff members: Southern Cone Processing Centre Operations Manager with Operations Assistant

Staff responsibilities

The office houses the SCPC, which provides operations-related services to UNICEF in Argentina, Chile, Paraguay and Uruguay. A Service Level Agreement (SLA) which provides the basis for the provision of operations-related shared services had been developed and had been signed by the Representatives of the four country offices. With the SCPC current set up, the SLA and functional firewall will allow the office an easy migration from SCPC to the upcoming Global Shared Service Centre. However, the audit identified unclear allocation of responsibility in the SCPC work processes.

SCPC workprocesses: The SCPC's support to the country offices was set out in the SLA that governed its relationship with the four country offices that it served. The LAC regional office indicated that workflows attached to the SLA were intended to be high-level processes that showed the respective responsibilities between the SCPC and the country offices. Each country office can, if required, develop a more detailed workflow to further clarify the different steps and the specific staff responsible for such step.

As developed, the workprocesses attached to the SLA did not specify needed actions, and did not clarify staff responsibilities in various steps of the processes. The workprocesses were not in line with the approved role mapping and ToA (see previous observation). For example, in the "processing of procurement of goods" workprocess, it is stated that after delivery of goods, the supervisor certified invoices, processed goods receipts and the programme staff created and parked invoices; however, this was not in line with the signed ToA. Another example included steps required in reviewing the value added tax (VAT) refunds in the Argentina country office, a step not included in the high level workprocess. In the signed SLA, a staff member in SCPC is responsible for posting invoices (approving function as per UNICEF Financial and Administrative Policy 1: Internal Controls supplement 1 on roles). The office did not however include the role of the SCPC in its role mapping, although the role was in the VISION ToA.

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

i. Develop its own work processes, in addition to the high level workprocesses included in the Service level agreement for the Southern Cone Processing Centre.
ii. Ensure that the workprocesses provide clarity to the different steps and define staff responsible and the lead time for completion of agreed actions for each step, and that the work processes are in line with the signed table of authority.

Target date for completion: March 2015
Responsible staff members: Southern Cone Processing Centre (SCPC) Operations Manager with the Operations Assistant and in coordination with Programme and PFP

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 office did a first broad and systematic RCSA analysis in 2010; this included an action plan on the risks identified in programmatic, operational and fundraising functions. There was a review of several risks in 2012. In 2014 the office undertook an update of the RCSA; eight risks were identified as medium, and two as high. However, the office did not draw up an action plan for these risks, with responsible staff members and target dates.

Agreed action 4 (medium priority): The office agrees to develop an action plan to mitigate identified risks that includes staff responsible and target dates.

Target date for completion: February 2015
Responsible staff members: Deputy Representative in coordination with staff

Performance Evaluation Reviews (PERs)

UNICEF has a performance evaluation system that aims to be based around Performance Evaluation Reviews not as one-time events, but as part of an ongoing feedback and coaching process where both supervisor and supervisee have an active role.

The audit noted that for the year 2012, out of 25 PERs, only 14 were finalized; for the year 2013, it was eight out of 38. For the first phase corresponding to 2014, no PERs were finalized. Late or non-completion means that the office has not ensured that staff are assigned key priorities or that there is a process to review progress and also assess staff performance.

Agreed action 5 (medium priority): The office agrees to finalize all performance evaluation reports for 2012 and 2013 for all staff members, and to ensure a process for periodic assessment and feedback process to staff as part of their development process.

Target date for completion: December 2014
Responsible staff members: Deputy Representative, PFP Manager, Operations, supervisors, all staff.

Ethics

The office organized a presentation on UNICEF’s ethics policy during the annual retreat. However, the audit noted that staff members did not sign a statement to the effect that they were aware of UNICEF’s ethics policies and were committed to compliance. There was also no central record of which staff had attended relevant presentations.

During the period audited, the number of staff members who were outsourced increased. However, they were not systematically familiarized with UNICEF’s ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies. This also applied to implementing partners.

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

i. Ensure that all UNICEF staff sign a statement about awareness of UNICEF ethical policies and are committed to compliance, and keep a central record of attendance by staff, outsourced staff, and partners at presentations on UNICEF's ethical policy.
ii. Organize presentations on ethical standards for outsourced staff as well as implementing partners.

Target date for completion: December 2014
Responsible staff members: Operation Manager with Operations Assistant, all staff

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

The country programme is owned primarily by the host Government and UNICEF's role is to support the Government in managing the programme. The scope of the audit in this area includes the following:

- **Planning**. This includes 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; and forming and managing partnerships with Government and other partners.
- **Resource mobilization and contribution management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions received.
- **Support to programme implementation.** This covers planning and provision of the inputs needed to implement the programme activities such as supply, cash transfer and contracts for services. This also includes implementation of the harmonized approach to cash transfers (HACT) to implementing partners.
- **Monitoring.** This includes the periodic review of the implementation of an activity which seeks to establish the extent to which inputs, work schedules, other required actions and targeted outputs are proceeding according to plan, so that timely action can be taken to correct deficiencies detected.
- **Evaluation**. This is an exercise that attempts to determine as systematically and objectively as possible the worth or significance of an intervention, strategy or policy.
- **Reporting.** This covers the office's specific reporting obligations as well as annual and donor reporting on the use of resources and achievements against objectives or expected results.

All the areas above were covered in this audit.

Private sector fundraising has been highly successful in the Argentina country office with both individual donors and corporations. Since 2012, the office has been contributing to regional and global resources, in addition to having a fully funded country programme of its own.

However, the audit made the following observations.

Private sector fundraising activities

In 2013, PSFR gross revenue was US$ 22 million with income from 160,000 monthly pledge donors, and the majority of these funds were unrestricted. The office had agreed with the Regional Office and PFP in Geneva that once the Argentina country programme was fully funded for a year, the fundraising surplus would be assigned to UNICEF regionally and globally, split between RR (80 percent), Regional Thematic Funds (15 percent) and Emergency Funds (5 percent).

The audit made the following observations in this area.

Country programme structure for PSFR: In November 2013, UNICEF issued guidance to country offices on PSFR,[4] which states that offices should be transparent with both the UNICEF Executive Board and with host governments about the fact that some of the planned OR will be used to raise funds both for programmes in-country and for external use. The guidance advises offices to make it clear that the total OR ceiling will be raised periodically not only to reflect rises in fundraising income, but to accommodate increases in fundraising costs. However, the country office did not disclose the cost of its PSFR activities in the 2010-2014 country programme document (CPD and/or in the CPAP[5]). While in 2013 the Government was updated on UNICEF fundraising activities and on the fact that the funds raised would be used for activities within and outside the country, this was not included in a formal agreement.

Offices are also advised to identify a programme component showing the costs of fundraising. The UNICEF PSFR guidance issued in November 2013 advises country offices to plan, monitor, and report on PSFR by creating an output under the "advocacy and partnerships" outcome.[6] However, this was not the case in the current programme structure. At the time of the development of the current country programme, PSFR was recorded under the outcome “support” and in VISION, it was recorded under the outcome Support (PSFR Costs) with the corresponding output “fundraising.”

Budget allotment of funds received: PFP guidance states that in the first part of the financial year, all funds received should be allocated to the programme budget allotment (PBA) against which fundraising costs are charged; this should be done until those costs have been covered. Only then should funds received be allocated to the OR PBA(s) for the country programme up to the level previously cleared by the regional PBR and agreed with PFP Division during the budget process.

However, the office’s Country Management Team (CMT) had decided in its December 2013 meeting to allocate 60 percent of the PSFR income during the month to Programme and 40 percent of the income to PSFR. This decision started to be implemented from March 2014. This was not in compliance with PFP guidance.

Agreed action 7 (medium priority): The office agrees, in consultation with the Regional office, Private Fundraising and Partnerships Division and the Division of Financial and Administrative Management, to take the following steps:

i. Institute a process that identifies and shares with the Government key information on private sector fundraising (PSFR) results and activities (such as the cost of PSFR activities and use of the funds raised), as mandated by the UNICEF *Guidance for regional and country offices on the management of private sector fundraising*.
ii. Create the correct output for PSFR and record it in VISION, and use it for planning, monitoring and reporting on PSFR activities.

---

[4] *Guidance for regional and country offices on the management of private sector fundraising*, Private Fundraising and Partnerships Division, October 2013.

[5] The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

[6] UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome.

Target date for completion: May 2015
Responsible staff members: Representative, Deputy Representative, CMT, PFP Manager

Agreed action 8 (medium priority): The office agrees to ensure that PSFR income is allotted to the cost of fundraising and country programme activities in accordance with UNICEF guidance. The office will assign responsibility for monitoring compliance with the existing *Guidance for regional and country offices on the management of private sector fundraising*.

Target date for completion: January 2015
Responsible staff members: Representative, PFP manager in coordination with HQ and RO

Harmonized Approach to Cash Transfers (HACT)

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.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either government entities or NGOs. There should also be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

HACT is also required for UNDP and UNFPA,[7] and the agencies are meant to work together to implement it (for example, in the micro-assessment of partners that are common to more than one agency).

Cash transfer to implementing partners was the office's major input, amounting to US$ 5 million in 2013 (33 percent of the total expenses). The office had 67 implementing partners, of which 20 were government partners and 47 were NGOs; 33 percent of cash transfers were disbursed to government partners and 67 percent to NGOs.

HACT had not been implemented in Argentina. In 2009, a draft macro-assessment was shared with the Government. However, the Government would not agree to the assessment of its financial systems, and rejected HACT implementation. In view of this, the UNCT[8] in Argentina wished to postpone HACT implementation to the next country programme cycle starting in 2015. This request was approved by the regional United Nations Development Group (UNDG) in Latin America and the Caribbean in December 2011. Meanwhile, the 2011-2015 CPAP signed between the Government of Argentina and UNICEF specifically indicated that

[7] UN Development Programme and UN Population Fund.
[8] UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its ToR, and division of responsibilities with individual agencies, vary from country to country.

government entities were not to be audited.

Although HACT had not been implemented, the office did use some of its methodology for cash-transfer disbursements. For example, the FACE form[9] was used to request funds and report expenditures, and micro-assessments were conducted for some partners. However, the reports of those micro-assessments did not provide recommendations or information on risk levels. This was despite the fact that the objective of HACT is to assess a partner's risk level and manage cash transfers accordingly. Only three implementing partners listed in VISION had their risk rating and assessments recorded. Meanwhile, all implementing partners were required to submit all their supporting documents for the advances received. The documents were then checked by a professional accountant before being processed in UNICEF. This was not a very effective and efficient way of managing cash transfers as compared to HACT, under which a risk assessment is done and, if it is satisfactory, UNICEF then relies on partners' systems.

The office indicated that there had been challenges in channelling funds through government accounts because of capacity constraints noted with some government partners. In some instances the office had opted (after discussion with the government partner involved) to release cash transfers through NGOs. There was however no capacity development plan to strengthen government partner capacity in managing cash transfers. Neither had the office conducted HACT training for its own staff or for NGO partners.

There was no plan of assurance activities (audits, programme monitoring and spot checks), and the required assurance activities were not being conducted.

Agreed action 9 (medium priority): The office agrees to implement the harmonised approach to cash transfers (HACT). Specifically, it will:

i. Discuss the requirements to implement HACT with the Government, and explore the possibility of relying on the Government's assurance processes, based on assessed capacity and commitment to audit UNICEF funds transferred to Government implementing partners.
ii. Endeavour to insert in the Country Programme Action Plan (CPAP) the standard clauses related to cash transfers to partners, including requirements for audits (see sections VI, VII and IX of the UNICEF Programme Policy and Procedure Manual).
iii. Establish mechanisms to evaluate the risks regarding implementing partners, and focus more on strengthening partners' capacities for management and accountability.
iv. Prepare and implement a comprehensive risk-based assurance plan that includes scheduled audits, programme monitoring and spot checks, with clear linkages to programme monitoring and a feedback process from the assurance activities.

Target date for completion: December 2015
Responsible staff members: Representative, Operations Manager

Results-based programming

UNICEF is committed to results-based management. For this to be a reality, workplans should have defined timeframes and targets, and indicators with which to measure progress towards

[9] For an explanation of the FACE form and its use, see the observation Use of FACE form, p19 below.

those targets. The workplans should also be endorsed in writing by implementing partners to confirm their commitment to carry out the described activities.

The 2012-2013 workplans had been planned and agreed with various Ministries at the national level after an initial agreement with the Foreign Ministry, which is the official counterpart for UNICEF. After signing the workplans at national level, the office signed project cooperation agreements/ workplans with Ministries and non-governmental organisations (NGOs) partners at provincial level.

The audit noted the following in regard to planning and implementation.

- Some workplans did not include implementation timeframes.
- Sampled workplans and project cooperation agreements (PCAs) were generally signed late. At the end of 2013, the 2012-2013 workplans were extended for six months into 2014. As of April 2014, the 2014/2015 workplans had not yet been signed.
- There was no clear indication on how the completion of activities at provincial level was linked to the annual results defined in the consolidated 2012-2013 workplans. Monitoring reports produced at provincial level focused on completion of activities defined in the provincial workplan, and not on progress towards results as defined in the rolling workplans.[10]
- In VISION, indicators and targets were defined in most instances, but not for the PCRs[11] for the "cross sectoral" and "support" programmes. Baselines were not defined for some IRs in these programmes: *Health and nutrition for women and children*; *Child protection*; and *Monitoring and communication for child rights*.
- The results reported in the results assessment module (RAM) in VISION were based on internal reports. There was no evidence that targets, indicators, and baselines used in the RAM had been discussed and agreed with key implementing partners.
- There were delays of up to five months in disbursing funds after signature of the workplans and the PCAs. Late implementation was noted in five out of 10 PCAs reviewed; in four of those five instances, disbursements to implementing partners had been made one month before the PCA expiry date and in one case, the last payment was made after the PCA had expired. The delays were mainly due to late requests from implementing partners and slow processing when funds were sent through the government systems.
- There were also weak capacities to plan and implement activities at the agreed times. For example, one of the three partners visited in Salta province (Health) indicated that although UNICEF funds had been disbursed as agreed, planned activities had been not implemented. The funds were released by the office and held at provincial Ministries and were not transferred to the implementing partner as per agreed signed workplan.
- There were various sectoral and provincial-level annual reviews and planning meetings to assess progress. However, their outputs were not presented at any review meeting at country programme level. The results of the review were therefore

[10] According to UNICEF's Programme Policy and Procedure Manual (PPPM), workplans can be developed on an annual or multi-year basis, or as rolling workplans. In the latter case, the workplan is subject to interim review – for instance, it may be for 18 months, but the government and UNICEF will agree to periodic technical review of its outputs, say every six months, with an adjustment based on the review of the remaining 12 months. At the same time, an additional six months will be added on to the rolling workplan to make up a new 18-month cycle.

[11] Programme Component Result. See footnote on p12.

not consolidated into a report that comprehensively captured progress made toward the planned results included in the signed 2012-2013 workplans.

Agreed action 10 (high priority): The office agrees to strengthen its work planning and programme implementation by ensuring that:

i. Signed workplans include implementation timeframes for all planned activities, and identified activities are implemented within defined timeframes.
ii. Baselines, indicators, and targets are defined for all programme component results and intermediate results.
iii. The results included in programme cooperation agreements (PCAs) and workplans signed at provincial level are clearly linked to those included in the signed two-year workplans.
iv. Annual reviews are conducted at national level to assess and monitor progress toward planned results, and review minutes from key partners are used to update information in the Results Assessment Module.
v. Disbursements are made in line with the timeframes for implementation of activities in the workplans or PCAs. The timeframes agreed for the implementation of agreed activities should be based on capacities of the implementing partner to implement the activities at the agreed times.

Target date for completion: December 2014
Responsible staff members: Deputy Representative, M&E Specialist, Programme Specialists, CMT and Operations

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

Operational processes are established to support the country programme. The scope of the audit of this area includes the following:

- **Financial management**. This covers overall maintenance of the budget and accounts, financial closing procedures and reporting including bank reconciliation process.
- **Input procurement and contracting.** This includes bidding and selection processes, contracting, transport and delivery, warehousing and the related payment processing of programme and operations inputs (supply, cash transfer, consultants, contractors, travel, payroll, etc.)
- **Asset management.** This area covers planning, procurement, maintenance, recording and use of Plant, Property and Equipment (PP&E) such as premises and equipment and low-value but attractive items such as laptops. This also includes the identification, security, control, maintenance and disposal of these assets.
- **Human-resources management.** This covers general human-resources issues including recruitment, training, performance assessment, and payroll and staff entitlement. Staffing structure is reviewed under the Governance area.
- **Information and communication technology** (ICT). This includes provision of facilities and support, appropriate access and use, and security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. All original invoices submitted were stamped and sent back to implementing partners.

Financial management

The audit reviewed the office's financial management and made the following observations on cash flow and cash collection.

Cash-flow management: The office used one account in local currency with Citibank; there was no separate account for PSFR. The office accumulated local currency balance in the local accounts and transferred the surplus balance to the NY Cashiers account. The office practice was to keep +/- AR$ 4 million[12] (about US$ 492,000) in its account and send any surplus to the Division of Financial and Administrative Management (DFAM).

The audit's review of monthly cash flow noted that the Argentina office's practice was to record income received in VISION on a bi-weekly basis, but there was no standard operating procedure for this practice. For example, there was no income registered in VISION as at 25 April 2014. At that time, the balance shown in VISION amounted to ARS 70,272 (US$ 8,600). However, the actual balance in the bank was AR$ 10,627,236 (US$ 1.3 million).

The audit's analysis of cash flow by section noted differences between cash flow estimation and actual. For example, the Communication programme and PSFR had overestimated their cash requirements; the former's planned amount was AR$ 300,000 (US$ 36,900) but it spent only AR$ 72,000 (US$ 8,800), while PSFR planned for AR$ 4.7 million and spent AR$ 1.8 million.

[12] Argentine Peso (USA$ = approx. AR$ 8.13 as of 26 June 2014).

Retaining too high a balance in-country for too long could expose UNICEF to losses through devaluation of the local currency.

PSFR operating procedures: The office had no standard operating procedures for fundraising activities. This would have defined and clarified staff responsibilities in various PFP workprocesses related to donations, recording of collection, verification of completeness and correctness of donor information.

Reconciliation of cash collection: A review of cash collection during three months, August and September 2013 and February 2014, noted that there was no reconciliation done between information in DonorPerfect, income received in the bank and what was recorded in VISION. A detailed review of the PSFR income received for the month of February 2014 noted the following:

- The February statement from one credit card company showed that a total of AR$ 6,721,821.37 (US$ 827,000) was credited to UNICEF bank account and recognized as income, but the records were not reconciled with the UNICEF bank statement. Therefore the office could not determine whether correct amounts were credited to the UNICEF accounts.
- Due to the lack of details on monthly statements of credit/debit cards, the office did not reconcile credit card information with DonorPerfect.
- For one local network company, detailed information on donations received using the credit/debit card was not available. As such the office did not have a mechanism to reconcile collections received and the credit card information.

PFP global guidelines require offices to perform reconciliation between donations received, bank information and DonorPerfect reports. The office told the audit that such reconciliations could not be done because of the size of transactions involved (the office had more than 160,000 pledged donors). The audit believes that the office should use some of the income from PFP activities to ensure the risks of non-reconciliation are mitigated.

Agreed action 11 (high priority): The office, with the input of the Private Fundraising and Partnerships (PFP) Division and the Regional Office, agrees to:

i. Strengthen cash-flow management processes by enhancing the capacity of the Programme sections and the Private Fundraising and Partnerships (PFP) section to better forecast their cashflow needs.
ii. Assign staff responsibilities for timely recording of income in VISION and release of surplus funds to the Division of Financial and Administrative Management.
iii. Assign responsibility and ensure periodic detailed reconciliation process of income received with the information recorded in the bank statements, in VISION and DonorPerfect in accordance with PFP guidance. The office will seek the input of PFP and or the Regional Office on these actions.
iv. Develop a standard operating procedure (SOP) for private sector fundraising and ensure that the SOP clarifies roles and responsibilities of all staff involved in various fundraising processes.

Target date for completion: December 2015
Responsible staff members: Representative, Operations Manager, SCPC Operations Manager with the Operations Assistant and in coordination with PFP staff and PFP Manager

Use of FACE form

The office had adopted the Funding Authorization Certificate of Expenditure (FACE) form. This 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.

The audit reviewed a sample of 10 transactions and noted that:

- FACE form checkboxes were not systematically completed by partners.
- All the FACE forms reviewed included itemized cost estimates of activities; these should be prepared separately and attached.

Agreed action 12 (medium priority): The office agrees to ensure correct completion and use of the Funding Authorization Certificate of Expenditure (FACE) forms.

Target date for completion: March 2015
Responsible staff members: Operations Manager, Deputy Representative, Programme and Operation Assistants, the SCPC Operations Manager and programme team.

Programme Cooperation Agreements (PCAs)

UNICEF guidelines[13] suggest the use of PCAs when UNICEF and NGOs implement programmes in partnership. For cooperation with government partners, however, country offices normally work on the basis of the CPAP supplemented by agreed, signed workplans.

The office signed PCAs not only with NGOs, but also with some government implementing partners at provincial level. However, this was not always done; a PCA had been signed with Ministry of Education, but not with the Ministry of Health, in Salta province. The audit was informed that partners in provincial governments sometimes required the signing of an agreement in order to start implementing planned activities, a requirement that can vary from province to province.

- All PCAs (including PCAs signed with government partners) were presented to the project cooperation agreement review committee (PCARC), after which the PCAs were signed. The signing of the PCAs was untimely and contributed to delays in programme implementation.
- Several different programmes signed PCAs with the same NGO, instead of combining various interventions in one agreement. By signing multiple PCAs, the office did not have a full picture of the NGO capacity and did not review the potential to integrate activities conducted by that NGO.
- Required documents such as PCAs and minutes of PCARC minutes were not systematically uploaded in VISION. Making sure these documents were uploaded in VISION was important because all transactions were processed by the office and the SCPC.

---

[13] *Programme Cooperation Agreements (PCAs) and Small Scale Funding Agreements (SSFAs) with civil society organizations (CSOs), and associated Guidelines for Country Offices* (CF/EXD/2009-011).

- In two out of the 10 sampled cases, the implementing partners had more than two vendor numbers in VISION; one had four, and another one had six vendor records with different classifications, both NGO and Government.

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

i. Review the current use of Project cooperation agreements (PCAs) for all government partners, where possible combine various interventions conducted by one NGO into one agreement.
ii. Ensure that required supporting documents such as PCAs and minutes of PCA review committee meetings are systematically uploaded in VISION.
iii. Define a procedure for regular maintenance of vendor master data, identify duplicate entries and mark them for deletion, and ensure correct classification of vendors.

Target date for completion: March 2015
Responsible staff members: Operations Manager, Deputy Representative, Programme and Operation Assistants, the SCPC Operations Manager and programme team.

Administration of contracts for services and travel

The audit reviewed the office's practices when administering contracts for services and travel.

According to the ToA, the Programme and Admin Assistants were Receiving Officers, the Specialists were Approving Officers and payments were posted in VISION by the SCPC Operations Manager. However, the audit noted that in practice payments were sent directly from the Programme Assistant to the SCPC. Although the office practice required all the invoices to be certified physically, there was no physical certification on invoices included in the transactions sample reviewed.

Further, the audit noted that:

- Invoices delivered by vendors did not give the dates of the service for which the office was paying.
- As all invoices included valued-added tax (VAT), the operations assistants manually calculated the amount to be paid without taxes and wrote it down in pencil. As such, amounts paid did not correspond to invoiced amounts.
- PSFR contracts reviewed were not closed although all products or services were received and invoiced. The office indicated that it was a system issue, which needed to be addressed by PFP Division in Geneva. However there was no indication that PFP Division had been informed or that action would be taken soon. Those open contracts kept balance amounts from being released and used.
- Staff involved in the posting were not always fully conversant with the General Ledger coding process, which resulted in incorrect transaction recording. The audit found that in 2013, a fund commitment amounting to US$ 121,256 was created for travel but inappropriately used for a consultancy contract.

Agreed action 14 (medium priority): The office agrees to:

i. Review its contract administration process and ensure that invoices presented have accurate and complete information and are adequately certified before payment.
ii. Discontinue the manual adjustment to vendor invoices, or establish a mechanism to certify changes made to already-certified invoices.
iii. Train identified staff in the coding of each object of expenditure to ensure the use of the appropriate General Ledger code when posting transactions.

Target date for completion: March 2015
Responsible staff members: Operations and programme assistants; SCPC Operations Manager with the Operations Assistant in coordination with programme staff for the development of work process/SOPs.

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over operations support, as defined above, needed improvement to be adequately established and functioning.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. 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.