Internal Audit of the People’s Republic of Bangladesh Country Office

February 2014

Office of Internal Audit
and Investigations (OIAI)
Report 2014/03

unite for
children

unicef

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the People's Republic of Bangladesh Country Office. The audit team visited the office from 7 October to 5 November 2013. The audit covered governance, programme management and operations support for the period from 1 January 2012 to 6 October 2013.

The country office is based in Dhaka; there are six zone offices. The total workforce is 213. The country programme for 2012-2016 consists of four main programme components: *Social services for children and women*; *Social policy, planning, monitoring, and evaluation*; *Advocacy, communication and partnerships for children*; and *Local capacity-building and community development*. The total budget for the 2012-2016 country programme is approximately US$ 445.4 million, of which US$ 112.4 million is expected to be from Regular Resources (RR), while the Other Resources (OR) component is US$ 333 million. 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 the donor’s agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR. In the case of the Bangladesh programme, OR accounted for 75 percent of the approved budget. During 2012 and 2013 (up to September), the total expenditures were US$ 113.3 million, of which 53 percent pertained to cash transfers to implementing partners.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. Three of them are being implemented as a high priority – that is to say, they relate to matters requiring immediate management attention. The measures are as follows:

- Develop and implement a comprehensive assurance plan to obtain assurance on the use of funds by partners, and include oversight of assurance activities as a standing agenda in the country management team meeting.
- Review and strengthen the management of partnership with non-governmental organisations.
- Review and improve the financial-transaction workflow processes to minimize bottlenecks; monitor and report on the timeliness of processing and liquidation of cash transfers and processing of cash receipts; and train implementing partners and UNICEF staff to increase understanding of Harmonized Approach to Cash Transfers (HACT) policy and procedures.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the country office, in the areas examined by this audit, were generally established and functioning during the period under audit. The Bangladesh country office, with support from the Regional Office, and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) February 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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit observations

1 Governance

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

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

All of the above areas were covered in this audit.

Satisfactory key controls

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

The staffing structure was aligned to the needs of the approved country programme. There were established advisory teams and statutory committees, such as the country management team, programme management team, and project cooperation agreement review committee.

The country office's priorities and expected results were clearly defined and clearly communicated to staff and the host country. Systems for measuring performance and holding management and staff accountable were clearly understood and regularly monitored.

The office had arranged a training session on ethics for all staff, including those in the zone offices, in May 2013. In addition, all staff took the online training on ethics and integrity.

The office had developed a risk-informed rolling annual management plan. The plan assigned a risk tolerance level to each objective and included an assessment of the risk areas, together with the office's risk response to, and the action plan for, each of these areas.

Assignment of authorities

UNICEF's 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 Authorities (ToA); the Representatives or their delegates should review the ToA periodically (preferably quarterly) to confirm its appropriateness and accurate registration in VISION. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments.

The office had assigned roles to staff members and mapped these roles in VISION. In addition, the Representative had delegated authorities to staff as authorizing, purchase-orders releasing, receiving, certifying, approving and paying officers. Staff were formally notified of, and acknowledged, the roles/authorities assigned to them. However, the audit noted the following areas for improvement:

- Non-accounting staff had been improperly assigned accounting responsibilities such as the general ledger L1 role. As such, they could adjust accounting entries in VISION. They included the administrative officer, senior administrative assistant, five administrative assistants, cashier, human resource assistant, IT officer, eight programme assistants and an executive assistant. The programme assistant and the budget assistant, also non-accounting staff, had been provided with the general ledger L2 role and could reverse accounting entries on their own.
- Two staff members had been assigned the L1 asset accounting role although they also had a physical inventory role in VISION. Hence, assets acquisitions might remain unrecorded and the records could subsequently be adjusted by someone having both roles.
- A staff member who was assigned to perform bank reconciliations could also adjust reconciling items, as he also had the general ledger L2 role.
- A staff member had been assigned roles as purchase order (PO) releasing officer and, at the same time, as a receiving officer. The staff member could acknowledge receipt of goods/services even if they did not match the specifications in the PO s/he originally raised. (The audit did not find improper use of the assigned responsibilities in the sample it reviewed.) Also, a staff member had been delegated the authorities of both receiving and certifying officer, and could thus process an invoice even though the goods/services received did not match the PO and invoice.

Further, some of the delegated authorities were inaccurately registered in VISION so that staff members who were not delegated authorities by the representative could exercise them in VISION. For example:

- While only one staff member had been delegated the approving function, six staff members were given the same rights in VISION.
- Although only six staff members had been designated as paying officers, 11 staff members were registered as paying officers in VISION.
- A staff member was given the roles of programme L1 and L2 in VISION, for request for, and liquidation of, cash transfers respectively, although these authorities had not been assigned to him.
- A staff member was delegated the PO release L3 role in VISION at the same time as being assigned the PO release L2 role, although they pertain to different levels of authority depending on the value of the purchase order to be released and issued.

The above shortcomings could have exposed the office to inappropriate transactions and loss of resources (the audit did not find any evidence of this in the samples reviewed). The shortcomings were mainly due to infrequent review and monitoring of the delegated authorities in the ToA and assignment of functional roles in VISION. After hearing of the weaknesses identified by the audit, the office reviewed the delegation of authorities and issued a revised version of the ToA.

Agreed action 1 (medium priority): The office agrees to:

i. Regularly review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.
ii. Periodically review the registration of the Table of Authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.

Staff responsible for taking action: Chief, ICT; Chief of Operations
Date by which action will be taken: 1 March 2014

Governance area: Conclusion

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

All the areas above were covered in this audit.

Satisfactory key controls

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

The country programme was informed by an assessment and analysis of the situation of children and women in Bangladesh that was completed in September 2009, in time for the development of the next country programme. The situation analysis provided an overview of children's rights to education, health and nutrition, protection from abuse and exploitation, participation, and water, sanitation, and hygiene.

The office had made headway in using the MoRES[1] approach and had developed a strategic plan to monitor effective coverage of key services and practices and identify bottlenecks. It shared its experiences through a global webinar session, where it presented the benefits and challenges of applying MoRES.

The office had established a process for ensuring timely reporting to donors. All donor reports due in 2012-2013 (up to September 2013) were sent on time. The office also issued local

1 MoRES is Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged. It highlights the fact that there are critical conditions or determinants which either constrain or enable the achievement of results for particular groups of children.

guidelines on donor reporting to maintain quality and consistency in submission. Sampled donor reports generally met UNICEF requirements.

The office had a resource mobilization committee that was chaired by the representative, and there was an action plan for resource mobilization. It had organized joint field visits with donors to keep them informed of UNICEF's efforts towards the hard-to-reach and most vulnerable children.

Planning

Country offices should have a Country Programme Document (CPD) for the country programme. The CPD is drawn up in cooperation with the host government and the country office in close collaboration with partners, and sets out the focus areas for UNICEF cooperation, the problems to be addressed, and the draft key results to be achieved through programme cooperation. It should be aligned with the UN Development Assistance Framework (UNDAF) for the host country.

As part of the CPD process, a Summary Results Matrix (SRM) is also prepared and is attached as an annex. The SRM indicates the key strategic improvements to the country situation which will be attributable to the UNICEF-assisted country programme. It should include the expected Programme Component Results (PCRs)[2] that are linked to the expected outcomes of the UNDAF. All the PCRs should be represented in the CPD and be consistent with the summary statement of results in the SRM.

Programme structure: The audit reviewed the programme components and the results in the CPD and SRM and their registration in VISION. It noted some inconsistencies that could constrain proper monitoring and accurate reporting of progress against programme results. The CPD had five programme components. The SRM had three, with the first grouped together young child survival and development, basic education and gender equality, HIV/AIDS and children, and child protection. The second was policy research and advocacy for children's rights, and the third was cross-sectoral/operational. Apart from the latter, none of the programme components tallied with the CPD. The audit also noted that the programme components and the PCRs in the SRM were not clearly aligned and consistent with the programme components, sub-components and results in the CPD. Notwithstanding the discrepancy, the PCRs registered in VISION were based on the SRM. The office was unable to provide the precise reason for the deviation.

Rolling/annual workplans: The office had developed the 2012-2013 rolling and annual workplans jointly with implementing partners. The workplans, which outlined the expected results and planned activities, plus budgets, timeframes and implementing partners for each activity, had been endorsed by the implementing partners. However, most were endorsed late, up to five months after the start dates of activities in the workplans. This meant that the planned activities had up to five months less in which to be implemented. The office indicated that the delays were due to the late approval of Technical Assistance Project Proposals and Development Project Proposals. However, the audit found that this was not the primary cause for the delays. One of the root causes was late signing of the workplans by officials at different

[2] A 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.

levels of the same ministry/directorate.

The audit reviewed a sample of 17 intermediate results (IRs) in the workplans, and noted that nine IRs were not specific and measurable and, in some cases, did not express a result rather than an activity. The IRs were generally broad, and included the use of words like "strengthened" and "improved" that were difficult to measure. In addition, while there were performance indicators for these IRs, some of them did not have baselines and/or targets against which they could be measured. At least 25 of the baselines and 17 of the targets in the workplans were not accurately registered in VISION.

The office had subsequently issued guidance on streamlining the preparation process for annual workplans; these guidelines included assignment of responsibilities for technical clearance of workplans.

Zone-office workplans: For the implementation of the 2012-2016 country programme, the country office had reorganized its field structure and established six zone offices with oversight from the field operations section. The zone offices were responsible for programme monitoring, emergency preparedness and response, capacity building and advocacy at the sub-national level.

The office had issued a field operations management strategy with operational guidance for programme accountability, programme planning and coordination, programme monitoring, and performance management, with a special focus on the zone offices.

In line with the strategy, each zone office had prepared a road map that detailed its activities in relation to PCRs and IRs in the nation-wide workplans. In addition, each zone office had prepared quarterly programme implementation plans which served as basis for developing zone office monthly travel plans and technical assistance plans. However, the roadmaps were not registered in VISION and there were no clear and direct linkages between them and the quarterly implementation plans. It was also noted that VISION could not provide reliable information concerning the activities to be implemented by the zone offices, as all activities were attributed to Dhaka country office using a single responsible cost centre. This created a risk that the planned activities might not be sufficiently monitored.

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

i. Align the programme structure with the core aspects of the country programme, 2014-2017 Strategic Plan and UNDAF Action Plan during the 2014 mid-term review.
ii. Provide guidance and a quality assurance mechanism for the development of a workplan to ensure that:
    a. The expected results are specific, measurable, and describe the change expected to be brought about.
    b. The baselines and targets are assigned to each performance indicator and are accurately registered in VISION.
    c. Workplans are signed early enough to start implementation on the planned start dates.
iii. Establish a mechanism that would enable systematic monitoring of transactions and activities to be implemented by each of the six zone offices.

Staff responsible for taking action: Representative; Deputy Representative, with support from SPPME (Social Policy, Planning, Monitoring and Evaluation); Chief, Field Operations

Date by which action will be taken: July 2014

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 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. There should also be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle.

HACT is required for three other UN agencies (UNDP, UNFPA and WFP), and country offices should coordinate with them to ensure best use of resources.

During 2012-2013 (as of September 2013), the office's total cash transfers to implementing partners amounted to about US$ 61 million, representing 53 percent of the total expenditures during the period. The audit reviewed the implementation of HACT and noted the following.

Macro-assessment: The office had implemented HACT since 2007. The UN country team (UNCT) had conducted a macro-assessment of Bangladesh's public financial management system for the previous country programme cycle in 2007. For the current programme cycle (2012-2016), the UNCT had contracted a consultant and at the time of the audit (November 2013), the consultant was in the process of finishing the macro-assessment.

Micro-assessments: The audit reviewed a sample of 24 payments related to the provision of direct cash transfers (including 11 NGOs). In 15 sampled payments (of which two were to NGOs), the implementing partners involved had not been micro-assessed. Further, for those implementing partners who were micro-assessed, the office did not systematically use the results to guide decisions on which method to use for cash transfers, or to choose the most appropriate assurance activities. The implementing partners were provided with direct cash transfers regardless of the risk rating.

Assurance activities: The office had developed a HACT assurance plan which was basically a framework for assurance activities. However, the plan did not specify the assurance activities for each implementing partner (i.e. spot check, scheduled audits or programmatic monitoring of activities). It had contracted auditing firms to carry out spot checks of implementing partners, but these spot checks were fragmented and *ad hoc*. Sixteen out of the 24 sampled payments were to partners on which no spot checks had been carried out. Where spot checks had been carried out by the accounting firms in accordance with the agreed terms of reference, the findings and recommendations from these spot checks had not been followed up.

There was also insufficient programmatic monitoring specifically related to the activities for which the partners concerned had requested the cash transfer (see observation *Field* *monitoring* on p12 below). Further, while a number of the implementing partners had so far received cash transfers over US$ 500,000 from UNICEF alone during the current programme cycle, no scheduled audits had yet been planned or carried out.

The office stated that the lack of an integrated assurance plan was through the inactivity of the UN HACT Core Group. It added that it had shared the HACT assurance framework with the group, but had received no feedback from it. Starting in September 2013, the UNICEF country office had taken the lead in the operations management team sub-committee of the UNCT for the implementation of HACT in Bangladesh. As such, it planned to give prominence to HACT implementation in Bangladesh.

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

i. Identify implementing partners who are expected to receive more than US$ 100,000 in the current programme cycle and, prior to initiating partnerships with them, determine whether to micro-assess them. In the absence of a micro-assessment, the office will consider the partners as high risk and increase its level of assurance activities accordingly.
ii. Determine the most appropriate type of cash transfer for each implementing partner depending on risk level.
iii. Develop and implement a comprehensive assurance plan that includes scheduled audits, spot checks, and programmatic monitoring of activities to obtain assurance of the use of funds by each implementing partner.
iv. Include implementation of the Harmonized Approach to Cash Transfers (HACT) and assurance activities as standing agenda items in the country management team meeting until HACT is fully implemented.

Staff responsible for taking action: Deputy Representative, with support from Operations
Date by which action will be taken: April 2014

Project cooperation agreements (PCAs)

In 2012 the office had concluded 51 PCAs, worth a total of US$ 14 million, with NGOs. In 2013 it had concluded 21 PCAs, worth US$ 9 million. The audit made a number of observations in this area.

PCAs had been concluded with NGOs for about US$ 15 million in 2012-2013 for the construction and rehabilitation of WASH[3] and other facilities, including latrines, special new-born units, cold rooms, schools and playgrounds. However, the nature of the arrangements constituted vendor rather than partnership relationships. This requires compliance with UNICEF's procedures for the award of contracts, including, where appropriate, a competitive tendering and procurement process. Although the office had a PCA review committee to review partnerships with NGOs, including review of NGO proposals, the committee had not identified this weakness. A similar arrangement was noted in the case of government implementing partners; purchase orders were raised for the procurement of construction materials, although the implementing partner was not a supplier. Moreover, the procurement of supplies in this case did not go through competitive bidding.

The schedules of quarterly instalment payments of all nine sampled PCAs were either set as

[3] Water, Sanitation and Hygiene.

percentages of the total agreed amounts, or as lump sums – but with no documented reason. They were not based on the budget of the activities planned for each quarter. As such, the funds received by the implementing partners might not be fully utilised during the quarter, which could result in a delay in the reporting of the direct cash transfer or a refund of the unspent amount.

The supply section had been made responsible for the assessment of NGOs, raising the PCAs, and administering those that were in operation. The office took the view that collaboration with NGOs involving a PCA was similar to contracting, but it is in essence a partnership relationship. As such, partnerships with NGOs were not within the purview of the supply section.

Agreed action 4 (high priority): The office agrees to review and strengthen the management of partnership with NGOs, ensuring that:

i. The appropriate type of agreement is used, depending on the nature of the arrangements, i.e. partnership or vendor relationships.
ii. The PCA review committee is aware of the requirements of PCAs *vis-à-vis* service contracts, and reviews PCAs accordingly.
iii. The schedule of instalment payments is based on the expected expenditures for the activities to be implemented in each quarter.
iv. The management and supervision of PCAs is properly assigned to programme sections and not to the supply section, and staff assigned to these tasks are properly trained.

Staff responsible for taking action: Representative; Deputy Representative, with support from Operations; Chief of Operations
Date by which action will be taken: March 2014

Field monitoring

Field monitoring should include the use of inputs, work schedules and planned outputs, to confirm proper implementation of programme activities and ensure that deficiencies can be promptly detected and addressed. The audit reviewed whether monitoring of programme implementation was carried out effectively. As part of this review, the audit planned project visits, but these were cancelled because of strikes and for security reasons. However, the audit was able to make the following observations.

The office had conducted mid-year and annual reviews with implementing partners. However, it had not established procedures for field-monitoring trips, including their frequency and how the information gathered was processed, compiled and monitored. Except for the zone offices, there was no field-monitoring plan within each programme section in Dhaka, and field-monitoring trips were *ad hoc*. Each section was left to establish its own procedure.

While the programme sections in Dhaka, as budget owners, authorized the trips of zone-office staff, there was no system to ensure that all their field-monitoring trips were reported, recommendations were reviewed, and their implementation followed up. Neither were the major findings and recommendations from these field-monitoring trips systematically discussed or reviewed in either programme or country management team meetings.

These shortcomings reduced the office's awareness of the implementation status of the planned activities and ultimately the achievement of results. At the time of the audit, the office was reviewing procedures with a view to setting up a system for storage and retrieval of field-monitoring data.

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

i. Review the procedures related to field-monitoring trips and establish a standard procedure for the entire office.
ii. Establish a database of major findings and recommendations from field-monitoring trips, and track the implementation of the significant action points arising from those trips.
iii. Include the significant findings and recommendations from field-monitoring trips as a standing agenda item in programme meetings, and present unresolved significant issues during the country management team meetings.

Staff responsible for taking action: Representative; Chief, SPPME; Deputy Representative
Date by which action will be taken: June 2014

Programme evaluations

Country offices should have a programme of evaluations in order to assess the country programme's impact on children and women. However, at the time of the audit and almost two years into the 2012-2016 programme cycle, the office had yet to carry out a single evaluation activity. Further, in Bangladesh, the UN agencies signed a joint action plan with the Government rather than individual joint plans. The joint action plan included evaluation activities to be undertaken by each UN agency. UNICEF was responsible for only one of them — *Evaluation of communication for development behaviour and practices in UNDAF*[4] *outcomes and outputs*. This was scheduled to be done in 2015.

The office indicated that, due to dissatisfaction with previous evaluations of programmes, it had decided to review quality assurance of evaluations during 2012-2013 and assess the evaluability of the country programme. In May 2013, the office had issued guidance on the conception, conduct, compliance, completion and closure of evaluation activities. The office had also established an Evaluation Management Team (EMT) which was responsible for, among other things, overseeing the policy and programme relevance of all evaluation activities. At the time of the audit in November, the EMT had met once so far (in July).

Agreed action 6 (medium priority): The office agrees to review its processes for the planning, implementation and monitoring of programme evaluations, ensuring that planned evaluations are prioritized, and that the time-frame for implementation is clearly defined and adhered to. If changes are needed, justifications will be documented and communicated.

Staff responsible for taking action: Representative, with support from Chief, SPPME
Date by which action will be taken: June 2014

Programme management: Conclusion

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

[4] The UNDAF is the UN Development Assistance Framework, which is the programme agreed between a government and the UN agencies in the country.

3 Operations support

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

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

The audit did not cover inventory management in this audit. The country office mainly maintained pre-positioned items which had limited inventory turnover and movement, and a value of approximately US$ 1 million.

Satisfactory key controls

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

There were adequate procedures to manage plant, property and equipment (PPE), and the office had conducted inventories in June 2012 and in 2013. The Property Survey Board reviewed proposals to dispose of unserviceable assets and followed up the implementation of its recommendations.

The office had taken measures to ensure that information and communication technology (ICT) equipment and back-up media were safeguarded against unauthorized access, physical hazards, accidental damage and the impact of power loss. It had developed a business continuity plan and had updated the plan based on the results of a simulation exercise.

Vendor master records

UNICEF's Supply Manual provides guidance for the creation, maintenance, use and access to vendor records in VISION. The creation of vendor master records is expected to be done centrally by the designated staff member(s). The country office is also expected to ensure the completeness of the vendor's details in the master record, especially the payment transaction and the banking details, as this information is required for processing payments. In this way, only accredited vendors would be maintained in the system.

The office had assigned four staff members for the maintenance of specific vendor account groups in VISION. However, it had yet to establish a standard process for requesting the creation of vendor master records, and requests came in various forms, including email messages and handwritten notes. There was no established process to ascertain that the vendors (suppliers, contractors, and implementing partners) were legitimate and that their bank accounts were valid.

The audit also found that, out of a total of 1,474 vendor records at the time of audit (October 2013), at least 78 vendors were duplicated. Of the 78, the duplicates of 25 vendors had been used for payments. The duplicates had been created either during the migration of data to the then-new VISION system in 2012, or through creation of new master records without checking whether there was already one in the system for that vendor. Duplication of vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account and could increase the risk of overpayments or double payments (the audit did not find any that had occurred for that reason). It could also allow partners to receive direct cash transfers despite having advances outstanding for more than six months.

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

i. Identify vendors with multiple master records, and ascertain their validity. It agrees to block and mark for deletion the master records that are considered invalid or duplicate.
ii. Provide guidance, and institute a process, for requesting and creation of vendor master records in accordance with the established requirements in the Supply Manual, to ensure that adequate documentation (to establish the legitimacy of the vendors and the validity of their bank accounts) and approval for their creation are obtained and that the existence of the pertinent vendor master records in VISION is ascertained before another vendor master record is created.
iii. Establish a process to periodically review the vendor master records in order to prevent duplications, and ensure completeness and accuracy of records.

Staff responsible for taking action: Chief, Supply and Procurement
Date by which action will be taken: April 2014

Financial transaction processing

The audit reviewed whether financial transactions were processed promptly and appropriately with supporting documentation, and whether they accurately and completely recorded, in accordance with UNICEF Financial Regulations and Rules. The audit selected a sample of 82 financial transactions for review and noted the following areas for improvement:

Correspondence with workplans: The completed Funding Authorization and Certificate of Expenditure (FACE) form[5] is expected to mirror the workplans, to prevent the risk that

[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

activities implemented might be other than those in the approved workplan. However, 16 of the 24 sampled requests for cash transfers did not correspond to the activities in the approved workplan. Four of the 16 requests indicated only the cost components/budget items, instead of the activity for which the funding was being requested. This also made it harder to monitor implementation, as field monitoring is carried out against the activities and cash transfers listed in the FACE forms – and these differed from those in the workplans.

Release of cash transfers: Cash transfers to partners were not processed and released on time. The 24 requests sampled took six to 125 days from the time of receipt of request to release of payments, with an average of 31 days. The protracted processing was exacerbated by late submission of the requests by implementing partners. Seventeen of the 24 samples were submitted after the start date of the activity indicated in the requests, 10 over a month afterwards; the gap ranged from 36 days to 148 days. Between them, the late submissions and slow releases delayed implementation of activities by up to three months. While the office had established work processes for the submission and release of cash transfers, it had not reviewed and identified the bottlenecks and established the related standard lead and processing times. Also, although there had been training of implementing partner staff and office staff on HACT in the past, the office had not given it priority.

Missing information: Some direct cash transfers were paid although the FACE forms had not been completely filled in. The information omitted included description of activities against workplan, and clear indication of their duration. Direct cash transfers were therefore made without regard as to whether the requested amounts were meant for a quarter's expenditures (which is the maximum), or for a longer period; or whether the activities were in accordance with the workplan. In a few instances where the requested amounts differed from the amount released, there was no indications as to why. The implementing partners were therefore unaware of modifications in the activities and budget. As indicated above, the office had not given priority to training of implementing partners and office staff on HACT.

Signatories: Although the office maintained profiles of implementing partners with their bank accounts, they did not include the implementing partners' authorized representatives together with their specimen signatures. As such, there was no assurance that the signatories of the FACE forms were indeed the authorised representatives.

Reimbursement prior to approval: Implementing partners were reimbursed through cash transfers for expenses incurred prior to approval of activities by the office through the FACE form. This posed a risk that activities would not be implemented in accordance with the plan and budget.

Cash receipts: Five of the 10 sampled receipts of funds were recorded and deposited long after their actual receipt. The delays in recording and deposit of cash receipts, which ranged from eight to 49 days, presented a risk of loss of funds. Since a number of them pertained to refund of direct cash transfers, this also further delayed the liquidation of outstanding direct cash transfers.

Contract for services: Although service certificates were properly completed and payments appropriately supported, the payment terms of four of the nine sampled contracts were not clearly linked with the deliverables and the deadline for their completion/submission. Further,

---

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 deadlines in the sampled contracts were either unspecified or vague, such as “as per request for proposal of contractor”. This presented a risk that payments were made without regard to the receipt of the deliverables at the specified deadline.

Implementation of financial controls: As stated earlier, on the implementation of VISION, the roles were established within it of authorising, purchase order releasing, receiving, certifying, approving and paying officers in the processing of transactions. In its review of the sampled transactions, the audit noted inadequate implementation of these financial controls. Among the selected samples, a duplicate payment of US$ 22,860 was made to an implementing partner. (The office noticed it seven months later and the partner refunded it a month after that.) In five other cases, payments totalling US$ 140,202 were processed and approved for payment but were released five to seven months later since either the liquidated damages clause had not been applied or the pertinent contract had not been raised. These weaknesses were due to poor understanding of the prevailing policy.

Agreed action 8 (high priority): The office agrees to:

i. Review the financial-transaction workflow processes, including the processing of cash transfers, cash receipts and contracts for services; identify the bottlenecks; and institute improvements to these processes, including establishment of standard lead and processing times to correct the shortcomings indicated in the observation.
ii. Monitor and report on the timeliness of processing and liquidation of cash transfers and processing of cash receipts.
iii. Conduct training of implementing partner staff and its own office staff on Harmonized Approach To Cash Transfer (HACT) procedures.
iv. Provide training to office staff on policies and procedures such as those related to the financial and administrative policy.

Staff responsible for taking action: Chief, Finance; Deputy Representative; Chief of Operations
Date by which action will be taken: March 2014

General ledger and clearing accounts

The audit verified whether the general ledger accounts were correctly used, and whether clearing accounts or open-item-managed accounts were analyzed and cleared to ensure accurate and timely financial reports. These reports serve as inputs for various levels of decision-making within UNICEF. The audit noted the following areas for improvement.

Value-added tax (VAT) receivable: Although the basic cooperation agreement (BCA)[6] had a provision exempting UNICEF from paying VAT on locally procured goods and services, the office had continued to pay VAT to the vendors without accruing VAT receivable for subsequent reimbursement from the government. As such, the available funds for programme activities were reduced by the amount of VAT that had ultimately gone to the Government of Bangladesh. During the period 2012-2013, the office had paid approximately US$ 300,000 per annum. This was because the government tax authority did not recognize the provision of the BCA.

The office, in coordination with the UN country team, had tried to secure enforcement of the

[6] The BCA between UNICEF and a government sets out the rights and obligations of the organisation in the host country. This would include any applicable tax exemptions.

exemption – most recently in September 2013, when it sought the intervention of the Ministry of Finance's Economic Relations Division (which has overall responsibility for the coordination of the UNICEF-assisted programme). At the time of the audit (November 2013), the issue was unresolved.

Good-in-transit (GIT) account: This account is used to record the value of programme supplies controlled by UNICEF while in transit from a supplier or freight forwarder, until they are either delivered to a UNICEF field warehouse (in which case they remain under the control of UNICEF) or are handed over to an implementing partner (as substantiated by a receipt-of-goods document).

As of 22 October 2013, the account had a balance of about US$ 1 million, with 187 line items. Pending delivery to a UNICEF warehouse or receipt by the partners, these 187 items would not be cleared, the account balance would not be reduced and they would not be recorded as inventory or expenditures. The audit checked the ages of these open items and noted that 22 percent pertained to 2012, seven percent to the first quarter of 2013, 46 percent to the second quarter of 2013 and 19 percent to the third quarter of 2013. A sample review of 10 open items of significant value revealed that four of them, with a total value of US$ 787,256, had not been cleared due to delays in obtaining the signed copies of the Receipt of Goods from the implementing partners. As the goods had been received by the partners, the GIT account was overstated by an amount that should have been expensed.

Goods receipt/invoice receipt (GR/IR) account: When goods/services are received and recorded in VISION, a liability is systematically accrued in this account for the value of the quantity received, based on the unit cost in purchase order. This amount is negated and cleared on posting of the invoice but only when the invoice amount entered is the same as the value of the quantity received. In some instances, the two entries may, for various reasons, not be equal; they then remain open or in "suspense". In such cases, these entries have to be analyzed and manually cleared.

At the time of audit (November 2013), the GR/IR account had 107 open items or "suspense" entries with a credit balance of US$ 554,000. Of the 107, 43 (with an aggregate value of US$ 396,504) had been outstanding for over a month; 17 of them related to 2012. Unless the entries are analyzed and cleared, there is a risk that the office may have to pay for goods or services not received (the audit did not find any evidence that this had occurred). The office had been in contact with the Division of Financial and Administrative Management (DFAM), which had been assisting it with analysis and clearance of the long-outstanding open items.

Accounts payable: As at the time of audit (November 2013), the accounts payable to a travel agent had 164 open or uncleared items with a balance of US$ 34,721. Among them, 119 items (with an aggregate amount of US$ 27,254) had remained open for over a month and 12 of them pertained to 2012. As in the case of GR/IR above, there is a risk that the office might have to pay for travel-related services not received.

The above shortcomings were mainly due to insufficient analysis and clearance of long-outstanding items.

Agreed action 9 (medium priority): The office agrees to:

i. Continue to pursue with the government of Bangladesh the question of enforcement of the tax-exempt provision in the basic co-operation agreement; elevate the risk to the Regional Office for assistance; and, on acknowledgement by the government of the tax-exempt provision, accrue and collect the VAT receivable.

ii. Institute a process, and assign responsibilities, for oversight, timely analysis and clearance of long-outstanding open items, including open-item-managed accounts such as good-in-transit, goods receipt/invoice receipt, and accounts payable.

Staff responsible for taking action: Representative; Chief, Supply and Procurement; Chief, Finance
Date by which action will be taken: March 2014

Access to ICT resources

The office had established a procedure for providing users with access to core UNICEF ICT resources such as the network, e-mail, Intranet, and VISION Transaction Management system components. The system administrator maintained a complete file of approved requests for access.

However, a review of the access provided to 50 users noted that 26 had access rights before or after their respective contract expiry dates. In seven of these instances, users had access rights long after their contract expiry dates, ranging from a period of approximately one to six months. Also, the names of 10 staff members registered as system users were not consistent with the names in their employment contracts. In one case, an email account was granted to an individual who was not employed by UNICEF but by a travel agency, which is contrary to UNICEF policy. Shortcomings in the provision of user access rights to the ICT resources created risks of unauthorized access and/or inappropriate transactions, resulting in potential loss of resources and data integrity.

Agreed action 10 (medium priority): The office agrees to:

i. Revise the current procedures for provision of access rights to the UNICEF network and systems to ensure that users' names, and the expiry dates of their employment, are based on their respective appointments/contracts.
ii. Grant access only to individuals with valid contractual relationships with UNICEF.
iii. Establish a periodic review of the validity of the users' access rights to ICT resources to ensure that the validity of access rights is consistent with the expiry dates of the users' respective appointments/contracts.

Staff responsible for taking action: Chief, HR; Chief, ICT; Chief of Operations
Date by which action will be taken: April 2014

Operations support: Conclusion

Based on the audit work performed, OIAI concluded 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, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions, and questionnaires. The audit compared the documented controls, governance and risk management practices provided by the office against UNICEF policies, procedures and contractual arrangements.

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

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

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

Priorities attached to audit recommendations

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over the

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

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

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

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

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

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

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