

# Internal Audit of the Eritrea Country Office

Office of Internal Audit  
and Investigations (OIAI)  
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## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Eritrea country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 11-29 November 2013. The audit covered the period from January 2012 to November 2013.

The 2013-2016 country programme has five main programme components: *Health and Nutrition; Basic Education; Water, Sanitation and Hygiene; Child Protection; and Advocacy and Partnerships*. There is also a cross-sectoral component. The total approved budget for the country programme is US\$ 52.7 million, of which around US\$ 7.85 million is Regular Resources (RR) and US\$ 44.8 million is Other Resources (OR). Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling.

The Eritrea country office is located in the capital, Asmara, and there are no zone offices. As of November 2013, the country office had a total of 66 approved posts, of which 19 were for international professionals, 19 for national officers and 28 for general service staff. As of November 2013, 14 of the 66 established posts were vacant. The total budgets were US\$ 27 million in 2012 and US\$ 25.8 million in 2013. Total expenditure was US\$ 16.5 million in 2012 and US\$ 17.8 million as of November 2013.

### Actions agreed following the audit

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

- Develop an action plan and assign staff responsibilities for implementation of the resource mobilization strategy. Review rolling workplan results to prioritize activities and make it clear to partners which activities are contingent on funding availability.
- Continue follow-up with partners to ensure programme implementation is adequately monitored; review the status and effectiveness of supplies and cash transfers provided to the partners during field visits; and establish systems and tools to ensure that progress towards achievement of results is effectively tracked and documented.
- Fully implement the Harmonized Approach to Cash Transfers by conducting macro-assessment of the public financial management systems; undertake micro-assessment of partners (as needed); and implement a plan for assurance activities that includes financial spot checks, programmatic monitoring and scheduled audits.
- Establish control and oversight mechanisms to ensure:
  - Timely delivery of supplies.
  - Timely transportation of supplies from the seaport.
  - Procurement based on partners' requests for supplies and distribution plans.

- Assessment of partners' capacity for procurement and logistics.
  - Securing of local procurement authorization from Supply Division before procurement through government partners.
  - Handing over of responsibilities for in-country logistics of programme supplies.
- Ensure timely disbursement and liquidation of cash transfers to partners; train staff on financial transaction processing including general ledger coding; ensure cash transfers are disbursed in accordance with partners' requests and that any deviation is documented; ensure that payments over US\$ 2,500 are supported by purchase orders or contracts, and that invoices are paid only on the basis of evidence for delivery of goods or services.

## Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office, in the areas examined, needed improvement to be adequately functioning during the period under audit. The Eritrea country office, with the collaboration of the Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

# Contents

<b>Summary</b>	<b>2</b>
<b>Objectives and scope</b>	<b>5</b>
<b>Observations</b>	<b>5</b>
<b>Governance</b>	<b>5</b>
Assignment of roles and segregation of duties	5
Advisory committees	7
Governance: Conclusion	8
<b>Programme management</b>	<b>9</b>
Programme funding	9
Programme budget management	11
Results-based programme monitoring	13
Data on children, and programme evaluations	15
HACT and assurance activities	16
Global Partnership for Education (GPE)	18
Programme management: Conclusion	19
<b>Operations support</b>	<b>20</b>
Supply procurement and logistics	20
Management of contracts for services	23
Processing of financial transactions	24
Cash and bank account management	26
Property, plant and equipment (PP&E)	27
Human resources management	28
Operations support: Conclusion	29
<b>Annex A: Methodology, and definition of priorities and conclusions</b>	<b>30</b>

## Objectives and scope

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

## Audit observations

### 1 Governance

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

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

All the above areas were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, the office had established supervisory structures and governance advisory committees with adequate terms of reference and appropriate memberships. It had also established effective mediation, conflict resolution and staff support mechanisms through the staff association, and joint consultative committees. Staff members' performance assessments were carried out on time.

However, the audit noted the following.

#### Assignment of roles and segregation of duties

Country offices delegate authorities to staff members in a Table of Authorities (ToA). They also assign roles to staff members in UNICEF's management system, VISION. In so doing, they should delegate authorities in VISION that are commensurate with a staff member's functions. Offices should also ensure that the roles are assigned in such a way as to ensure adequate

segregation of duties. They should also be consistent with the delegation of authorities in the ToA.

The staff members had been delegated proper authorities for performing their responsibilities, within defined limits. The office had assigned responsibilities and delegated authorities for the authorizing, purchase-order release, receiving, certifying, approving and paying functions. However, although the office had established a role-mapping committee, it had not adequately reviewed the ToA to ensure that these roles delegated to staff members were in alignment with the new internal control policy (Financial and Administrative Policy 1) and guidelines. It also did not establish mechanisms for periodic review of roles mapped in VISION. The audit review noted the following.

**Assignment of roles:** The audit noted cases of staff members being assigned roles in VISION which they did not require and were not related to their functions. For example, the chiefs of Child Protection and of Water, Sanitation and Hygiene (WASH), and the WASH specialist – who were non-accounting staff – were assigned accounting-related roles for approving and posting financial transactions in VISION. Also, a non-supply staff member (a programme assistant) was assigned a procurement L1 (purchasing) role and could do supply functions in VISION – yet this role was not assigned to supply staff members. In another case, the travel administrator role was assigned to the store assistant, who could approve travel in VISION. (The office noted that the store assistant was OIC for the travel assistant; however, the role for approving travel should be given to the chief of operations.) Further, the function for creating adjustment transactions (general ledger L1) was not assigned to any staff member in the office, and therefore adjusting entries could be completed by only one person, who had access for approving adjustment entries (general ledger L2).

**Segregation of duties:** Two staff members were assigned both paying and approving functions, including payment of invoices they themselves had posted. A staff member who was assigned the purchase order approving role (PO release L3) was also assigned the receiving and paying roles, allowing her to approve purchase, receive goods/services and process payments. Another staff member was assigned the roles for disposing of, or adjusting values of, assets (asset accounting L1 and L2) while also being assigned the physical inventory role in VISION. He could also create and post the asset acquisition, and adjust for variance/discrepancies resulting from the physical inventory count. Further, a staff member who was assigned the bank reconciliation role was also assigned the accounts receivable L2 (approving cash receipts) and general ledger L2 (approving adjustment entries) roles; he could both post invoices and adjust reconciling items. These functions were not properly segregated.

**Consistency between ToA and VISION roles:** Three non-accounts staff members had rights as approving officers and could post accounting entries in VISION, even though this role had not been delegated to them in the ToA. Similarly, the admin officer had access for approving purchase orders, cash transfers and paying roles in VISION; again, these roles had not been delegated to them in the ToA. Also, although the receiving role was not delegated to the nutrition manager in the ToA, they had access to this role in VISION.

Periodic refresher training of staff members on segregation of duties and the ToA would help strengthen staff understanding of the policies on these areas – which, as related to VISION, are relatively recent (the system was introduced in January 2012). It would also help improve the implementation of controls. Assignment of roles not in line with staff functions, inadequate segregation of duties and inconsistencies between delegated roles and actual

assignment in VISION weaken the effectiveness of controls and could lead to inappropriate transactions.

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

- i. Review the roles assigned to staff members in VISION to ensure that roles are assigned and segregated appropriately, and are in line with the delegation by the Representative.
- ii. Reconcile the delegated roles in the Table of Authorities with those assigned in VISION.
- iii. Provide refresher training relating to roles, segregation of duties and the table of authority.

Target date for completion: September 2014

Responsible staff members: Chief of Operations

### Advisory committees

The office had a functional country management team (CMT), contract review committee (CRC) and property survey board (PSB) in 2012 and 2013. The audit reviewed the structure and functioning of these committees and found the following areas for improvement.

**CMT:** The CMT did not consistently discuss management priorities in 2012 and 2013, although they were part of the agenda according to the committee's ToR. (The audit also noted that responsibilities for these key office priorities were not assigned to staff and reflected in their performance assessments, with clear performance indicators.) Responsibilities for agreed actions in the CMT minutes were not assigned to specific staff members, with timelines.

On several occasions, actions agreed by the CMT were not followed up and as a result were not implemented. These included long-term agreements (LTAs) with hotels for business continuity during emergency situations; an implementation plan for resource mobilization and establishment of a resource mobilization committee; and third-party monitoring arrangements – all agreed in the CMT meetings held in January and April 2013, but not implemented as of November 2013. The office explained that action relating to the LTA with hotels was on progress. However, this had not been reported back to the CMT. Similarly, the audit did not find evidence of follow-up on the other issues in subsequent CMT meetings during the year.

**CRC:** The CRC recommended award of contracts prior (in most cases) to assuring availability of funds. This could put UNICEF at reputational risk and discourage future potential suppliers from bidding for UNICEF undertakings. Also, the CRC sometimes recommended award of contract to a vendor with which UNICEF had previously experienced untimely delivery (this was the case with a cement contract worth US\$ 68,200, due to pressure to spend funds on expiring grants. See also *Commitments raised just before expiry of grants*, p12 below, in the observation *Programme funding and budget management*).

**PSB:** The PSB in a country office makes decisions on disposal of assets (for example, when they are damaged or are no longer needed). In this case, submissions to the PSB did not always provide sufficient assessment and documentation to support informed decisions by management. For example, a submission for disposal of 300 cartons of food items (biscuits) made in 2012 did not provide sufficient assessment as to whether they were suitable for

human consumption. The audit also noted that action points in the minutes were not consistently followed up in subsequent meetings. For instance, a July 2012 meeting's recommendation to destroy old archived documents was not followed up in the PSB meetings that followed. (See also observation *Supply procurement and logistics*, p21 below.)

The use of standard operating procedures or checklists for advisory committees' processes would help ensure that all key controls and procedures were followed, and would strengthen the effectiveness of the committees.

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

- i. Country Management Team meetings consistently include discussion of the office priorities and progress of programme implementation; significant agreed actions are specifically assigned to staff members; and assigned actions are followed up for implementation.
- ii. The Contract Review Committee confirms availability of funds and reservation prior to making recommendations for award of the contracts, and exercises caution in engaging suppliers whose previous performance for UNICEF has not been satisfactory.
- iii. Standard operating procedures or checklists are prepared for each of the advisory committees, to guide staff members in following procedures.
- iv. Submissions to the PSB provide sufficient information to support informed decisions.
- v. Implementation of PSB recommendations is followed up.

Target date for completion: September 2014

Responsible staff members: Chief of Operations

### Governance: Conclusion

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



## 2 Programme management

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

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

All the above areas were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, all donor reports due in 2012 and 2013 were submitted on time. The country office, in collaboration with the Ministry of Health, had successfully planned and implemented programme activities for routine immunization. During Child Health and Nutrition Week in May 2012, a national measles vaccination campaign had been conducted for children aged 9-47 months, and had achieved a 95.6 percent coverage rate.<sup>1</sup> Similarly, the child immunization programme was maintaining high coverage of fully immunized children at 95 percent in all zones in the country.<sup>2</sup>

However, the audit also noted the following.

### Programme funding

Total funding received for emergency programme amounted to US\$ 10.3 million in 2012 and US\$ 2.1 million in 2013 (as of November). During the first year of the new 2013-2016 country programme, the total funds available from OR amounted to US\$ 11.2 million, against an annualized ceiling of US\$ 11.4 million as of November 2013. This amount included unspent funds carried over from 2012, amounting to US\$ 6.8 million.

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<sup>1</sup> WHO/UNICEF: Post-Campaign Coverage Evaluation Survey, June 2012.

<sup>2</sup> WHO/UNICEF: EPI coverage survey, May 2013.

However, the audit noted funding gaps in three programme components – the Basic Education, Child Protection, and Advocacy and Partnership programmes, which had cumulative funding gaps of 46 percent, 60 percent and 80 percent respectively as of November 2013. Major funding gaps in the Basic Education programme were noted under intermediate results (IRs)<sup>3</sup> for Nomadic Education (IR 1) and Complementary Elementary Education (IR 2), with funding gaps of 67 percent and 74 percent respectively as of 25 November 2013. Under Child Protection, major funding gaps were in the following planned results: Mine Risk Education (IR 1); Injuries, Violence and Disability Prevention (IR 2); Community-Based Social Assistance for Orphans and Vulnerable Children (IR 4); Child Rights and Child Justice (IR 5); and Adolescent & Youth Development (IR 6), each with funding gaps ranging from 66 percent to 100 percent as of 25 November 2013.

The difficulties in raising funds had an impact on funding for staff salaries for some posts, and in 2012 and 2013 funds for staff salaries were not always made available on time for processing of payrolls. The audit noted that four posts in programme and three in operations had remained vacant for over a year due to lack of funding. (See also observation *Human resources management*, p28 below).

The audit noted a downward trajectory in funding for the country programme activities in Eritrea; there was a shrinking donor base, with most donors leaving the country and others showing less and less interest in providing funding in the last few years given the political situation in the country, including the UN sanctions and embargo. For example, the number of national committees<sup>4</sup> providing funding to UNICEF in Eritrea fell from seven in 2009 to four in 2012. The number of governments that were donors to UNICEF's Eritrea programme also fell, from 12 in 2009 to two in 2012-2013.

Due to the urgent need to explore various sources of funding to address the gaps, the office had established a resource mobilization strategy (updated in 2012) that included the establishment of a fundraising committee and the development of a plan for fundraising activities. However, as of November 2013, neither the fundraising committee nor the plan for fundraising activities had been established. As a result, the fundraising efforts were not systematically carried out. The audit also noted that specific performance targets and indicators for fundraising activities would help, focusing the office's efforts and measuring progress made over a given period of time.

The office provided estimated budgets for the programme activities in the rolling workplans signed with the ministries for the period 2013-2014. However, there was no indication as to which activities were or were not funded, and the partners expected that full amounts set in the workplans would be funded accordingly. During the audit visit, the Ministry of National Development raised a concern that the financial commitments made in the signed workplans had not been fully honoured by UNICEF. This was because only about 56 percent of the funds the Ministry expected from UNICEF in 2013 had been received as of November. This had created a problem for the government because the figures agreed in the workplans had been incorporated into the government budget for the period. In fact, the figures in the workplans had been estimates subject to resource mobilization. The office had not conveyed this clearly to government partners.

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<sup>3</sup> UNICEF programmes allocate their funding by desired result. These are divided into programme components results (PCRs), which represent an output of the country programme, against which resources will be allocated. An IR is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

<sup>4</sup> National Committees for UNICEF are bodies in donor countries that raise funds for UNICEF.

**Agreed action 3 (high priority):** The country office agrees to take the following actions:

- i. Develop a plan for fundraising activities and ensure that the resource mobilization strategy is implemented in a systematic manner.
- ii. Establish key performance indicators and specific targets on fundraising activities, including number of concept notes and funding proposals to be submitted to donors in a given period.
- iii. As necessary, seek support from the regional office and PARMO in an effort to expand the country office's donor base and secure funding to fill funding gaps.
- iv. In consultation with the partners, review its rolling workplan results to identify activities which should be prioritized and those that may be scoped out, based on the funding situation.
- v. Revise the rolling workplans signed with the partners to clearly indicate annual allocations and funded and unfunded activities, and make it clear to the partners which planned activities are contingent on funding availability.

Target date for completion: December 2014

Responsible staff members: Communication Officer

## Programme budget management

The board-approved budget for the country programme 2013-2016 was US\$ 52.6 million, (exclusive of funding for emergency response). US\$ 44.8 million is from OR and US\$ 7.8 million from RR. The approved support budget ceiling for the country programme was US\$ 6.4 million. Notwithstanding the long-term funding challenges faced by the country office as indicated in the previous observations, the audit also noted some issues in its management of its programme budget. These are noted below.

**Budget allocation for staff and operating costs:** The audit reviewed funding allocations for staff costs from RR and OR. It noted sections that had exceeded the limits established by the office and approved by the regional office in the Country Programme Management Plan (CPMP).<sup>5</sup> For example, about 50 percent of RR funds allocated to Health and Nutrition was for staff costs, exceeding the ceiling defined in the CPMP by 25 percent. Similarly, staff costs allocated from RR under WASH exceeded the ceiling by 9 percent (i.e. 51 percent versus 42 percent). Also, the allocations for staff costs from OR were exceeded in WASH and Basic Education programmes by 2 percent and 14 percent respectively.

There was insufficient funding allocated for operating expenses such as rental of office premises, maintenance of office equipment and other services, resulting in frequent delays in settlement of bills from service providers. For example, as of 18 November some invoices for operating expenses (including security for August-October 2013) were pending due to unavailability of funds. Failure to pay invoices on time was a reputational risk and would have been avoided if the office had prioritized the allocation of available resources to critical cross-cutting operating expenses, to ensure that obligations were settled on time.

**Open commitments against grants:** The country office did not consistently monitor the obligating documents and commitments in VISION to ensure that they were closed in a timely

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<sup>5</sup> When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

manner. For example, a total of 53 travel authorizations issued in 2012 and 80 travel authorizations issued in 2013 (some with unspent balances) were still open as of November 2013 even though the travel in question had been completed. This meant that any unspent balances on open commitments could not be utilized for other purposes until their closure.

The audit noted cases of grants that had expired and had unspent open commitments. For example, grant SC 110756, which expired on 31 March 2013, had open commitments created before the expiry date of the grant amounting to US\$ 32,374 that had not been spent or cleared as of November 2013.

**Commitments raised just before expiry of grants:** The audit noted cases where commitments for procurement of supplies were made just before expiry of grants. In one case involving procurement of cement for US\$ 68,200, the office made a decision to award the procurement contract to a supplier that had not honoured its commitments in the past, just because the grant was to expire at the end of the month. The supplier had not delivered the supplies as of November 2013 and the office ended up cancelling the purchase order and lost the funds, because the grant had now expired and a new commitment could not be raised.

In three other cases totalling US\$ 1.5 million, commitments amounting to over 50 percent of the grants were raised within one week to one month before the expiry date of the grants. Improved planning of activities, and timely allocation and creation of commitments, would help the office to avoid these situations. The office explained that planned activities and funds utilization were partly constrained by partners' readiness to implement, which was unpredictable and resulted in cancellation of planned activities when grants were about to expire.

**Agreed action 4 (medium priority):** The country office agrees to take the following actions:

- i. Ensure timely allocation of available funds to ensure availability of funding for staff posts and operating expenses.
- ii. Ensure that staff costs are kept within standard ceilings approved by the programme budget review (PBR).<sup>6</sup>
- iii. Assign staff responsibilities for monitoring the utilization status of open commitments, to identify and address over-expenditures and release of unspent balances for other activities.
- iv. Assign staff responsibilities and establish oversight mechanisms to ensure timely allocation and raising of commitments, to minimise rushed transactions just before expiry of grants.

Target date for completion: December 2014

Responsible staff members: Deputy Representative

## Results-based programme monitoring

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<sup>6</sup> The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

The Country Programme Action Plan (CPAP)<sup>7</sup> signed by UNICEF and the government of Eritrea provided a framework for monitoring programme implementation and achievement of results. The principal mechanisms included field monitoring of programme activities, and mid-year, annual and mid-term reviews. Further, the CPAP stated that the Ministry of National Development and UNICEF may agree to use programme monitoring and financial control tools, allowing data sharing and analysis.

The office planned and implemented monitoring activities, including: field monitoring of programme activities; mid-year and annual reviews with partners; monthly programme coordination meetings; and review of progress in the Country Management Team (CMT) meetings. However, the following areas for improvement were noted.

**Monitoring of programme activities:** The country office prepared quarterly travel plans, but most of the field-monitoring visits were not undertaken as planned. Partners visited at the Ministry of Health stated that this was also the case regarding joint monitoring visits. For example, the Nutrition Unit at the Ministry of Health had not undertaken any of the joint supervisory and monitoring visits planned for 2013 as of November. The office, and the partners visited, informed the audit that field monitoring was seriously constrained by difficulties in obtaining travel permits for UNICEF staff and availability of transport for the government partners.

The audit reviewed trip reports from some trips that had taken place, and noted that the purpose of the trips was not always clearly stated and linked to specific results in the workplans. Further, while staff recorded the findings and action points in the trip reports, the responsibilities and timelines for implementing recommended actions had not been established in any of the 10 sampled cases reviewed.

The analysis of field-monitoring visits undertaken in 2012 and 2013 noted that programme implementation in some regions, like Southern Red Sea and Gash Barka, was rarely monitored; requests for permits were submitted, but few or none were granted. Conversely, the Northern Red Sea and Anseba regions were more frequently visited, with more than 50 percent of all field-monitoring visits by staff in 2013 (as of November) being made to Northern Red Sea region for which travel permits are granted.

Infrequent field monitoring of implementation of programme activities due to challenges in obtaining travel permits limited the office and partners' assurance on the achievement of planned results and could result in missed opportunities for prompt identification, and addressing, of constraints. The office informed the audit that it had escalated the issue of travel permits to the regional and HQ levels and had received support.

**End-user monitoring:** This was not systematically planned and undertaken, and the status and effectiveness of programme inputs, such as cash transfers or supplies given to partners, was therefore not consistently reviewed during field visits. Also, the supply staff were not involved in any of the end-user field monitoring and the supply unit did not receive feedback on the quality and usefulness of supplies delivered to the partners.

Discussion with partners and staff noted that with the exception of vaccines, information on the distribution of supplies from central warehouses to the regional and sub-regional level

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<sup>7</sup> 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.

was not shared with UNICEF. Given the minimal field-monitoring visits undertaken to the regions and sub-regions, this further reduced assurance on whether the supplies were distributed and used for intended purposes. The partners visited informed the audit that it was possible for them to provide periodic reports to UNICEF on distribution of supplies.

**Measuring and reporting on progress:** The country office had prepared a set of indicators and targets in the CPAP. It documented progress towards achievement of results in 2012 and 2013 in the Results Assessment Module (RAM) in UNICEF's performance management system. The office relied largely on information provided by partners in review meetings, and there was no mechanism in place for verification of the accuracy of the source data from the partners because of restrictions on travel and data gathering.

In visits to the partners, including the Sanitation and Hygiene and the Nutrition units at the Ministry of Health, the audit noted that partners did not have well-established data management systems for tracking progress on results indicators. The partners visited explained that the quarterly reports they received from the regions largely contained information on implementation of activities and not results. One of the partners visited acknowledged the lack of a robust system for data collection and reporting, and indicated that they would welcome UNICEF support and guidance in this area. In addition, the office lacked standardized tools for collecting the information from partners that was used to update progress in the RAM.

The UNICEF office noted that, due to system problems, the section chiefs could not access the RAM, and that this limited the extent of quality assurance of data posted into the system. The office was following up with New York headquarters but the problem had not been resolved as of November 2013.

The office had started discussions with partners regarding the possibility of analysis that would identify weaknesses in results-based management and establish mechanisms for strengthening programme monitoring systems. The office envisaged that this might include capacity-building advocacy under the umbrella of the Harmonization for Health in Africa (HHA) initiative, participants in which include WHO. Also, the office was exploring the possibility of engaging third-party monitoring consultants, which might help to address the issue of insufficient field monitoring of programme activities because of difficulties in obtaining travel permits.

Adequate field monitoring, and measurement and periodic tracking of progress against targets and baselines, would increase assurance that funds were spent effectively and that planned results would be achieved.

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

- i. Review the issue of securing permits for field-monitoring visits, together with any other constraints to programme implementation, during the mid-year and annual programme reviews with all government implementing partners including the coordinating Ministry of National Development (MoND).
- ii. Support partners by ensuring that joint field-monitoring activities are implemented as planned, taking into account availability of travel permits.
- iii. Develop tools for, and provide guidance to, staff members on preparation of trip reports, to ensure that:

- a. The purpose of field visit is clearly stated and linked to specific workplan results.
  - b. Significant action points arising from field-monitoring visits clearly identify responsible staff and timelines for implementation of recommended actions.
- iv. Ensure that staff systematically plan and undertake end-user monitoring of cash transfers and supplies, and that feedback on issues relating to quality and usefulness of supplies is promptly provided to the supply unit.
  - v. Ensure that partners provide periodic reports on the status and distribution of supplies from the central warehouses to the regions and sub-regional levels.
  - vi. Provide support and guidance to government partners at the central level to ensure they have adequate systems and processes for tracking progress and reporting against targets and baselines to the UNICEF country office, and for ensuring reliability of data.

Target date for completion: June 2015

Responsible staff members: Deputy Representative

### Data on children, and programme evaluations

There is a lack of adequate and recent child-related data in the country, and no reliable population statistics. The data gaps have constrained understanding of the situation of children and the relevant responses, and more research, surveys, studies, and evaluation activities are therefore required. The country office and the government agreed in the CPAP to the establishment of a Monitoring and Evaluation (M&E) framework. This was to be within the context of the national M&E system, and would focus on progress towards agreed national priorities and the Millennium Development Goals (MDGs). Meanwhile the office had prepared Integrated Monitoring and Evaluation Plans (IMEPs), including research, surveys, studies, capacity building, data collection, and publication and evaluations. IMEPs had been prepared for the periods 2007-2011 and 2013-2016, and annual IMEPs in 2012 and 2013.

However, the audit noted a low implementation rate of activities planned in the IMEPs in both 2012 and 2013. As of 31 December 2012, only three of the 20 activities planned in 2012 had been completed during the year; four were on track, but 13 had not started or had been postponed to 2013. For 2013, the office had planned 24 activities, but only four had been completed as of November 2013. The audit noted in particular that there had been only one recent evaluation; called "Donkey for School Project", it had been completed in 2011. The country office had not completed any other evaluations during the previous six years. This was despite the fact that significant programme interventions in Health and Nutrition, and in Water Sanitation and Hygiene, amounting to over US\$ 90 million, had been implemented during the period 2007-2012. Sufficient and timely evaluations would help the office to assess effectiveness of interventions and incorporate lessons into future programming.

The office attributed the lack of recent evaluations and data, and slow implementation rate of IMEP activities, to limited access to the field, government restrictions on the release of data, and limited partner capacity in M&E. Also, the post of M&E Specialist had been vacant for over a year, from November 2011 to March 2013, and this had had an impact on the timeliness of IMEP activities. However, the number of IMEP activities planned on annual basis might have been unrealistic; also, the office had not secured sufficient buy-in and commitment from the partners. Some planned activities did not have available funding. Examples included activities planned under the joint programme for data development in 2013 with a budget of US\$ 95,000 – there was a funding gap of US\$ 45,000 (or 48 percent).

The office indicated that a lack of standard operating procedures for advisory committees contributed to delays in conducting studies, since selection of consultants for undertaking the studies was delayed (see also the observation *Advisory Committees* on p7 above).

The office had started to take action to address some of the gaps in monitoring and evaluation, including supporting the government of Eritrea in establishing systems for data for development and a national M&E network. The office had so far provided training on M&E and results-based management to M&E focal points at the Ministry of Health at the central and regional levels. Also, the government of Eritrea made a commitment in the CPAP for 2013-2016 to assist the conduct of M&E activities within the context of the government systems. The government had expressed a similar commitment in the Strategic Partnership Cooperation Framework (SPCF) agreed with the UN team in Eritrea.

**Agreed action 6 (medium priority):** The country office agrees to review its processes relating to drawing up the Integrated Monitoring and Evaluation Plan, to ensure that a realistic number of activities are planned and agreed with partners within the rolling workplans, and to ensure that sufficient funding is provided for planned activities. The office will also develop a two-year rolling IMEP, and will follow up with responsible government partners to secure agreement and ensure partners' participation in conducting evaluations of key programme interventions included in the Country Programme Action Plan.

Target date for completion: September 2014

Responsible staff members: Deputy Representative/Monitoring and Evaluation Officer

## HACT and assurance activities

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

During the period from January 2012 to November 2013, the office collaborated with 31 partners within four line ministries, namely the Ministry of Land, Water and Environment, Ministry of Health, Ministry of Education, Ministry of Labour and Human Welfare; and with the National Statistics Office. Of these partners, 25 received US\$ 100,000 or more, and four of them received over US\$ 500,000. The total amount of cash transfers disbursed to implementing partners from January 2012 to November 2013 was about US\$ 9 million.



The CPAP contained all relevant clauses pertaining to HACT (as recommended in the United Nations Development Group's HACT Framework). These clauses included the provision for conducting review of the public financial capacity of government partners, the use of Funding Authorization and Certificate of Expenditure (FACE) forms,<sup>8</sup> and implementation of assurance activities (including spot-checks, scheduled audits and monitoring of programme activities). However, the audit review noted the following.

**Macro-assessment:** The UN agencies had not conducted a macro-assessment of public financial management systems since the introduction of HACT in the country. Lack of macro-assessment limited the office's knowledge of the capacity of the Supreme Audit Institute (SAI) and whether the office could rely on the SAI in conducting scheduled audits as part of assurance activities.

**Micro-assessments:** The implementing partners had been micro-assessed during the previous country programme (2007-2012). A fresh round of micro-assessments were required under the new country programme in line with the HACT Framework, which specifies micro-assessment of partners receiving, or expected to receive, more than of US\$ 100,000 annually, to be conducted once every programme cycle. If this is not done, then the partners are considered high risk and therefore subject to more frequent and comprehensive assurance activities.

The country office had completed financial capacity questionnaires for four line ministry partners (without contacting them) and rated all of the partners as low risk. However, the audit review did not find adequate documentation to support this conclusion. The audit noted that there had been recent changes within individual ministries, and changes to partnership processes under the new coordinating ministry. Based on these, and on observations regarding partners' capacity to undertaking field monitoring, their insufficient data systems, and tools and delays in liquidation of cash transfers, a comprehensive micro-assessment of partners would enable the office to better assess the risks and the capacity-building needs.

**Assurance activities:** The office had not established a plan for assurance activities in 2012. Also, although at least four partners had received over US\$ 500,000 in the last two years, no scheduled audits had been conducted in 2012 and 2013. However, the office had prepared a plan for HACT assurance activities in 2013 that included: financial spot-checks to be conducted in the third quarter of 2013; quarterly field-monitoring visits; and scheduled audits to be conducted in the first quarter of 2014. The office did not conduct any financial spot-check in 2012 and only one financial spot-check activity had so far been done in 2013 (as of November).

Programmatic monitoring is also an important assurance activity, but is discussed in the observation *Results-based programme monitoring* (see p13 above).

**Training on HACT:** The country office conducted training of staff and partners on HACT in 2013. The training included topics relating to macro- and micro-assessment of partners, assurance activities, cash transfers and the use of the FACE form to request and account for use of funds. However, although a copy of the UN HACT Framework had been given to the partners, there was a need for a simplified user-friendly, easy-to-understand set of guidelines (in English and Tigrinya) to guide staff responsible for managing cash transfers at the regional

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<sup>8</sup> The FACE form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

level.

**Agreed action 7 (high priority):** The country office agrees to, working together with the other UN agencies where possible, give priority to ensuring that:

- i. There is a macro-assessment of the public financial management system.
- ii. Micro-assessment of partners is planned and carried out, with partners not micro-assessed being treated as high risk for the purpose of assurance activities.
- iii. There is a plan for assurance activities that includes financial spot checks, programme monitoring and scheduled audits; that it is implemented and regularly monitored; and that progress is reported to the country management team.
- iv. A user-friendly guideline on Harmonized Approach to Cash Transfer (HACT) and management of cash transfers in English and in Tigrinya is prepared and shared with partners.

Target date for completion: September 2014

Responsible staff members: Deputy Representative/Chief of Operations

## Global Partnership for Education (GPE)

UNICEF strongly advocated that the government of Eritrea engage in the Global Partnership for Education (GPE), which is the only multilateral partnership devoted to getting all out-of-school children into school for a quality education. The GPE programme funding, amounting to US\$ 25.3 million over a three-year implementation period, was approved by the GPE Board of Directors on 19 November 2013. The country office provided support to the government of Eritrea in the development of the education sector workplan that was part of the requirements for the application for GPE funding. The audit made the following observations.

The programme implementation grant application submitted to GPE on 10 September 2013 indicated that UNICEF is both a *coordinating entity* (coordinating the local education stakeholders within the Local Education group), and *supervising/managing entity* (i.e. fund recipient).

**School construction and supply procurement:** According to the grant application and the approval notification letter from GPE, the programme includes a high proportion (about US\$ 15 million) of school construction. In the programme document for GPE support, the country office made a commitment that it would help the government of Eritrea ensure that all supplies, goods and works required for the programme implementation were delivered in a timely and efficient manner. The audit's discussion with staff and the partners noted that partners had indicated strong preference for procurement to be done using the government system. For this option to be taken, the office will need to assess the partner's capacity for procurement and logistics to identify and address capacity gaps and put in place mechanisms to mitigate identified risks.

The peer review conducted by the regional office in April 2013 made an observation regarding the procurement component of the GPE programme and recommended the office prepare a procurement strategy for GPE supplies, in view of the prevailing local market conditions. An action plan had been prepared and implementation was ongoing as of November 2013.

**Funding implications:** The total GPE funding (US\$ 25.3 million) represented an increase of about 48 percent in the UNICEF board-approved country programme budget (US\$ 52.6

million). The office had considered the implications of the GPE funding in terms of need for additional staff and associated support costs (i.e. staff salaries). According to information provided by PARMO after the audit, the office was allocated US\$ 800,000 for programme support costs by GPE. Additional OR to cover the requirements of the office were under discussion, but the assessment of those requirements had not been finalized at the time of the audit in November 2013. The OR ceiling for the country programme may have to be increased if total amounts to be received by the office exceed the OR ceiling approved by the UNICEF Board.

**Agreed action 8 (medium priority):** The country office agrees to take the following steps:

- i. Ensure procedures are agreed with the partners for procurement of supplies and selection of contractors in the school construction activities, and assess partners' procurement capacity to identify gaps and put in place risk-mitigation measures. The office may need to consult Supply Division for guidance, and for local procurement authorization as necessary.
- ii. Prepare a procurement strategy for GPE supplies and hiring of contractors, as recommended by the regional office.
- iii. In consultation with the regional office, finalize its assessment of additional human resources and funding required for UNICEF to effectively exercise its roles in the GPE programme.
- iv. Consider contacting, with assistance from the regional office, other UNICEF offices supporting implementation of GPE programmes to gain knowledge of experiences and lessons learned.

Target date for completion: July 2014

Responsible staff members: Deputy Representative/Supply Officer

### Programme management: Conclusion

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

### 3 Operations support

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

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

All the above areas were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, the 2012 year-end accounts closure reports were processed and submitted on time to the Division of Financial and Administrative Management (DFAM). The bank signatory panel was up to date. Also, the vendor master records in VISION were well maintained and regularly monitored to clean up any duplicate entries.

The ICT environment of the office was properly managed. Physical security and fire incident arrangements for the server room were satisfactory. There were adequate procedures for provisioning and de-provisioning access to the ICT systems. External back-up arrangements for the ICT data were satisfactory.

However, the audit also noted the following.

#### Supply procurement and logistics

The country office procured supplies amounting to US\$ 13.1 million during the period from January 2012 to October 2013. The main items procured by the office were nutrition and therapeutic feeding supplies, vaccines, medical equipment and water sanitation and hygiene supplies.

The audit review noted the following areas for improvement in logistics and in procurement of programme supplies.

**Planning:** The country office prepared supply plans in 2012 and 2013. However, for 2013,

there was significant variance (about 70 percent) between planned procurement of US\$ 13.1 million against actual procurement of US\$ 4.1 million as of November 2013. The reasons included late planning, untimely submission of requests for supplies and distribution plans, and lack of involvement and timely technical input of the supply unit in programme work-planning.

**Procurement and delivery of supplies:** The procurement process and delivery of supplies fell behind the schedules in the workplans. For example, in six of the nine sampled cases, there were delays between issue of sales orders (requisition) and authorization of purchase orders. The delays, of between three and 26 weeks, were partly due to weak specifications in the requests for procurement. Actual delivery of supplies took place up to six months after the activity implementation date indicated in the workplans. Partners visited by the audit cited cases of delays of six to nine months from the time of requests to receipt of supplies.

**Partners' requests and distribution plans:** The procurement of programme supplies was not supported with partners' requests and distribution plans. Lack of partners' requests could lead to procurement of supplies not meeting required specifications, while lack of distribution plans could limit timely distribution of supplies. Although the procurement was made on the basis of supply plans, the plans had not been agreed and signed with the partners and did not always contain specifications of supplies to be procured, leading to delays in the procurement process.

**Target Arrival Dates (TADs):** In four out of seven cases reviewed, the actual delivery was after the TADs indicated in the purchase orders. The delays ranged from one to four months. Significant differences between TADs and actual delivery were mainly due to lack of funding, embargoes on air shipments and, for local procurement, power cuts. The TADs were not realistic and their estimates did not reflect actual experience over time – on average, the TADs were about one month from issue of the purchase orders while the actual delivery took one to four months from issue of purchase orders.

**Pre-delivery inspection:** In three cases of local procurements reviewed, the country office did not appear to have carried out pre-delivery inspections. The office stated that it had, but the results had not been recorded.

**Procurement through government:** UNICEF disbursed funds to government implementing partners for procurement of supplies and hiring of contractors for construction of water, sanitation and hygiene facilities across the country in 2012 and 2013. Total cash transfers of about US\$ 963,000 were disbursed for this purpose during the period from January 2012 to November 2013. However, the office had not assessed the partners' capacity for procurement of supplies and services, or reviewed their procurement processes. Neither had the office secured local procurement authorization from UNICEF's Supply Division.

Procurement through government without following established procedures not only exposed the office to risks of loss of resources; it also meant missed opportunities to identify and address partners' capacity gaps.

**Transportation of supplies from seaport:** Most of the supplies procured by the office were delivered direct to the government partners' central warehouses in Asmara. According to the office, there were serious challenges to timely transportation of supplies from the seaport in Massawa to inland destinations. This resulted in delays in delivery of supplies to end users with an increased risk of food items being spoilt and delays in implementation of the

programme activities.

Based on 21 sampled cases for which UNICEF paid demurrage in January 2013, the delays ranged from 28 days to 42 days beyond the grace period of 45 days. The transportation company indicated that delays were due to shortage of fuel and trucks for transporting the supplies from the seaport, the allocation of which depended on prioritization among other needs which was beyond the control of the company. During the audit visit to the Ministry of National Development (MoND), the ministry indicated that it was responsible for in-country logistics of supplies once they arrive in the country and for ensuring supplies were transported from the seaport to inland destinations.

**Responsibility for in-country logistics:** According to the Basic Cooperation Agreement, the government is responsible for the clearance, receipt, warehousing, and distribution of supplies and equipment made available by UNICEF. However, the office undertook the clearance and distribution of programme supplies to some partners, such as the Ministry of Health. The total cost for in-country logistics incurred by UNICEF during the period from January 2012 to November 2013 was approximately US\$ 1.2 million. The office stated that it provided support for in-country logistics due to the partners' weak capacity in this area. However, the office had not assessed the government's capacity for in-country logistics so as to identify and address specific capacity gaps and eventually hand over these responsibilities to the government.

**Warehouses:** All supplies procured in 2012 and 2013 were delivered directly to the partners' warehouses at the ministries or the regions. However, the office maintained a rented warehouse with older supplies (including water tanks, tarpaulins, tents and cooking sets) amounting to US\$ 107,000. The supplies had been in the warehouse since 2009 and should have been distributed to partners. Water-purification tablets with a purchase cost of US\$ 5,000 that had expired in 2011 were given to the Ministry of Health for destruction. However, this decision had not been reviewed by the office's property survey board. Moreover, during the visit to the Ministry of Health, the audit noted that the expired supplies had not yet been destroyed. The office was paying about US\$ 15,000 annual rent for the warehouse. Discussion with the office established that the warehouse was no longer required and should therefore be closed.

**Agreed action 9 (high priority):** The country office agrees to review and strengthen the supply procurement and logistics processes to ensure that:

- i. Procurement plans for supplies are reviewed to reflect any changes, including availability of funding, and that orders for supplies are issued sufficiently in advance of the activities for which they are intended.
- ii. Standard specifications are prepared for use when ordering frequently procured supplies.
- iii. Partners' requests and distribution plans are obtained and are used as the basis for procurement of supplies.
- iv. Target arrival dates are realistic and actual delivery of supplies is consistently monitored against them.
- v. Partners' capacity gaps in procurement and in-country logistical capacity are assessed and addressed.
- vi. Local procurement authorization is obtained as appropriate for procurement of supplies and hiring of contractors through government partners.
- vii. There is follow-up with the relevant authorities on timely transportation of

- supplies from the seaport to the partners.
- viii. An exit strategy is prepared and negotiations pursued with the relevant authority for:
    - a. Possible recovery of in-country logistics costs.
    - b. Gradual handing-over of responsibility for in-country logistics to the government in the long term, in accordance with the Basic Cooperation Agreement.
  - ix. Supplies in the UNICEF warehouse are distributed to partners and the warehouse is closed.
  - x. There is follow-up with the Ministry of Health to ensure expired supplies are destroyed as intended.

Target date for completion: September 2014

Responsible staff members: Supply Officer

### Management of contracts for services

Country offices are expected to establish adequate controls that ensure a competitive selection process for contracts for services, and justification for use of consultancies. They should also ensure adequate supervision of consultants and contractors, periodic evaluation of their performance, and accurate processing of payments. The audit noted the following areas for improvement.

**Selection process:** While the office had established a roster of consultants, the actual selection process relied heavily on recommendation by the sections; the roster was noted only in one of the eight cases reviewed. This limited the use of competitive selection process and led to use of single-source selection; a peer review conducted by the regional office in April 2013 indicated that 35 percent of all special service agreements issued in 2012 were based on single sourcing. In addition, the office did not conduct reference checks before awarding any contracts to selected candidates.

**Consultants performing staff functions:** In two of seven cases reviewed, consultants performed staff functions; this is contrary to UNICEF policy.

**Contract Review Committee (CRC):** Two in 12 sampled contracts that exceeded the established threshold of US\$ 25,000 did not involve the review of the recommendation by the CRC. This limited the office's assurance on the appropriateness of the selection process. In addition, the submissions to the CRC did not always include information regarding the availability of funding for the proposed contracts.

**Interim evaluation of consultants:** The performance of consultants should be evaluated six months from start of contracts. This interim evaluation was not done in any of seven cases of consultants with contracts for more than six months.

**Processing of contracts in VISION:** The audit noted processing errors and incomplete information regarding contracts in VISION. For example, in processing advances against contracts, proof of receipt of deliverables was recorded in VISION before the service was rendered. Also, the travel costs were not included as a line item on the contracts in VISION; instead, the office issued travel authorizations separately, as noted in four of eight cases

reviewed. Further, the information on contracts was not consistently entered under the relevant header/tabs in VISION; this included information such as selection process, terms of reference, evaluation, sourcing, competitive/single source, CRC, and candidates' background information (from form P11) and functional area.

**Advance payments on contracts:** The audit noted one case where an advance payment of over US\$ 10,000 was made without proper documentation – such as the Representative's exceptional approval and unconditional bank guarantee, which are required for payments exceeding this threshold.

The gaps noted above were partly due to inadequate oversight on contracts management and weak understanding of UNICEF policy requirements. Although staff members had been trained on VISION at the time of its introduction in 2012, refresher training was needed on contracts management.

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

- i. Ensure competitive selection of consultants through advertising of consultancy positions or consistent use of the consultants' roster.
- ii. Carry out reference checks for successful candidates before awarding contracts.
- iii. Ensure that consultants are not hired to perform staff functions; if those functions are deemed necessary, the office should consider establishment of staff positions.
- iv. Ensure that proposed contracts beyond the established threshold are reviewed by the Contracts Review Committee (CRC) before awarding contracts. Where exceptions are necessary, such as in an emergency situation, they should be documented and submitted for *post-facto* review by the CRC.
- v. Carry out interim performance evaluation of consultants and keep evaluations on file to support interim payment of consultancy fees.
- vi. Ensure that travel costs related to contracts for services are included in the costs of contracts and are correctly coded as separate line items on contracts in VISION.
- vii. Provide refresher training to staff on contracts management, including completeness of information in all tabs/folders in VISION and adherence to procedures relating to advance payments.

Target date for completion: September 2014

Responsible staff members: Human Resources Officer/Supply Officer

## Processing of financial transactions

Country offices are expected to establish systems and controls to ensure that payments are correctly made to appropriately selected providers of goods and services, including partners, consultants and suppliers. The audit review of financial controls noted the following.

**Disbursement of cash transfers:** The cash transfers to partners were not disbursed in accordance with the activity implementation timeframes stated either in the workplans or in the partners' requests. In 13 of the 15 sampled cases, funds were disbursed after the activity planned date, with delays ranging from 42 to 260 days. The delays were partly caused by late submission of requests for cash transfers by partners – as noted in eight of 15 cases reviewed, which were submitted after the activity start date with delays from 18 to 279 days. Also, although the office's standard time for processing cash transfer payments was 10 days from receipt of partners' request to transfer of funds, there were delays in 11 of the 15 cases



reviewed, with the actual time taken in those cases ranging from 11 to 91 days. Late disbursement of funds led to delays in the implementation of related programme activities.

**Liquidation of direct cash transfers (DCT):** About US\$ 13 million was disbursed as cash transfers to partners during the period under audit. DCT amounts outstanding over nine months were US\$ 389,000, or 11 percent of the total DCT outstanding balance of US\$ 3,670,000 as of 27 November 2013. This was in excess of the standard, which is that balances outstanding for over nine months should not exceed 5 percent of outstanding balances as a whole. A systematic review of utilization and liquidation of cash transfers during field monitoring, and more spot-checks, would help in identifying and addressing causes for late liquidation of DCT.

**Coding of transactions:** Incorrect General Ledger (GL) coding was noted in some transactions processed in 2012 and 2013. For example, instead of using assets GL codes, the office recorded two items of office equipment (solar panels) with purchase costs of US\$ 34,000 and US\$ 47,500 against an expense GL code. Similarly, transactions relating to installation and maintenance of office equipment amounting to US\$ 12,000 were incorrectly recorded against miscellaneous supplies GL. These errors were partly due insufficient knowledge of the accounting codes in the chart of accounts.

**Outstanding open items in VISION:** The office had six parked invoices against purchase orders (amounting to US\$ 29,000) and eight parked invoices against funds commitments (amounting to US\$ 24,000) which had been outstanding for six months. The open items represent incomplete transactions, and block funds that might otherwise be used for other purposes. The long-standing open items may also lead to duplicate payments.

**Recording of cash receipts:** The audit noted delays in the recording of cash receipts deposited in the bank accounts. While the deposit of cash into the accounts was done promptly, the recording in VISION was late in five of nine cases reviewed, with the recording in those cases taking from six to 44 days from the date of deposit. Monitoring of timeliness in recording of cash receipts would reduce reconciling items related to unrecorded deposits.

**Partners' bank accounts:** The audit noted three cases where the payee name and bank account number to which cash transfers were made differed from those on the partners' requests for cash transfers. The office explained that the discrepancy was due to the fact that while the government requested funds to be transferred to the ministries' accounts, the implementation of the programme activities was to be undertaken at the regional level. The office transferred funds to the regional offices using accounts information maintained on UNICEF records. It would be best for the office to contact the responsible ministries to sort out the problem and ensure that payee names and bank account details do match the partners' requests.

**Transactions made without obligating documents:** Procurement of services, including hire of transportation services for programme supplies with values over US\$ 2,500, was not supported with obligating documents such as purchase orders in VISION. Also, the audit noted that installation grants to staff members were charged to funds commitments instead of to travel authorizations.

**Payment for transportation services:** The country office made payments for transportation of supplies from the partners' warehouses to the regions. The partners submitted uncertified invoices received from the transportation company to UNICEF for payment. The programme

staff entered proof of delivery in VISION and certified the invoices for payment by finance. However, the office did not verify whether the transportation services had been rendered and the goods actually delivered to the partners – and therefore did not have sufficient basis for payment of the invoices.

The processing of transactions would be improved by strengthening oversight and staff understanding of policies and procedures through training and periodic monitoring of implementation of controls.

**Agreed action 11 (high priority):** The country office agrees to establish rigorous oversight mechanisms and train key responsible programme and operations staff in financial policy and procedures. In particular, the office will:

- i. Ensure that partners submit requests for cash transfers before activity start date, and that the requests are processed and funds released on time in accordance with the office's established standard.
- ii. Ensure there is a rigorous follow-up process for timely liquidation of cash transfers to partners.
- iii. Ensure that staff members have a better understanding of the chart of accounts and that transactions are coded correctly.
- iv. Assign staff responsibility for periodic monitoring and clearing of open items in VISION.
- v. Monitor and address identified delays in recording of cash receipts.
- vi. Ensure that payee names and bank account details for disbursements made to partners matches the details provided in the partners' requests.
- vii. Ensure that purchase orders are issued for procurement of goods or services that exceed US\$ 2,500.
- viii. Review the process for payment for transportation services to ensure that proof of delivery and certification of invoices is based on evidence that services have been rendered as per contract.

Target date for completion: September 2014

Responsible staff members: Deputy Representative (for i and ii) and Chief of Operations (for iii – viii)

## Cash and bank account management

Country offices are expected to ensure that local bank accounts are maintained at a level sufficient to cover only day-to-day transactions, usually not exceeding the equivalent of one to two weeks' normal requirements, but also that the bank accounts are not overdrawn at any time. Bank accounts and cash accounts are also expected to be reconciled in the first week of the following month. The audit review of financial controls noted the following.

**Cash forecasts:** The audit noted significant variances between cash forecasts and actual replenishment amounts requested from Headquarters. For example, in 2012 the actual replenishments (US\$ 7.2 million) were 70 percent of the total cash forecast during the year (US\$ 10.4 million). In five of the 12 months of 2012, the forecast amounts were two to three times the actual replenishments. Similarly, in 2013, the total actual replenishments (US\$ 5.7 million) were 60 percent of the total cash forecast until September 2013 (US\$ 9.5 million). In three of eight months reviewed in 2013, the cash forecast was not accurate, being three to 12 times the actual replenishments. The cash forecast was found acceptable in five of the eight

cases reviewed. Significant differences between the actual and forecast figures were due partly to inadequate estimates and untimely communication of anticipated disbursements by the different programme sections. The office explained that the difference in 2013 was also caused by delays in signing of workplans and unavailability of funds.

Improved cash-flow forecasts would help the office to communicate better estimates of cash needs to the Treasury office in New York; this would in turn contribute to more efficient management of global liquidity.

**Bank account balances:** The office maintained month-end bank balances in excess of two weeks' cash requirements in eight months during the period from April 2012 to August 2013. Also, the benchmark for month-end balances of US\$ 250,000 was exceeded in five months in 2012 and four months in 2013. In addition, the audit noted negative bank account balances equivalent to US\$ 189,000 in March 2012 and equivalent to US\$ 3,770 in January 2013. Improved controls on bank balances would help the office to avoid the risk of holding too much cash in the bank accounts – or going into overdraft, which could result in bank charges and reputational risk.

**Bank reconciliation:** Bank reconciliations were not consistently done in the first week of the following month as required. In five of the 12 cases reviewed, they were on time; in the other seven, however, the reconciliation was completed within 13 to 40 days after the end of the month. Delays in clearing reconciling items were noted in eight of the 12 months reviewed. The age of the reconciling items ranged from two months to five months. The delays were partly due to the fact that the staff member responsible for bank reconciliation was either on leave or on mission.

**Agreed action 12 (medium priority):** The country office agrees to establish rigorous oversight mechanisms over cash and bank account mechanisms, and to train key responsible programme and operations staff in financial policy and procedures. In particular, the office will ensure that:

- i. Cash-flow forecasts are improved by preparing estimates based on trend analyses, and ensuring that anticipated cash needs are provided on time by the sections.
- ii. Month-end bank account balances are closely monitored to ensure that balances are not in excess of two-week requirements and that bank accounts are not overdrawn at any time.
- iii. Bank reconciliation is carried out on time and reconciling items are cleared in a timely manner.

Target date for completion: September 2014

Responsible staff members: Chief of Operations

## Property, plant and equipment (PP&E)

Country offices are expected to properly manage and account for plant, property and equipment (PP&E). The office conducted physical inventory counts in both 2012 and 2013. The original purchase cost of the office's PP&E was about US\$ 1.2 million both as of December 2012 and as of November 2013.

The audit reviewed the PP&E management controls relating to storage, recording and physical inventory count and noted the following.

**Storage:** The office had rented a store and four containers for administrative supplies and archive respectively and they were located in the residential premises of an individual. Quite a number of attractive items were located in the store, and financial documents—including payment documents, supply documents, contracts and admin documents—were archived in the containers. The premises did not have any security arrangements, and the contract did not contain any clause to document the responsibility of landlord for the security. However, as of November 2013, the total carried value of the items in store was US\$ 5,849 while the office incurred an annual rental expense of US\$ 8,000 for the store.

**Recording:** Maintenance and update of the asset master record (AMR) was not timely. For example, nine laptops were received in August 2013 but the AMR had not been updated to include them as of November 2013. Also, some items that had not been procured as planned due to non-availability of funds were still recorded in the AMR as of November 2013, although the procurement had been cancelled.

Assets were not accurately recorded in VISION. For example, 18 items were reported as 'sold' while five were physically located in the office, and seven were donated to the counterpart. Only six items were actually sold. The office had signed for the receipt of solar modules and accessories valued US\$ 70,000 on 28 October 2013; however, the goods receipt (GR) was not recorded in VISION until 19 November 2013. Further, two items, 'VSAT and air-conditioner', were physically located in the office while they could not be traced in VISION.

**Physical count:** The Physical count by the office was not accurate. For example, three assets (including a central storage system with a cost of US\$ 6,000, wireless access point with a cost of US\$ 1,400 and a switch catalyst costing US\$ 3,000) that physically existed in the office were not verified during the physical count. The office did not reconcile the results of the physical count with the information in VISION and the AMR, and therefore could not identify the unreconciled differences.

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

- i. Review the need for the admin store and its security arrangements, to ascertain that assets and the archived documents are adequately safeguarded.
- ii. Update the asset master record (AMR) on a timely basis to ensure that it is up to date and reflects a correct record of the assets.
- iii. Reconcile the results of the physical inventory count with the information recorded in VISION and correct any unreconciled differences to ensure proper accounting of assets.

Target date for completion: September 2014

Responsible staff members: Chief of Operations

## Human resources management

The audit found that the recruitment process was done in a timely manner. However, it noted some areas for improvement, as follows:

**Vacant positions:** The office had a total 66 of staff positions in the approved structure. However, 14 of the 66 positions had been vacant for an average period of over one year as of November 2013. They included the child protection specialist (NO3) position, which had been

vacant for over a year. Nine of the vacant positions were on hold due to non-availability of funds. Insufficient manpower could affect the delivery of programme activities.

**Recruitment:** The office did not have adequate processes in place to confirm availability of funds before starting the recruitment process. Some positions, such as the post for Nutrition Officer, were not filled on time due to uncertainties concerning the continuation of the country programme early in 2012. In addition, a sample review noted that the human resources unit had not verified academic documents with the issuing institutions.

**Staff conduct:** Only 23 percent of the staff had completed the online course on integrity and awareness as of November 2013.

**Completeness of records:** The recruitment process for international professionals was coordinated by NYHQ. However, the office did not have complete documents related to the international professionals in their personnel files (such as academic credentials and signed application forms). This could cause uninformed or delayed decisions by the office at a time of need.

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

- i. Re-assess the need for staff positions that have been vacant for a long time, taking into account the funding situation; and take appropriate action in consultation with the regional office and NYHQ.
- ii. Establish a process for confirmation of availability of funds prior to starting the recruitment process.
- iii. Ensure that the online course on integrity and awareness is taken by all staff.
- iv. Ensure records in the personnel files of international professionals are complete, seeking assistance from the Division of Human Resources as needed.

Target date for completion: December 2014

Responsible staff members: Deputy Representative/Chief of Operations

### Operations support: Conclusion

Based on the audit work performed, OIAI concluded 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 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 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 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 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.