Internal Audit of the Madagascar Country Office

July 2015

Office of Internal Audit
and Investigations (OIAI)
Report 2015/21

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children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Madagascar country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities, and covered the period from January 2013 to December 2014. The audit was conducted from 17 November 2014 to 3 December 2014.

The current Madagascar country programme originally ran from 2008 to 2011; however, the UNICEF Executive Board has approved its extension three times, for the years 2012, 2013 and 2014, to align it with three updates to the UN Development Assistance Framework (UNDAF). During the period 2009-2014, there was no National Development Plan (NDP). With the development of a new NDP, a new country programme has now been approved for the years 2015-2019.

The total budget for the extended period 2012-2014 amounted to US$ 174.6 million, of which US$ 30 million was regular resources (RR) and US$ 145 million was OR. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The office has a total workforce of 160 posts (40 international professional, 74 national officers, and 46 general service). At the time of the audit, there were 42 posts (five international positions, 37 national positions) based in the 22 regions.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Three are being implemented as a high priority; that is, to address issues requiring immediate management attention. They are as follows.

- The office agrees to ensure that it obtains up-to-date approval for its field structure in accordance with UNICEF policy, and that all duty stations are recorded in VISION; and to evaluate the effectiveness of its field presence to ensure effective use of resources.
- The office agrees to take a number of steps to improve its programme monitoring, including, among other measures, linking frequency of field monitoring to partners' risk ratings, preparing quarterly analysis reports on field missions, and developing a strategy, methodology and tools to be used by field staff for periodic testing of reliability and quality of data and information collected by government partners at the regional and district levels that the office uses to measure achievement of programme results.
- The office agrees to strengthen the functioning of the contract review committee (CRC) by ensuring that the committee comply with UNICEF policy on the CRC with respect to quality and completeness of submissions and that CRC members are adequately trained.

In addition, one high-priority action was agreed by the Field Results Group (FRG):

- The FRG has agreed to, in consultation with the Public Partnership Division and the

Division of Financial and Administrative Management, establish organization-wide procedure and guidance on what to communicate to donors, and how and when to do it, with respect to audits of implementing partners or other assurance activities carried out in accordance with the Harmonized Approach to Cash Transfers.

Conclusion

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

The Madagascar country office, with support from the East and South Africa Regional Office (ESARO), and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) July 2015

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Objectives

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

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

Audit Observations

1 Governance

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

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

All the areas above were covered in this audit.

The audit found that controls were functioning well in some areas. The office priorities for 2013 and 2014 were identified in the annual management plans (AMPs), which were prepared and validated by the country management team (CMT). The CMT also reviewed key results during mid-year and end-year programme reviews, and monitored progress and achievement against priorities.

The office had updated its risk and control self-assessment[1] in October 2014 and identified seven high risks. It had developed an action plan with mitigating measures and assigned

[1] Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

responsibilities to manage the risks. The office also updated the assignment of responsibilities in the Table of Authority in 2014. It regularly reviewed the effectiveness of segregation of duties and implemented mitigation actions to address any conflicts.

In 2013 and 2014 the Regional Office had carried out seven peer reviews covering programme and operations activities, including human resources management. The office implemented agreed actions arising from the peer-review reports. The Regional Office also supported the recruitment through an on-site mission.

The office had taken action to promote ethical behaviour and increase staff awareness of UNICEF's ethics and zero tolerance fraud policies and procedures. For instance, the office identified six mandatory courses, including the integrity awareness online course, which was completed by 90 percent of the staff. Further, in 2014, the regional office conducted a workshop on ethics for the office's staff.

However, the audit also noted the following.

Office structure

Where a country office establishes a zone office and posts staff outside the main office location, this should be done in accordance with UNICEF policy on the management of the organizational structure. Zone offices that are created for less than two years may be approved by the Regional Director; if for more than two years, they should be approved by the Deputy Executive Director (DED) for Management. Any changes to the organizational structure are to be processed by the Budget Section of the Division of Financial and Administrative Management (DFAM) and reflected in UNICEF automated systems.

Temporary duty stations (TDSs): According to UNICEF policy, when staff are posted outside the main office location, a country office needs to create a zone office. However, the office had outposted staff to regions, using office space provided by the regional government administrations. It then used the term 'temporary duty station' in place of 'zone office'. The office felt that Antananarivo as a duty station for field staff was not cost-effective and efficient. According to UNICEF policy, if field staff are based in Antananarivo and travel to field location, the office has to pay daily subsistence allowance (DSA). Field staff spent about 80 percent of their time in field locations.

At the time of the audit, there were 22 TDSs in 22 regions. There were 42 *Assistant Technique Regionals* (ATRs) or field officers (seven international professionals and 35 national officers) in the 22 TDSs. Initially, all TDSs were created for a short duration with a maximum of two years. They had been approved by the Regional Director as Chair of the Regional PBR as required by UNICEF policy.[2]

Before establishing international ATR positions, the office had secured classifications of the TDSs from the PBR in order to determine the entitlements (salary, allowances) as well as safety

[2] The programme budget review (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.

and security assessments[3] for the new locations. The locations of the TDSs were mentioned in staff contracts and reflected in the integrated budget costing system (IBCS) signed by the Representative and Regional Director.

As noted above, the ATR posts and their locations had initially been for two years or less, and therefore needed to be approved by the Regional Director – which they had been – but did not need to be approved by the DED for Management. If they are established for more than two years, however, they should be. At the time of the audit, six out of the 22 TDSs had been established for more than two years but had not been approved at appropriate level of authority.

After the audit, on 19 December 2014, the office asked the Regional Office to regularize 14 of the 22 temporary duty stations and request the creation of one new one, giving a total of 15 for the 2015-2019 country programme. However, the office had not yet asked the DED to authorize either the existing TDSs or the new ones as zone offices, although it told the audit that it did intend to do so. The audit also noted that the actual geographical location of the staff in the TDSs was not reflected in VISION.

Field presence: A country office is expected to revise its organizational structure to reflect modifications to the management structure and posts, due to changes in programme strategies and availability of resources. Since 2012, there had been significant changes in the national programming environment that required the Madagascar country office to re-focus its intervention at district and community level. The office had submitted four programme budget review (PBR) proposals to the regional office, two each in 2012 and 2013 respectively. The four PBRs addressed the expansion of UNICEF field presence in order to strengthen decentralized management of important funds received in 2012 and 2013.

In 2012, the Regional Office had requested an evaluation of the field-based staffing structure to review the effectiveness and efficiency of its field presence, and to assess the role of out-posted staff in capacity development as opposed to creating parallel service delivery structures. At the time of the audit (December 2014), the evaluation was not finalized though the office had started it. In the meantime, the number of TDSs and ATRs had increased significantly from 2012 to 2014. In 2012, there were five TDSs with 12 ATRs; in September 2014 there were 22 TDS with 42 ATRs. The increase had occurred despite the fact that the evaluation had yet to be carried out.

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

i. Ensure, with support from the regional office, that all established temporary duty stations (TDSs) are approved in accordance with UNICEF policy, including submission to the Deputy Executive Director for Management for those expected to be required for more than two years.
ii. Submit all duty stations to the Division of Financial and Administrative Management for proper recording in VISION.
iii. As a priority, evaluate the effectiveness of the field presence structure and implement corrective action as needed to ensure efficient use of resources.

Target date for completion: 30 September 2015
Responsible staff members: Chief of Operations, Social Policy Chief, Planning Chief, Section

[3] These assessments are done by the UN Department of Safety and Security.

Chiefs, Deputy Representative and Representative

Project Cooperation Agreement Review Committee

All offices are required to establish a Project Cooperation Agreement Review Committee. The PCA Review Committee (PCARC) is expected to review, among other things, whether the partner has been adequately assessed; whether its selection for this particular collaboration is justified, based on its expected role; the assessed level of risk; the programmatic justification and design of the PCA; cost/cost-effectiveness implications; mutual accountability provisions; the budget proposal; and the proposed PCA document and supporting documents themselves. Issues raised by the PCARC should be properly addressed prior to committing UNICEF funds. While actual partnership management and policy is a programme question, the functioning of the committee is a governance issue.

The audit noted that the office signed nine programme cooperation agreements (PCAs) in 2013 and 11 in 2014 (as of the time of the audit), amounting in total to US$ 3.4 million. The PCARC had met nine times in 2013 and seven times in 2014. The audit reviewed the minutes of eight of these meetings. In five cases, there was no evidence of discussions and assessments of risks and possible action to mitigate them.

The audit also noted that various assurance activities had been carried out with the partners in question, as required under the Harmonized Approach to Cash Transfers (see HACT observation, p15 below). These could have provided useful background on the suitability of these partners for the proposed partnerships, but their results were not shared with or considered by the PCARC.

Sampled PCARC minutes included several recommendations. However, the minutes did not show any evidence of follow-up or actions taken to address them prior to committing funds and signing PCAs. The office stated that follow-up had been done and changes made to PCAs before finalization. The audit did note that some issues raised related to budget, implementation timeframes and definition of planned activities had indeed been addressed and PCAs amended accordingly. However, the lack of a mechanism to ensure that such PCARC recommendations were dealt with increased the risks that significant issues raised by the committee might not be addressed before any partnership was concluded.

Agreed action 2 (medium priority): The office agrees to strengthen the functioning of the project cooperation agreement review committee (PCARC) by establishing mechanisms so that:

i. Key risks related to PCA proposals are systematically analysed and documented in PCARC minutes (for example, confirming that preliminary assessments and assurance activities have been planned and/or carried out).
ii. Issues raised during PCARC meetings are monitored and fully addressed before signature of PCARC minutes and submission of the PCA to the Representative for approval.
iii. The Country Management Team oversees the effectiveness of the PCARC on a regular basis so as to enable early detection of weak performance.

Target date for completion: 30 September 2015
Responsible staff members: Planning Chief and Deputy Representative

Risk management and staff responsibilities

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library. According to the ERM policy, an office is also expected to escalate risk to a higher level of management when necessary.

The office had updated its RCSA in 2013-2014; it included seven high risks. However, the office had not identified risks that needed to be escalated at the regional or headquarters level. The audit identified several risks in the RCSA that were not, but should have been, escalated. These are described below.

Result-based programming: The country programme was extended three times, in 2012, 2013 and 2014, without a CPAP[4] for the three extension periods (because of the political situation in Madagascar, it was not possible for the office to conclude CPAPs for these periods). There was also no explicit guidance from the UNICEF Programme Policy Procedures Manual (PPPM) on expected key controls and practices to mitigate the impacts of key risks related those programme extensions.

Office structure: There were significant changes in the national programming environment in those three years that required the country office to re-focus its intervention at the district and community level. In the absence of a key strategic planning document, the office made four PBR submissions to the Regional Office to expand the UNICEF field presence in order to strengthen decentralized management of important funds received in 2012 and 2013.

Communication with donors: Given the unstable environment in Madagascar, the office acted as an implementing agency for various donors, with which it entered into agreements. There was however no clear guidance on how to share with donors' confidential and non-confidential information stemming from scheduled audits and special audits conducted by the office in accordance with HACT. (See also observation *Communication with donors*, p19 below.)

Agreed action 3 (medium priority): The office agrees to establish a process with assigned responsibilities to periodically review the significance level of risks; and to report to the CMT any significant risks that are beyond the office's control or authority that need to be escalated at a higher level of management in line with ERM Policy.

Target date for completion: 31 July 2015
Responsible staff members: Country management team member and Representative

Standard operating procedures

The office had a number of country-specific standard operating procedures (SOPs) and work processes. However, some of them did not clearly define responsibilities, except for some

[4] The country programme action plan (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.

functions of the Deputy Representative, Chief of Operations and heads of sections.

For instance, the country-specific SOPs for procurement of services from consultants and individual contractors did not specifically define the responsibilities of relevant sections or units, such as the hiring section and the human resource and finance units. The SOPs and work processes for direct cash transfers disbursement and liquidation were also unclear with respect to staff responsibilities. Regarding the processing of financial transactions, the audit noted that the responsibilities of certifying officers were not clearly defined in the SOPs.

The lack of clearly defined responsibilities was mainly due to insufficient oversight over the development of SOPs and work processes. This had increased the risks of errors and irregularities in the management of support functions and had weakened staff accountabilities.

Agreed action 4 (medium priority): The office agrees to clearly define staff responsibilities in country-specific standard operating procedures and work processes, so as to reduce risk of errors and irregularities and strengthen accountabilities of staff.

Target date for completion: 15 July 2015
Responsible staff members: Chief of Operations

Governance: Conclusion

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

2 Programme management

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

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

All the areas above were covered in this audit.

The audit found that controls were functioning well in some areas. The office had started an evidence-based analysis of the situation of children and women in the country in 2012, to identify the most vulnerable children; and had used the information to ensure equity in designing the new country programme for 2015-2019. This situation analysis (SitAn) was based on the most recent available data from the last national household survey (2012-13) and included analysis of disparities for each sector by gender, rural/urban environment, income quintile, and region. The data was disaggregated by gender, rural/urban, and poverty and representative at the regional level. The SitAn exercises included sector-specific consultations with line ministries and partners.

In 2014, the office had developed a communication strategy that identified priority messages related to key advocacy themes such as chronic malnutrition, school exclusion and insufficient vaccination rate. The office had also carried out several advocacy activities. For instance, the office strongly advocated that the government put chronic malnutrition on its agenda, and this triggered the inclusion of Madagascar in the Scaling up Nutrition (SUN) movement.[5] The advocacy efforts were supported with factual evidence – for example, the office developed WASH (water and sanitation) fact sheets to show the WASH crises in Madagascar.

[5] SUN is a coalition of stakeholders, including governments and international agencies that advocates nutrition interventions such as breastfeeding and fortification. More details can be found at www.scalingupnutrition.org.

The office had effective processes for resource mobilization.[6] It had experienced a significant and steady increase in OR funding, which amounted to US$ 56 million in 2013 and US$ 57 million in 2014. The office had established partnerships with 17 National Committees, global thematic funds, bilateral and multilateral donors and the private sector.

However, the audit also noted the following.

Programme planning

Country offices are expected to develop a country programme action plan (CPAP) to form the basis for annual and rolling workplans.[7] The CPAP is expected to define the respective responsibilities of Government partners and UNICEF. The Government and UNICEF country office are also expected to jointly conduct annual planning and review meetings for all programmes covered by the CPAP. Workplans should be endorsed by Ministries and should detail the activities to be carried out, the responsible implementing institutions, timeframes and planned inputs from the Government and UNICEF.

Following the mid-term review conducted in 2009, the office undertook a significant shift to a service delivery support approach. During the period under review, however, the office was responding to significant changes in the overall programming environment. The programme cycle had begun in a regular development context, with a recognized government and a recognized national development plan, with which both the UNDAF and the UNICEF country programme were aligned. This changed to an internationally unrecognized Government without a national development plan and against which international sanctions had been imposed. This has had an impact on the way UNICEF works in the country, not least because direct cash transfers to central government have no longer been possible. The office has therefore had to make major changes in planning, programming, operations and risk management.

The office had developed rolling workplans for 2013-2014, and a country programme document for the new country programme for 2015-2019. However, the audit noted the following.

CPAP: The CPAP signed by the Government and UNICEF country office for the period 2008-2011 had described the main programme strategy and structure, the key results to be achieved during the country programme, and operational procedures governing the relationship between the government and UNICEF. It also included the agreement on the use of the Harmonized Approach to Cash Transfers for government and NGO partners (see the observation on HACT, p15 below).

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

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

The country programme had been extended for a year three times – for 2012, 2013 and 2014. The office sought, through these extensions, to align the country programme with a new United Nations Development Assistance Framework (UNDAF)[8] and a National Development Plan that was expected to be drafted following the elections announced in 2013. The office has agreed to join the other UN agencies in aligning its country programme cycles to the extended UNDAF cycle. The extensions were made on the Government's request and in consultation with, and with the approval of, the Regional Office and the UNICEF Executive Board.

However, the UNICEF Programme Policy and Procedures Manual (PPPM) does not provide explicit guidance on expected key controls and practices to mitigate the impacts of key risks related to several programme extensions. The recently-issued UNICEF procedure on *Review and Approval of Country Programme Documentation*, dated 20 November 2014, also lacks explicit guidance in this area. Moreover, for the three-year period from 2012 to 2014, there was no CPAP, as it was not possible to engage with the transition government before a new Government was elected in April 2014. In the view of the audit, the situation gave rise to several key risks. Examples included insufficient buy-in and commitment to the programme by Government partners, and no endorsement of the results matrix by the Government.

At the time of the audit, the office stated that it was developing the CPAP for the new country programme for 2015-2019, but no draft was available for review.

Rolling workplans (RWPs): The office's planning and monitoring section provided guidance to each programme section for the development of RWPs, and reviewed their quality before finalization. With one exception (*Communication for Development*), the 2013-2014 RWPs were endorsed and signed on time by UNICEF and the designated government Ministries in February and March 2013.

The audit interviewed Directors of Government departments for Education, Health and Water in one region. They confirmed that workplans were developed jointly with UNICEF country office, and that government priorities and needs were agreed on in the workplans. The 2013-2014 RWPs of all programmes included programme component results (PCRs) and intermediate results (IRs) (i.e. expected outcomes and outputs),[9] planned activities, timelines (by quarter) and planned inputs. The implementing partners were also indicated for each activity for all programmes except for the health programme.

However, a review of sampled workplans and relevant documentation found the following:

- The indicators, baselines and targets were not given in the RWPs, and were therefore not approved by the Government. In the absence of a CPAP, there was no other mechanism

[8] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.
[9] UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

to allow the government to endorse these, and therefore no agreed basis for measuring and evaluating the performance of the extended programme.

- The contributions of the government (in terms of financial assistance, supplies, travel, etc.), were not identified in any of the 2013-2014 RWPs. Again, the absence of a CPAP meant that there was no alternative mechanism for this.
- The audit reviewed a sample of PCRs and IRs (now known as outcomes/outputs) and found that 10 out of 22 sampled PCRs and IRs were not sufficiently specific and measurable. The use of words “strengthen” and “contribute” are not conducive to measurement.
- The audit found that sampled planned activities were relevant to the achievement of the stated output or targets, and the sampled indicators were defined at the target or output level together with means of verification. Baselines were established for all indicators and targets which were defined at the outcome or programme component level. However, the indicators were incomplete as they did not measure all important aspects of planned results.

Alignment of PCRs and IRs: Despite the absence of a CPAP for the three-year period where the programme was extended, several country programme outcomes and outputs had been revised based on changes in the planning context, lessons learned or changing priorities and needs of children and women of the country. This had been done with assistance and guidance from the Regional Office.

The audit found that the changes in the PCRs and IRs from the 2012 AWP to the 2013-2014 RWPs period were adequately explained in the associated documentation. For instance, the PCR related to education for development and gender equity was revised in the 2013-2014 RWPs to align with the Government’s new Education for All (EFA) plan. In that case, the PCR was adjusted and several intermediate results of the education programme had been discontinued to ensure coherence with the overall objective of the EFA plan.

However, the Government and UNICEF had not formalized their agreement to important changes in outcomes and outputs (and corresponding results matrix). The office explained that the RWPs for the period 2012-2014 that included the new PCRs and IRs had been signed by Ministries following the annual programme review with Government counterparts. However, the RWPs, as explained above, did not describe the rationale for the changes, and did not include the changes in the indicators and targets for the expected outcomes and outputs. An exchange of letters between UNICEF and the Government would have filled this gap. As it was, the lack of formal agreement on important changes in planned outcomes and outputs had weakened results-based accountability and increased the risks of potential conflicts on the measurement and reporting on results.

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

i. Include, in the 2015-2016 rolling workplans (RWPs) for the new country programme, a comprehensive set of outcome and output indicators and targets that measure all important aspects of planned interventions. These will be linked to the outcomes in the Country Programme Document and the Country Programme Action Plan, and with the expected outcomes in the UN Development Framework.
ii. Develop a clear logical framework to ensure that results are appropriate and relate logically to each other, and all major planning assumptions and risks have been identified and mitigation measures agreed on.

iii. Ensure all rolling workplans are signed by the Representative.
iv. Identify and disclose, in the rolling workplans, the contributions expected of the Government as part of implementation.
v. Include indicators, milestones, baselines and targets in all RWPs.
vi. Provide refresher training to UNICEF staff on programme policies and procedures to improve the quality of rolling workplans.

Target date for completion: 31 December 2015
Responsible staff members: Planning Chief, Human Resources chief and Deputy Representative

Agreed action 6 (medium priority): The Field Results Group agrees to establish procedures and guidance on expected controls and responsibilities (of country offices, regional offices and HQ divisions) to mitigate key risks related to instances when:

i. more than one extension of the duration of a programme period is proposed;
ii. changes in programme outcomes and/or outputs are to be made; and,
iii. there is no country programme action plan or UN Development Assistance Framework action plan.

Target date for completion: September, 2015
Responsible staff members: Chief, Programme Design and Guidance

Harmonized Approach to Cash Transfers (HACT)

Offices are expected 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 implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. At country level, HACT involves a macro-assessment of the country's public 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, scheduled audit and special audits. There should be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. HACT is also required for UNDP and UNFPA and the agencies are meant to work together to implement it. UNICEF issued a new HACT procedure effective August 1, 2014 that is in accordance with the new 2014 HACT framework.

During 2013 and 2014, the office collaborated with 191 partners. It paid a total of US$ 11.1 million as cash transfers in 2013, and US$ 13.8 million in 2014 as of 27 November 2014. Of the 191 partners, 44 had received more than US$ 500,000 since the beginning of the programme cycle in 2008. The audit review noted the following.

Oversight of HACT implementation: The office had identified a HACT focal point for providing technical support for HACT activities, and established a HACT committee. The committee had 17 members and was responsible for overseeing HACT implementation. According to its terms of reference, it was expected to meet every two months, but had met only three times in 2013 and twice in 2014 as of end of November. There were minutes for four of these five meetings, but only one set of minutes included an agenda. The minutes generally established action points; however, responsibilities were often not clearly assigned to responsible staff with specific timelines. The minutes did not show evidence of follow-up of action points from previous meetings.

There was also little coordination and sharing of information on HACT activities with other UN agencies in 2013. However, the office said that coordination with other UN agencies had recently started with the establishment of a UN HACT Task Force, chaired by UNICEF. At the time of the audit, the office had started identifying potential common partners and opportunities to share costs related to HACT activities.

Macro-assessment: The previous macro-assessment, conducted in 2008, had included a list of actions to strengthen the financial management system. However, there was no evidence that UN in the country had followed up the recommendations.

A new macro-assessment had been completed in November 2014. The 70-page report identified several weaknesses in almost all aspects of public financial management, especially financial control and assurance activities and procurement processes in the public sector. This meant that UNICEF and other UN agencies providing funds to government implementing partners would need to establish their own assurance mechanisms, including financial spot checks and scheduled audits, and would not be able to rely on the Court of Accounts of the national government.

For the past two years, direct cash transfers (DCTs) to partners had been the primary funding mechanism because most public and NGO partners lacked of cash reserves, and could not fund activities up front and be reimbursed later. The office’s strategy was to closely monitor the use of DCTs through UNICEF staff-based in decentralized government departments, and to carry out capacity-building activities and training on HACT. As of the time of the audit, the office had not determined the cash transfer mechanism to government partners for the new country programme.

Micro-assessments: Micro-assessments should be undertaken once per programme cycle on partners expected to receive US$ 100,000 or more per year from UNICEF. They are valid for up to five years. The result of the micro-assessment is to be used to determine the overall risk rating of the partner, which can be high, significant, medium or low. For those receiving less than US$ 100,000, country offices can carry out a light assessment using the simplified financial management checklist. High risk should be assumed if a partner expected to receive US$ 100,000 or more per year is not micro-assessed during the programme cycle.

As of 27 November 2014, the HACT assurance plan included a list of 191 partners, of which 124 were active partners in 2014. Of the 191, 36 of them were rated as high risk, 42 as significant, 70 as moderate and 18 as low risk. The 25 not assessed were rated as high risk. The office was not formally required to do this as the partners in question did not receive over US$ 100,000 a year, but the audit regarded it as a sensible decision in a high-risk environment.

However, a review of the HACT plan showed that 10 micro-assessments were completed in 2009 or earlier (i.e. were more than five years old) and the overall rating, which ranged from significant to moderate, had not been automatically updated to high upon expiry of the micro-assessment as per HACT procedure. (This has an impact on the frequency of assurance activities.) Four of these 10 partners received more than US$ 100,000 annually in 2013 or 2014.

The audit visited three government implementing partners in the region with the largest amount of direct cash transfers. All of them had been micro-assessed. However, two of them had not received a copy of micro-assessment reports and were not aware of the risk rating or of the capacity gaps that had been identified. (The third had received a draft report.) None of the three partners had been asked to provide UNICEF with an action plan for the implementation of the recommendations.

HACT assurance plan: The country office had prepared HACT assurance plans for 2013 and 2014, and updated them regularly during the year. The 2014 assurance plan included a list of partners, with amounts disbursed in 2013 and expected to be disbursed in 2014; risk rating; and planned and actual spot checks, audits, training and capacity building activities. However, it did not include planned and actual programmatic visits (see also observation *Programme monitoring*, p20 below).

The assurance plan was not updated to clearly show the implementation status of the planned activities.

Financial spot checks: Spot checks review the financial records to ensure that DCTs are supported with sufficient documentation to justify the disbursements. In 2013, the office planned to conduct spot checks for partners receiving more than US$ 50,000 with risk rating of high or significant, and of partners receiving US$ 100,000 or more with a moderate risk rating. However, although the choice of partners for spot checks was based on the risk rating, their frequency was not. There was a maximum of one spot check regardless of the significance of the risk.

The office had planned 25 spot checks in 2013 and had completed 19; the remaining six were done in 2014. However, for 2014, the office had planned to spot check all partners receiving more than $20,000 who did not receive a spot check in 2013. This was ambitious as it meant an expected 60 spot checks. As of 27 November 2014, the office had completed only eight, six of which were the ones carried over from 2013. This was mainly due to unrealistic planning, insufficient internal capacity, and delays in contracting an external service provider.

The audit visited three Government partners and found that two of them had had financial spot checks by UNICEF. They had been debriefed on the results of the spot checks. However, they had not received a copy of the final spot check reports with the recommendations.

The office had issued comprehensive guidelines for spot checks in July 2013 and had updated them in November 2014 to reflect the new UNICEF HACT policy (for the period covered by the audit, however, the office did not have such guidance).

Scheduled audits: A scheduled audit is an independent examination of data, statements, records, operations and performance of an implementation partner carried out by an independent external service provider. There are two types of scheduled audits: internal control audits or financial audits.

The office frequently used audits as a mean to obtain assurance on the use of funds by partners. As of 27 November 2014, there were 44 partners which had received cash transfers exceeding US$ 500,000 during the current country programme (i.e. since 2008). All these partners had been subject to internal control audits once in the past three years. For instance, the office planned 22 audits of certain partners in 2013. The audits were completed in 2014, and identified significant control weaknesses and irregularities, which were subsequently investigated by OIAI. Following the audits, the office stopped direct cash transfers.

At the time of the audit, the office was helping the partners establish an action plan, and was planning to follow up on capacity building recommended by the audits and on recovery of any unsupported payments.

Follow-up on recommendations: The office had no formal system to track implementation recommendations from micro-assessments, spot checks and scheduled internal control audits. There was no record on the status of recommendations as of November 2014, and the HACT Committee was not kept informed on progress. As a result, the office did not know whether implementing partners had corrected control weaknesses and strengthened capacity. As noted above, the office issued a guideline for spot checks, but this had no requirement to follow up recommendations stemming from previous audits (or field-monitoring visits, which are also assurance activities in the HACT framework).

Training of partners and staff: The office trained all those of its own staff managing partnerships on HACT monitoring and assurance activities. Further, an annual general HACT training was held in 2013. The HACT assurance plan as of 27 November 2014 showed that the office trained 87 partners on HACT in 2013 and 2014, and conducted 14 capacity building workshops in 2013 and 2014. However, partners had not received copies of the HACT guidelines in 2013 and 2014. At the time of the audit, the office was finalizing a HACT manual and was planning to distribute a copy to all partners.

Timely and sufficient assurance activities and follow-up of recommendations stemming from these activities, particularly for high/significant risk partners, would assist early detection of problems and obtain appropriate evidence that funds are used for intended purposes and that good value is received for money spent.

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

i. Ensure that the HACT committee meets regularly and minutes of meetings clearly identify agenda items, include a review of progress against the plan and assign action points to responsible staff with timelines, and follow up action points from previous meetings.
ii. Review the choice of cash transfer method to Government partners, taking into account the results of the recently-completed macro-assessment; and follow up on the implementation of recommendations stemming from the macro-assessment so as to reinforce the financial management capacity of public sector partners, particularly at the decentralized levels (as direct cash transfers are generally sent to regional directors of line ministries).
iii. Revise the HACT assurance plan to include programme visits, and regularly report to the HACT Committee on progress against the plan.

iv. Allocate sufficient resources to increase the office's capacity to implement planned HACT activities, and ensure the frequency of spot checks and programme visits for each partner is risk-based, and sufficient to obtain assurance that funds are used for intended purposes, and that results are achieved.
v. Establish a process to ensure that all partners receive copies of micro-assessment and spot-check reports, and assign responsibilities accordingly.
vi. Establish a comprehensive partnership tracking system/tool, and assign responsibilities, to ensure all significant recommendations stemming from micro-assessments, spot checks and scheduled audits are systematically followed up, and a status report on implementation is regularly submitted to the HACT committee.
vii. Prioritize HACT training for partners that have yet to receive it, and finalize and distribute the HACT manual and UNICEF guidelines to all implementing partners.

Target date for completion: December 2015
Responsible staff members: Chief of Planning, Chief of Finance

Communication with donors

The conditions in the agreements signed by UNICEF with donors cover a number of areas; besides the use of funds, they include payment schedules and requirements for transfer of funds, audit clauses, applicable recovery rates, reporting obligations and duration. Offices should ensure that locally-negotiated donor agreements are consistent with UNICEF policies and procedures, and have been reviewed and cleared by the donor focal point of the Public Partnership Division (PPD) before finalization and signature.

There is insufficient guidance on what to communicate to donors, and how and when to do it. For example, the UNICEF Guidelines on Negotiating Donor Agreements has a clause on audits, stating that "UNICEF's use of the contribution shall be subject to the internal and external auditing procedures provided for in UNICEF's Financial Regulations and Rules". However, it does not explain how and when to share confidential and non-confidential information stemming from scheduled audits and special audits that the office has had done as part of its own assurance activities under HACT. Though audit reports should be shared with implementing partners, the HACT policies and procedures do not include instructions on what information from assurance activities can be shared with donors, or when and how that should be done.

Given the unstable environment in Madagascar, the office acted as an implementing agency for, and had entered into agreements with various donors – including one agreement that was worth US$ 64 million (another was worth about US$ 17.4 million, and a third about US$ 16.4 million). Several of the signed donor agreements required UNICEF to inform donors of any conditions that might interfere, or threaten to interfere, with successful implementation. The agreements also stated that donor could claim repayment in full or in part of the funds from the grant if the funds or part of the funds were found to be misused or not satisfactorily accounted for. Audit interviewed donors who indicated that they would like to obtain audits of implementing partners to be shared with them. However, the audits were not shared because there was no procedure established in that regard.

Agreed action 8 (high priority): The Field Results Group (FRG) agrees to consult with Public Partnership Division and Division of Financial and Administrative Management and other business units as warranted, to establish a UNICEF procedure and guidance on what to communicate to donors, and how and when to do it, with respect to country office commissioned audits of implementing partners and other assurance activities carried out in accordance with the Harmonized Approach to Cash Transfers.

Target date for completion: September 2015
Responsible staff members: Chief, Implementation Modalities

Programme monitoring

Country offices should have mechanisms and tools to monitor progress against planned outputs and targets. They should also conduct mid-year and annual programme reviews jointly with partners so as to review progress, identify constraints and lessons learned, and implement corrective measures.

The country office had established various programme monitoring mechanisms that included, among others, field-monitoring visits by staff based in Antananarivo and in the regions; end-user monitoring tools, including SMS (Short Message Service) systems to verify delivery of supplies (school kits) and reach of campaigns (school enrollment); programme coordination meetings; and mid-year and annual reviews with implementing partners.

Since 2012, the office had also expanded its field presence with a total of 56 field staff (47 regional technical assistants reporting to nine regional advisors) based outside the country office, embedded within Ministries' Regional Directorates. Each staff member was under the supervision of their respective programme section of the country office. In the new 2015-2019 country programme, the office was expected to reduce its field presence from 22 to 11 regions with about 31 field staff by the end of 2015. In 2013 and 2014, field staff attended mid-year and annual field presence reviews so as to review opportunities to improve coherence and coordination between the field and the office's staff.

Progress against planned outcome and output was reviewed twice a year with key implementing partners, through the mid-year and annual reviews in 2013 and 2014. For instance, the 2014 mid-year review of the education programme included an analysis of bottlenecks and strategies to overcome bottlenecks, as well as a review of assumptions and risks for each output. The 2014 mid-year reviews of the other programmes also included an analysis of success factors, risks or constraints for each planned output, and recommendations were made to improve performance.

However, the audit noted the following.

Oversight of field monitoring: The office set as the performance indicator the number of field-trip reports submitted to the Bulletin Board against the number of field missions which actually took place in a given month. This indicator aims to monitor the number of actual field missions for which trip reports were prepared and stored in the Bulletin Board. However, as an indicator, it was incomplete, as it did not measure actual against planned field missions. Neither did it monitor the number of person-days spent on field monitoring against established standards.

In fact, the office reported that the number of field monitoring missions had increased from 793 in 2013 (January to October) to 1,122 in 2014 (January to October) – an increase of 41.5 percent, while the number of staff actually dropped slightly (123 in 2013 and 116 in 2014). For staff located in regional directorates, the ratio increased by 58 percent, from 7.5 in 2013 to 11. 9 in 2014. Though the increase was significant, this still represented only 1.2 missions per field staff per month in 2014 (as compared to 0.8 in 2013). This seems low given that the main role of regional technical assistants and regional advisors is to monitor programme implementation and provide technical support and build capacity of partners. Without information on the number of person-days on field mission, the office did not know the percentage of time spent on mission during a year, and could not therefore establish whether field staff met the office's standard of 50 percent of time of field staff for performing field monitoring. Moreover the above analysis focused on volume of field missions, not their quality and relevance. They also did not reflect field missions of one day only.

Field-monitoring plan: The office prepared monthly field monitoring or travel plans for each section and for staff in head office and in regional directorates. The plans were reviewed and approved by the Deputy Representative. The plans included a list of all planned missions by programme, region, duration, staff member and objective. However, there were no references to implementing partners.

Programme monitoring is one key assurance activity under HACT (see observation *Harmonized Approach to Cash Transfers*, p16 above). However, the monthly monitoring plans were not risk-based, i.e. the frequency of programmatic visits were not linked to the risk ratings of partners.

Field-monitoring reports: The audit reviewed a sample of nine trip reports, and found that trip-report templates did not refer to the workplan outputs and did not include a requirement to list follow-up issues identified from previous trip reports and indicate any follow-up action discussed during the visit.

The reports did generally give detailed information on technical support provided and implementation of planned activities, and all but one sampled reports included action points to strengthen programme implementation. However, some of the latter were not specific and lacked responsible staff and timelines.

None of the nine sampled reports used the checklist to review status, use and effectiveness of programme inputs. The office had no statistics on number of field missions that reviewed the use of key programme supplies (such as school kits). Staff interviewed by the audit said that results of field missions were discussed during programme meetings. However, there was no global follow-up mechanism to monitor outstanding key action points.

There was no guidance for field staff on the approach and methodology for testing the reliability of data and information collected by government partners and used by the office to measure achievement of programme results. None of the nine sampled reports included, as an objective of the mission, a review of reliability of data collected at regional and district levels. Further, the office had not developed a strategy to strengthen capacity of counterparts to improve sectoral information systems.

OIAI field visits: The audit visited projects implemented by government partners in one region (Atsimo Andrefana). It interviewed directors of three regional directorates, who expressed satisfaction with the partnerships with UNICEF. They confirmed that the workplans were developed jointly, and focused on government priorities and needs. UNICEF's field presence was considered important for timely technical support and ensuring regular monitoring. Government partners confirmed that field monitoring was done jointly with UNICEF staff.

The audit visited a basic health centre, a community centre and a school. All partners interviewed indicated that programme supplies were received on time and were of good quality. Supplies received by partners included school kits and drugs. The basic health centre kept a register with the list of materials received from UNICEF. School kits were considered of better quality in 2014 than 2013.

However, children of grades 1 and 2 did not receive school kits in the school visited. They were received by the school district but not sent to the school because the teachers had not received proper training for the distribution of school kits. The audit was told that the teachers would be trained and the kits will be distributed to the school within a week. The audit was also informed that the distribution of school kits in all regions was monitored centrally by the programme section at the head office.

After the audit visit, the office submitted evidence that the school kits had later been distributed to the children of the school visited during the audit.

Agreed action 9 (high priority): Taking into account the significant reduction of the field presence during the new country programme cycle, the country office agrees to:

i. Ensure field-monitoring plans are risk-informed, i.e. the frequency of field monitoring is linked to the risk rating of partners; and indicate the name of the partners.
ii. Revise the office's programme management indicators related to field trips to include monitoring of the number of field trip person-days per programme section and overall.
iii. Prepare and submit quarterly analysis reports on field missions and field-trip person-days against plan to the programme coordination meetings and Country Management Team meetings; conduct comparative workload analysis of regional advisors and technical assistants in all regions; revise standards; and establish a strategy to meet field monitoring standards.
iv. Adjust the trip-report template (including missions of duration of one day) to indicate purpose that is linked to specific workplan results and activities; and include a requirement to prepare a trip report for each field monitoring mission (regardless of its duration).
v. Develop and implement a strategy and methodology to strengthen capacity of counterparts to improve sectoral information systems, in order to increase the reliability and quality of data and information collected by government partners at the regional and district levels.
vi. Ensure that relevant staff consistently include a review of status and use of programme inputs, such as supplies, in the planning of significant field-monitoring visits.
vii. Train staff on field-monitoring procedures and checklists to ensure field-monitoring reports are properly filled out, and that recommendations include responsible staff and timeframe for their implementation.
viii. Establish an office-wide mechanism to follow up and report on outstanding key action points stemming from field-monitoring visits.

Target date for completion: September 2015
Responsible staff members: Chief of Planning, Section Chiefs and Deputy Representative

Programme evaluations

Country offices should have an efficient and effective processes to plan and carry out programme evaluations, and monitor and report on the use of evaluation results.

The office developed a work process for the management of integrated and monitoring evaluation plan (IMEP) activities. The IMEP, covering the period 2013-2014, described key IMEP activities, including surveys, studies and evaluations. The office had an adequate process in place for reviewing the quality of the terms of reference of evaluations, draft reports and management responses before finalization. Two completed evaluation reports had been rated "highly satisfactory" by the Evaluation Office in NYHQ. However, the audit review noted the following.

Oversight of 2013-2014 IMEP activities: The implementation rate of IMEP activities was low. As of 29 November 2014, the office had finalized three out of five planned surveys, and five out of 21 planned studies (although an additional five were awaiting review). With respect to programme evaluations, there were significant delays in finalization; four out of 12 planned evaluations were finalized and a fifth awaited a management response. The office commented that IMEP activities were not always fully under its control; in some cases, it contributed but did not lead the effort.

Progress reports on the implementation of the IMEP were submitted quarterly to the CMT. However, the progress reports did not indicate the actual completion rate for each category of IMEP activity and globally. There was also no analysis of actual against planned completion date for each IMEP activity so as to inform future planning.

Coverage of IMEP evaluation activities: Evaluation priorities were established using criteria such as significance of funding, duration of the programme, new programme approach or pilot; and issues that cut across programmes. The focus was on major programmes, and seven out of 12 planned evaluations covered the education programme. However, there were only three for health and nutrition programmes (second largest); two for water and sanitation (WASH) (one was cancelled); and none for child protection. The office told the audit that two studies were planned for the child protection programme and then postponed to undertake a child protection assessment, including child protection networks, in 2015.

Further, there were no distinct planned evaluations of the cost-effectiveness of major programme supplies such as vaccines. The office explained that an evaluation of vaccine management was done every three years by the Ministry of Health with support from UNICEF and other partners. With respect to school kits (US$ 5.9 million in 2013-2014), the office said they were regularly monitored and would be covered in an ongoing EU evaluation.

The audit also noted that there were no strategy and no plan of action, with specific IMEP activities, indicators of progress and timelines, to review and improve the sectoral information systems. This was needed in order to increase the reliability of data and statistics collected and validated by government departments responsible for education, health and water that the office uses to measure and report on achievement of results.

Monitoring and evaluation activities were not included in the rolling workplans of each programme signed with partners. Further, the 2013-2014 IMEP did not include an end-of-cycle country programme evaluation (see also observation *Programme planning*, p12 above). At the time of the audit, the office, in consultation with the Regional Office, had started reviewing several options for this, including an external evaluation.

The management response was submitted on April 2013.

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

i. Prioritize activities in the Integrated Monitoring and Evaluation Plan (IMEP) for timely implementation; and evaluate key programme interventions, including the cost-effectiveness of major programme inputs, in a timely manner.
ii. Draw up a strategy and a plan of action, with specific IMEP activities, indicators of progress and timelines, to review and improve the sectoral information systems to increase the reliability of data and statistics collected and validated by government departments.
iii. Include monitoring and evaluation activities in the rolling workplans signed with partners.
iv. Revise the office's programme management indicators related to the IMEP to include the timeliness of planned IMEP activities and status of implementation of outstanding evaluation recommendations, including those older than 18 months.
v. Submit progress reports to the Country Management Team that include performance information on timeliness of planned IMEP activities, implementation rate of each category of IMEP activity, and status of implementation of evaluation recommendations, including those older than 18 months.

Target date for completion: September 2015
Responsible staff members: Chief of Planning, Section Chiefs and Deputy Representative

Agreed action 11 (medium priority): The country office, in consultation with the Regional Office and the Government, agrees to develop and implement a cost-effective strategy and approach to review key results achieved in the previous country programme and/or subsequent extensions and lessons learned, as well as programme and partnership strategies. This will assist the implementation of the Country Programme Action Plan for the new 2015-2019 country programme. The office will also consider completing an in-depth review of key results achieved since mid-term review completed in 2010.

Target date for completion: September 2015
Responsible staff members: Chief of Planning, Section Chiefs and Deputy Representative

Donor reporting

Country offices are expected, and legally bound, to submit reports to donors on the use of contributions. Donor reports are expected to disclose achievements against planned programme results and comply with donor reporting requirements established in donor agreements.

The office issued 38 donor reports in 2013 and 63 as of November 2014; all of them were submitted to donors on time. Audit reviewed a sample of four donor reports and noted that they all stated both successes and shortcomings in the implementation of programme. However, all sampled reports focused on reporting on the completion of activities instead of achievement of results; there was no clear description of the latter, or how they would help change the situation of children. For instance, there were no specific details on the number of people assisted. This was due to gaps in the four sampled donor agreements whereby the office, as implementing agency, was requested to implement defined activities rather than achieve specific results.

Two sampled donor reports mentioned construction work completed, but without any references to school furniture, which was to have been included. In one case, the donor agreement specified the amount to be allocated to school constructions and furniture. However, the office was unable to provide supporting documents confirming the purchase and delivery of the latter.

The Financial Utilization Reports (FUR) generated from VISION were included in the four sampled donor reports. However, in one case, the funds utilization was not adequately supported. It reflected expenditures related to the construction of schools and latrines but not those related to furniture, and there was insufficient confirmation that the latter had been delivered.

Agreed action 12 (medium priority): The office agrees to revise and strengthen its quality assurance process so that:

i. Donor agreements specifically define expected results, and donor reports correctly describe progress against expected results together with the use of funds against budgets.
ii. Information included in the Financial Utilization Reports is adequately and accurately supported, and clearly record expenditures incurred to ensure that they are in line with the donor proposal.

Target date for completion: September 2015
Responsible staff members: Chief of Planning, Section Chiefs and Deputy Representative

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

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

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

All the areas above were covered in this audit.

The audit found that controls were functioning well in some areas. Bank reconciliations were completed on time and there were no long outstanding unreconciled items. The office properly managed the warehouse located in Antananarivo. It had also adopted a GPS system to monitor the fleet of vehicles located in 22 regions. The business continuity plan and disaster recovery plan were adequately updated. However, the audit also noted the following.

Cash transfer management

In 2013 cash transfers amounted to US$ 26.4 million, representing 48 percent of the total expenditures. The amount for 2014 (as of November) was US$ 21.9 million, or 47 percent of total expenditures.

The audit reviewed a sample of 27 direct cash transfer (DCT) transactions and noted the following.

Adequate support of disbursements: In six instances, DCT payments were not adequately supported. They were made against photocopies of FACE forms. For example, a request letter and a signed FACE form amounting to about US$ 573,000 were received from the central government for health programme-related activities to be conducted in 22 regions. The supporting document was a photocopy of the FACE form authorized at the central level. This was the basis of a disbursement of about US$ 72,000) made to an implementing partner at the regional level. The audit found that the amount and payee name recorded in VISION differed from those on the approved FACE form. The office indicated that funds were released at regional level to an implementing partner who had not signed the FACE form so as to reduce delays in programme implementation. However, releasing funds to implementing partners that had not signed a FACE form reduced accountability on reporting of the use of funds.

In other instances, UNICEF disbursements were made late and funds were released based on photocopies of the FACE forms. This occurred because the office did not agree to pay the full amount requested by the implementing partner – but then did not request a revised FACE form for the revised amounts. In this instance, the office did not communicate the amounts of funded/unfunded activities to partners. This increased the risk of delaying liquidation of outstanding cash disbursements.

In seven instances, there were discrepancies between the payee names in VISION and those on the signed FACE forms. For some transactions, discrepancies were related to change of partner names not yet reflected in VISION. The office indicated that the vendor master data was being updated accordingly. However, discrepancies between information in VISION and FACE forms reduced the office's capacity to monitor timely release and liquidation of funds.

FACE form requests were received from implementing centrally, but released to implementing partners at regional level. For instance, the office released about US$ 30,500 to the District Health Service to support activities to be carried out in eight regions. However, the funds were mistakenly released to a district that was not one of them. The reasons were not recorded and there was no exceptional authorization for this release.

Cash transfers are meant to cover no more than three months' activities. In 16 instances, however, there were discrepancies between the period of planned activities stated in the signed workplan and the period recorded on the FACE form. In four additional instances, the implementation period was not mentioned.

In 21 instances, cash transfers were made after the start date of the planned activities. Delays in payments varied from 16 to 113 days. Reasons for late disbursement included late submission of requests from implementing partners and cumbersome internal processes. For instance, in one case, a note for the record (NFR) dated 21 October 2014 explained that late disbursement was due to serious breakdowns in controls identified during the scheduled audits of the partner in 22 regions. The NFR noted that after receiving preliminary results of the audit, all disbursements to that partner were stopped in October 2013. The office took steps to strengthen financial management controls of the partners before releasing cash transfers to them.

However, the office missed the opportunity to look at different disbursement methods as potential mitigation measures. This should have been considered, given that in some cases the partner was rated as high risk. For instance, in three sampled transactions the DCTs were released in February 2014 for activities carried out from October to December 2013. The planned activities were conducted by teachers, who were not paid on time by the Government; they then went on strike.

Reporting on use of cash transfers: As of 12 November 2014, the office had unliquidated DCTs amounting to US$ 8 million, out of which US$ 1.2 million had been outstanding over six months; of this, US$ 318,112 had been outstanding over nine months. Three out of seven sampled transactions had been outstanding over nine months. This included an amount that was outstanding over two years, representing over 33 percent of the total outstanding amount. The latter required a write-off as the implementing partner had not fully accounted for the planned activities and had since ceased operation.

In four instances, budget information was not standardized and itemized. The office developed a standard itemized budget in mid-October 2013 but it was not yet fully in use at the time of the audit.

In three instances, the FACE form did not have itemized budget costs, making it difficult to confirm the accuracy of statements of expenditures. In two instances, there were discrepancies in terms of implementation period. For example, activity period mentioned on the FACE request was July-Sept 2013 and the period indicated on the reporting FACE was August-November 2013. Activities conducted outside the activities period should not be liquidated without additional information confirming that the revised period had been formally agreed with the partner.

Agreed action 13 (medium priority): The office agrees to strengthen cash-transfer procedures and HACT implementation framework by:

i. Releasing cash transfers in compliance with UNICEF HACT procedures. More specifically, the certifying, approving and paying staff should ensure that:
    a. cash transfers disbursements are adequately supported;
    b. FACE forms received are reviewed for accuracy and completeness as stated UNICEF Financial and Administrative Policy on Cash Transfers (HACT);
    c. there is timely release of funds and major delays in releasing funds are documented.
ii. Ensuring that all exceptions to the implementation of cash transfers standards are approved at appropriate levels as defined in procedures for the Harmonized Approach to Cash Transfers.
iii. Timely reporting of cash transfers by ensuring that the request of write-off of the long outstanding amount is submitted and approved by the comptroller; and review of the reporting of cash transfer released to an incorrect implementing partner without appropriate authority to ensure that it is appropriately recorded in the system.

Target date for completion: 31 August 2015
Responsible staff members: Budget/Finance Specialist; Section Chief and Chief Planning

Contract Review Committee (CRC)

A CRC is expected to render written advice to the relevant UNICEF official (in the case of a country office, the Representative) on proposed contracts that exceed a financial threshold. The office had selected a threshold of US$ 50,000 (this was in line with normal standards). A CRC is also expected to provide a competent, independent and unbiased review of the process leading to proposed contract award recommendations.

There were 32 CRC meetings in 2013, and 28 in 2014 as of October. The CRC reviewed several complex cases considering the office's role in direct programme implementation and the instability of the country environment. The 2013 CRC annual report showed that the 32 cases reviewed amounted to US$ 9.3 million.

The audit examined eight sampled contracts submitted to the CRC for review and noted the following.

Submissions: All submissions received after the closing date should be considered invalid and should not be accepted in accordance with UNICEF policy. However, a CRC submission related to the procurement of 119 motorcycles amounting to US$ 363,000 included an offer received after the specified submission deadline. The office indicated that because the late submission was received very soon after the closing time, the offer was considered valid. The supplier with late submission was awarded the contract. The CRC minutes did not refer to the late submission and it was not clear whether the CRC members had been informed of it. An external review commissioned by a donor indicated in its report that the submission did not comply with UNICEF procedures and recommended that all expenses related to this procurement be rejected and refunded to the donor. At the time of the audit, the office had not received a final decision from the donor concerned.

A CRC submission for construction activities amounting to US$ 1.4 million included four bidders that were given three extra days to bring missing documents. These were not provided after the extra days and the bidders were disqualified. Country offices that are planning to spend more than US$100,000 annually on construction and rehabilitation are required to obtain a local procurement authorization (LPA) from Supply Division (SD), which noted in this case that the procurement process might lack transparency because the office had provided extra days to some bidders. One of these eventually secured the contract.

Lead time: The lead time for a procurement should be specified, because it affects the procurement process.

The audit reviewed a CRC submission for procurement of 10 vehicles amounting to US$ 377,000. The CRC suggested a local rather than offshore procurement for more rapid delivery. The rationale for this had not come from the requesting division. It was also not recorded in the CRC minutes. However, it became a selection criterion considered by the office and validated by the CRC. Moreover this criterion gave an advantage to the third highest bidder, which indicated that the vehicles were immediately available and was awarded the contract.

However, the supplier who was awarded the contract was one of those given extra days to procure and deliver additional accessories required for safety and security of the vehicles. The CRC analysis and recommendation did not consider all the information available before awarding the contract.

Single-source selection: Award of any contract should normally be based on a competitive tendering process. UNICEF policy does allow single-source selection, but only under specific circumstances, and an explanation should be entered as a note for the record (NFR).

The audit reviewed a CRC submission related to a procurement worth US$ 226,856 which was awarded to a previous supplier as a repeat order. The CRC minutes indicated that it was a repeat order, and the supplier was requested to submit a *pro forma* invoice. But instead of attaching an NFR, the CRC minutes stated that there had been five invitees and four acceptable offers, and attached a comparative table to that effect. In fact, the table was from a previous evaluation, with the quantities changed to match the current selection. The contradictions in the process and the non-adherence to UNICEF applicable policy and procedures were not remarked upon by the CRC members.

CRC minutes: In all eight CRC minutes reviewed by audit, the quorum was met. However, the audit noted that CRC minutes were not always properly signed. In one case, one of the three voting members did not sign the CRC minutes, while in the other case, the voting member did sign the CRC minutes but only after they were approved by the Representative.

The above cases showed that the CRC did not provide a competent and unbiased review of the procurement process. Furthermore, relevant UNICEF policies and procedures related to procurement were not shared with committee members. The CRC's analyses and conclusions did not adequately identify and address weaknesses and gaps in in the submissions made to it.

Agreed action 14 (high priority): The office agrees to strengthen the functioning of the contract review committee (CRC) by:

i. Establishing mechanisms to ensure that submissions to the Contract Review Committee (CRC) are complete and accurate. They should include required information on bidding, sourcing, lead time and supplier performance. Any exceptions to this should be approved at the appropriate level, and documented.
ii. Increasing CRC members' awareness and knowledge of their responsibilities and accountabilities and the relevant policy requirements, through training and dissemination of adequate guidance.
iii. Ensuring that the Country Management Team oversees the effectiveness of the CRC on a regular basis so as to enable early detection of weak performance.

Target date for completion: 31 August 2015
Responsible staff members: Supply Manager; Chief of Operations, Supply Manager and Country Management Team

Contracts for services and construction projects

Country offices are expected to put in place controls to provide reasonable assurance on the management of contracts for goods and services. The office issued contracts for services amounting to US$ 3.3 million in 2013, and US$ 1.7 million in 2014 (as of November).

Contracts for services: The audit reviewed a sample of 12 contracts for services. Controls were functioning well, except for the following:

- In five out of 12 sampled transactions reviewed, deliverables were not adequately defined. Examples included monthly fees/salaries or consultancy fees. In defining deliverables as a salary or monthly fee, the payment instalments were not directly linked with satisfactory deliverables.
- Five contracts had been issued to the same contractor within the same year instead of issuing a single contract. This led to higher administrative costs. Further, the office may not have had a clear pictures of all activities carried out by the same contractor.

Outsourcing of transportation of UNICEF staff: The fleet management was outsourced. The contracted company provided 53 individuals (drivers and supervisors). The drivers were given UNICEF vehicles. From January 2013 to November 2014, the office issued 10 contracts to two vendors for fleet management for a total cost of US$ 682,000. A review of two sampled payments noted the following.

In one case, an amount of US$ 22,400 was recorded in VISION as paid to one vendor. However, the vendor only received US$ 8,200, as the balance of US$ 14,200 was paid directly by UNICEF to the employees recruited by the vendor. The audit reviewed the letter from the vendor requesting UNICEF to pay the salaries and related benefits of their employees. It provided the lists of names, bank accounts and amounts to be paid, and included a management fee to be paid to the vendor. The office agreed to directly pay the salaries and benefits of the vendor's employees in this way because significant delays in the payments of salaries had increased the risk of delaying implementation and monitoring of programme activities.

However, the financial transactions were not appropriately approved and supported. The contract required salaries of vendor's employees to be paid by the vendor, and not by UNICEF. The contract was not amended to allow UNICEF to pay salaries to vendor's employees, and the contractor was paid the full amount of management fees. Further, UNICEF took on additional responsibilities in paying driver salaries without formally assessing risks and administrative costs. For example, UNICEF can effectively become responsible as an employer if it pays a contractor's employees directly.

In September 2014, the office signed another agreement with a new agency for an amount of US$ 374,940 that included the salaries of the agency's employees. In this case, the CRC recommended that the salaries of the vendor's employees should be paid by UNICEF, not by the vendor. However, the CRC recommendation was not followed or reflected in the contract. The office had not assessed the legal and related risks of not complying with UNICEF standard contractual conditions and policies. Further, the office had not registered the names of the vendor's employees in VISION as recognized vendors (which was necessary if they were to be paid for services rendered, as they would then become contractors in themselves). This in itself led to administrative complications.

Construction projects: In 2013 and 2014 (as of November), the office undertook construction activities that amounted to US$ 4.9 million. Construction companies were competitively selected. Four of the five sampled contracts related to construction of classrooms and latrines and the delivery of school furniture.

There was an adequate process in place to identify and report anomalies in the construction of schools and latrines, but no mechanism to confirm they had been corrected. With respect to the delivery of school furniture, there was no evidence that UNICEF had received it. Discussion with the programme and supply office staff indicated that there was no mechanism in place to confirm delivery as it was not in the contract. The receipts received from the beneficiaries were inadequate and there was no end-user monitoring or physical inspection of the furniture.

Agreed action 15 (medium priority): The office, with guidance from the Division of Financial Management, the Principal legal Advisor and the Regional Office, agrees to:

i. Urgently review the financial and legal risks related to direct payments of salaries of vendor's employees by UNICEF; and establish mitigating measures as necessary, including discontinuing paying salaries of vendor's employees or amending the current contractual arrangements to allow such transactions and obtain necessary approval.
ii. Discontinue the practice of transferring funds to individuals or vendor's employees that are not recorded as vendors in VISION, and issuing instructions for payment outside VISION.

Target date for completion: 31 May 2015
Responsible staff members: Chief of Operations

Agreed action 16 (medium priority): The office agrees to strengthen its contracting process to:

i. Ensure that the terms of reference, deliverables and payment schedules of contracts for services are adequately defined, and the contracts are properly amended if necessary.
ii. Establish a monitoring mechanism to ensure prompt and thorough correction of any reported anomalies in the construction of schools and latrines and their reporting to the Chief of the relevant programme section.
iii. Establish oversight mechanisms to ensure that delivery and receipt of school furniture are acknowledged in accordance with the controls set out in UNICEF policies and procedures.
iv. List all schools constructed since January 2013 and obtain evidence (adequate receipts from the government partner or beneficiaries, and/or physical inspection) that all school furniture was received by UNICEF and was of good quality in accordance with specifications defined in corresponding contracts.

Target date for completion: 31 August 2015
Responsible staff members: Section Chiefs and Supply Manager

Procurement of programme supplies

Programme supplies amounted to US$ 11.6 million in 2013, and US$ 8.5 million in 2014 as of November. A review of five procurement files and related payments noted the following.

Vehicles: In one instance, the office procured 10 vehicles locally for US$ 379,000 with a lead time of two weeks. The office received 10 vehicles; however, accessories requested (such as bull bars and snorkels) were not received at the same time as the vehicles. Also, three vehicles were sent back to the supplier for minor repairs. The office, in agreement with the supplier, paid for nine vehicles amounting to US$ 340,284. The audit review confirmed that the balance of US$ 38,665 (corresponding to the cost of one vehicle) was paid on 12 July 2013 upon receipt of accessories and certification of the repairs.

However, financial controls were not adequately implemented. An office should only pay for goods and services received in accordance with contractual arrangement. The certifying and paying officers confirmed that the vehicles and accessories were not received as agreed and were not billed properly, so the contract should have been amended accordingly. The office said that undelivered items and the repairs could not be paid separately, so instead of amending the contract to reflect the changes, it decided to pay for nine out of the 10 vehicles.

Motorcycles procured locally: The office procured 121 motorcycles and helmets locally for programme-related activities and issued a purchase order to the local supplier amounting to US$ 400,156. The procurement was not tax-exempted because the project was not yet registered VAT exemption. The donor who funded this procurement indicated that the expenditure was ineligible because the office did not comply with UNICEF bidding procedures (see observation on CRC, above) and with its VAT exemption requirement.

Motorcycles procured off-shore: All government programmes need to be registered with the Ministry of Finance for tax purposes. The office procured 94 motorcycles offshore for a project that was not yet registered. UNICEF itself is tax-exempt, so the office purchased UNICEF plate numbers and capitalized the motorcycles as inventory on loan pending registration of the project. At that stage, in August 2014, the office decided to transfer the motorcycles to beneficiaries through submission of the list of motorcycle to the Property Service Board (PSB). This was not efficient and could also have led to incorrect recording of assets (at one stage, it led to the office's assets being overstated). Moreover the procedure was incorrectly used to help an implementing partner avoiding tax.

Agreed action 17 (medium priority): The office agrees to strengthen its procurement and contracting processes so that:

i. Payments to suppliers are made only upon certification that goods are received in accordance with approved specifications established in contractual arrangement.
ii. Contracts are awarded through a bidding process that is adequately documented.
iii. Goods received are properly recorded in accordance with UNICEF policies and procedures.

Target date for completion: 31 August 2015
Responsible staff members: Supply Manager

Agreed action 18 (medium priority): The office agrees to work with the government to review the programme supplies tax process so that all programme supported by UNICEF are registered with the Ministry of Finance.

Target date for completion: 31 August 2015
Responsible staff members: Representative, Chief of Operations and Chief planning and monitoring

Operations support: Conclusion

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

Annex A: Methodology, and definition of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

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

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

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

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

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

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