

Internal Audit of the Nicaragua Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Nicaragua office. The audit took place in July and August 2015 and included a visit to Managua and Bluefields during the period August 10-21. The audit sought to assess the office's governance, programme management and operations support. The audit covered the period from January 2014 to July 2015.

The country programme for 2013-2017 consists of three main programme components: *Early childhood development*; *Inclusive quality education*; and *Protection of children and adolescents and participation for comprehensive adolescent development*. There is also an inter-sectoral component. The total budget for the country programme is approximately US\$ 34 million, of which US\$ 3.75 m is regular resources (RR) and US\$ 30.25 million other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country office is located in Managua, capital of Nicaragua. There are two field offices, in Bilwi with two staff members (national professional NO1 and driver) and in Bluefields, with one staff member (P2). As of July 2015, the Nicaragua office had a total 31 staff posts – three international professional officers, 14 national professional officers, 14 general service staff posts, one international on technical assistance (TA) contract, and six United Nations Volunteers (UNVs) who were split between the country and zone offices. Since the completion of the audit fieldwork, the office has informed OIAI that the zone offices are to be closed in early 2016.

Action agreed following the audit

In discussion with the audit team, the office has agreed to take a number of measures. None are being implemented as high priority – that is, to address issues that require immediate management attention.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over the Nicaragua office were generally established and functioning during the period under audit. The office has prepared an action plan to address the issues noted. The office, with support from the Regional Office, and OIAI will work together to monitor implementation of these measures.

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

Audit observations

1 Governance

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

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

All the above areas were covered in the audit.

The audit noted a number of areas where controls were functioning well. Office priorities and expected results were well identified, were in line with priorities documented in the annual management plan (AMP), and had been communicated to staff. Priorities were reviewed annually basis, taking into consideration relevant external studies, and the status of programme implementation.

The office has established a number of statutory and advisory committees, including the Country Management Team (CMT), Programme Cooperation Agreement Review Committee (PCARC), and learning committee; they had appropriate terms of reference. Meetings of these committees were minuted well. The office had improved the format of the CMT minutes to allow more detailed follow-up of actions agreed in previous meetings.

The table of authorities (ToA) was reviewed annually by the Hub in Panama, and the Operations Manager and staff were issued a letter detailing their responsibilities in VISION.

The Panama Hub is located with UNICEF's Regional Office in Panama, and provides common administrative and transaction-processing facilities for a number of UNICEF offices in the region. The office joined the Hub from 1 August 2014, and to accommodate the resulting changes, the country office's Operations section had implemented a number of new standard operating procedures for bank reconciliations, issue of direct cash transfers (DCTs), and management of statutory committees such as the Contract Review Committee and Property Survey Board.

Further, in the later part of 2015, additional changes will likely be made for Operations at the country office, once the new Multi-Country Centre Services (MCCS) is created in the Latin America and Caribbean Office to provide support to country offices that currently do not have an Operations Manager. The Nicaragua office will also start the transition to the new Global Shared Service Centre (GSSC) by mid-September 2015.

UNICEF Nicaragua is composed of the country office in Managua and two zone offices, in Bilwi (north Caribbean coast) and Bluefields (south Caribbean coast). The audit had noted staffing and office structure issues relating to the management of the zone offices. However, following the completion of the audit fieldwork, the country office informed OIAI that, following discussions with the government, a decision had been made to close the zone offices early in 2016. The staffing and structural observations have therefore been excluded from the audit report.

However, the audit noted the following.

Staffing issues

There were five staff members who had their reporting lines incorrectly recorded in the UNICEF management system, VISION, where they were not in accordance with those that had been approved in the PBR.¹ The office said this was due to delays in implementing the recently changed procedure in recording reporting lines. Action was pending from the Panama Hub to process the changes. Incorrect recording of reporting lines could cause ineffective performance appraisal or use of UNICEF systems.

The audit also noted that the Representative was to leave for a new assignment in another country office, and the current Deputy Representative was to be appointed as officer in charge. A new Representative had yet to be announced. Meanwhile the Monitoring and Evaluation (M&E) Officer had resigned in July 2015. The office said that historically this position took a long time to fill due to the qualifications required, and anticipated it would take several months to fill the position. In the interim, the Deputy Representative, besides being OIC for the Representative, would take over all M&E activities at the office. However,

¹ 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.

as the M&E Officer reports to the Representative, this may also create a segregation-of-duties issue.

Further, during the last quarter in 2015, four new key programme staff members were identified and will fill currently-vacant positions. This is a positive development; however, it will place additional pressure on the Deputy Representative, as in most of cases that individual provided support during the recruitment process and is expected to assist the new staff members on their arrival.

Agreed action 1 (medium priority): The country office agrees to, with the support of the Regional Office, identify risks related to recruitment and to the interim work assignments of the existing staff, and take appropriate mitigating actions to manage the increased workload on any staff member, and minimize the lack of segregation of duties of the staff member assigned the monitoring and evaluation function.

Target date for completion: June 2016

Responsible staff members: Deputy Representative

Ethics

UNICEF expects its offices to systematically promote ethical standards, including awareness and compliance with UNICEF's ethical policies and procedures. They should also inform partners and consultants of UNICEF anti-fraud policies. The first training workshop on Ethics was organized in January 2015 for all staff members by the Regional Chief of Human Resources. A total of 34 staff, including UNVs, took part. It included ethics subject such as UNICEF standards of Conduct, rules and regulations, duties privileges and conduct, oath of office, fraud and other topics.

However, the office did not systematically discuss ethical and anti-fraud policies and principles with non-staff parties such as consultants, contractors and partners, or establish whether they adhered to policies similar to those of UNICEF in these respects, as set out in the Policy Prohibiting and Combating Fraud and Corruption (CF/EXD/2013-008).

Agreed action 2 (medium priority): The office agrees to communicate with non-staff parties such as vendors, consultants and partners with respect to UNICEF ethical principles as per UNICEF's ethics policy.

Target date for completion: December 2016

Responsible staff members: Programme Specialists and operation staff

Governance area: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office governance were generally established and functioning during the period under audit.

2 Programme management

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

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

All the above areas were covered in this audit.

The audit noted a number of areas where controls were functioning well. Reports to donors were issued on time, and a quality assurance process for them was in place. The audit noted that the office had adhered to the guidelines issued by PARMO² for donor reporting.

However, the audit noted the following.

Resource mobilization³

As of July 2015, the office had mobilized US\$ 7,252,720, representing 27.3 percent of the total other resources (OR) budgeted for in the 2013-2017 CPD.⁴ The office had developed a resource mobilization strategy for the 2013-2017 country programme in 2012; it was updated in November 2014 and shared with the Regional Office, together with the mid-term review (MTR) report. Programmes with significant funding gaps as of August 2015 included *Early*

² PARMO was UNICEF's Public Sector Alliances and Resource Mobilization Office, now renamed the Public Partnerships Division (PPD).

³ 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.

⁴ The CPD is the country programme document, which sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs for five years.

childhood development within which funds for activities related to Pre-school, especially, were lacking; the total planned funding for this activity was about US\$ 3.4 million, of which only 4.8 percent had been mobilized. There was also a shortfall for Birth Registration, where total planned funding for the period was US\$ 3,145,019 and only 6.7 percent had been mobilized so far.

The office said that its resources mobilization efforts had not worked as expected during 2013 and 2014. Despite much effort invested in different proposals to donors, only a few, with very small funding, were successful. At the request of the Regional Office, the office had created a Resources Mobilization Task Force in 2013, under the assumption that it would continue designing and presenting proposals to donors. However, the terms of reference for the Task Force were not included in the annual workplan for 2015, since it was seen as an *ad hoc* advisory body, not a statutory committee.

Discussions between the audit and the office management made it clear that the office was currently more focused on advocacy and partnership for leveraging resources for children in Nicaragua, than on fundraising for the UNICEF office itself. The office said that this was due to the limited potential in the country for significant donor funding to UNICEF that might justify all the time and effort invested. The office added that “resource mobilization” in the context of middle-income countries was more likely to mean resources that were not only monetary, but included (for example) human resources and knowledge.

The communications section was developing advocacy strategies that the office said would be finalized this year. For resource mobilization, LACRO required each country office to have a strategy and update it every year.

Agreed action 3 (medium priority): The office agrees to review the relevancy, role and responsibilities of the Resources Mobilization Task Force in supporting the country office’s Resources Mobilization strategy and, working with the Regional Office, explore the options for supporting the resource mobilization for the country programme given the substantive funding gaps

Target date for completion: February 2016

Responsible staff members: Deputy Representative

Programme structure in VISION

Country offices report their results in the Results Assessment Module (RAM), which is based on the programme structure as recorded in UNICEF management system, VISION. The audit reviewed the programme structure as set out in VISION against the current structure as revised after the 2014 mid-term review (MTR) of the country programme, including indicators. After checking two outcomes, five corresponding outputs and their indicators, the audit noted the following discrepancies:

- In one of the two outcomes in VISION, there were four outputs that had been discontinued following the MTR.
- In one of the five outputs, the outcome statement was not consistent with MTR revision.
- For indicators of all five outputs, there were incorrect recording of targets, indicators monitored under incorrect output or non-removal of discontinued indicators.

The office said it had had to revise the structure at least twice (i.e. when VISION was implemented and after the MTR) but that revision in programme structure could not be made promptly in VISION due to technical challenges in closing discontinued outputs and activities. While the Regional Office had taken temporary measures to 'hide' the outdated components, the problem had yet to be resolved properly. Inaccurate recording of programme structure in the system could prevent the office from effectively monitoring resources and implementation against planned results.

Agreed action 4 (medium priority): The country office agrees to amend the programme structure in VISION to align with the approved structure, with assistance from the Field Results Group or the Division of Information Technology Solutions and Services.

Target date for completion: March 2016

Responsible staff members: Deputy Representative with support from Program Assistants, LACRO (HUB) and DFAM

Harmonized Approach to Cash Transfers (HACT)

Country 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 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 ad-hoc tools such as special audits if needed. There should be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. HACT is not required for UNFPA in Nicaragua for another year, and UNDP started to implement HACT in 2015.

During 2014 the Nicaragua office made cash transfers to 27 implementing partners, totalling US\$ 1.1 million. The audit reviewed the office's implementation of HACT and noted the following.

Macro-assessment: The macro-assessment report was issued in April 2015, and the office was in the process of deciding the next steps based on the outcomes reported. The office had updated the details of the macro-assessment in the UNICEF system.

Micro-assessment: Under HACT guidelines, micro-assessments are required for all implementing partners receiving over US\$ 100,000 a year (e.g. those expected to receive over US\$ 500,000 over the five-year country programme). Only two of the four implementing

partners that received over US\$ 100,000 in 2014 had been micro-assessed in 2015. In 2014, however, the office had conducted micro-assessments on five other implementing partners who received less than \$100,000 – although the risk ratings resulting from these micro-assessments had not been recorded in the system.

Assurance plan: From 2015, the office had developed an assurance plan based on the stipulated format. However, the plans for programmatic visits and audits for the four partners expected to receive over US\$ 500,000 for the period of the country programme had not been recorded, and were listed as work in progress.

Spot checks: In 2014, the office reported in the Country Office Annual Report that 15 out of the 19 planned spot checks had been done, but the audit found it was only 13 as two were repeat visits to the same partner. Of those 13, eight spot-check reports were of adequate quality, but the other five did not contain the same level of details or suggest the same quality of review. This was due in part to not using a standardized format in spot-check reporting. (The latest terms of reference for, and detailed guidance on, spot checks can be found in guidelines issued by the Field Results Group, *Spot-check Guidance: FRG/GUIDANCE/2015/001*).

Overall, inadequate or incomplete risk assessment and assurance activities may lead to ineffective use of resources leading to delays in achieving planned results. Also, lack of recording the micro-assessment results prevents the office from fully using the outcome of the assessments to manage cash transfers based on risks.

Agreed action 5 (medium priority): The country office agrees to implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the HACT guidelines and procedures by:

- i. Conducting micro-assessments for all partners for which they are required or assume high risk for those partners until micro-assessments are completed.
- ii. Planning, and systematically conducting, programmatic visits based on risk level plus cash-transfer value during the year, and audits based on cash transfers.
- iii. Adequately documenting and reporting on all assurance activities.

Target date for completion: February 2016

Responsible staff members: Operations Manager and Programme Assistant

Monitoring results and use of resources

The office's CPMP⁵ stated that the monitoring of programme implementation would take place through regular field visits. The office planned the field visits on an annual and monthly basis. Staff were required to submit a field-visit report upon return, and recommendations were compiled and monitored by the Deputy Representative.

Planning of field visits: The audit looked at a sample of 2015 annual field-visit plans of four individuals in different sections, and found that while two plans defined municipalities to be visited, frequency of the visit and costs, another plan only defined activities to be visited and

⁵ When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

timeline of the visit. Also, the annual field-visit plans were not always risk-based. One of the plans included one visit each per partner and activity. However, another plan included one visit every month for two regions.

Monthly field-visit plans could not be fully reconciled with the annual plans. There were field visits that were in the annual plan, but not the monthly plans. Also, some field visits in the monthly plan could not be traced to the annual plan because the latter did not specify destinations or timelines. The office said the monthly field-visit plans were not monitored and approved against the annual field visit plans. Also, in the monthly plans, relevant outcome and outputs for the field visits were not always defined. Field visits that are not strategically planned could lead to inefficient monitoring and waste of resources.

Field-visit implementation: The audit selected 13 field-visit reports submitted by two programme specialist/officers in 2015 and noted the following:

- Six of the 13 visits were not included in the monthly plan. While the management had approved them based on justifications, this indicated that there was room to improve on planning and/or monitoring of the plan.
- Seven of the 13 visits were conducted though not in the annual plan, or were not conducted according to it (the plan was to visit the destination every four weeks, but the visits were every two to three weeks). Annual field-visit plans were not monitored for implementation.

Travel costs were very high when compared to the amount of funds that had actually been transferred to the implementing partners. For example, as of 12 August 2015, travel costs by staff totalled US\$ 148,052, and total amount of funds that had been transferred to the implementing partners as of the same date was US\$ 292,292. Consequently, travel costs in 2015 so far were 51 percent of the total amount transferred to counterparts. In effect, the office had spent US\$ 148,052 on trips to monitor DCTs for an amount of only US\$ 292,292.

The audit noted that the M&E section was understaffed, as the incumbent recently left the position and it could take a few months to be fill. Unless quickly filled, this could also cause a reduction in M&E activities, with an impact to the quality of the implementation of programmes, especially while the Deputy Representative is performing M&E activities.

Agreed action 6 (medium priority): The country office agrees to improve its monitoring of programme implementation by taking the following steps:

- i. Strengthen field-visit planning by reviewing and streamlining the planning procedure and revise accordingly. This should include assessing the purpose and relevance of having both an annual and monthly field visit plan.
- ii. Ensure that the field-visit plan is approved on the basis of adequate information and is monitored for implementation.

Target date for completion: March 2016

Responsible staff members: Deputy Representative, Program Specialists/Officers

Communications

In discussions with the Communications Officer, the audit noted that the office had expended a good amount of time and effort on external communication, communications for development (C4D) and advocacy, especially in increasing UNICEF Nicaragua's profile and visibility through social media and the office's website.

However, the office could have done more internally to strengthen the communications capacity of the programme sections. There was a lack of documentation of the involvement or support provided by the Communication Specialist to each of the programme components in this respect. Areas for their involvement could have included quality control and strategic planning in communication/C4D, joint identification of C4D indicators and monitoring and reporting on them, and expenditure on C4D, as well as monitoring and reporting of impact-level results of C4D interventions. The audit also noted that those activities that had taken place, had all been during 2014.

At the time of the audit in August 2015, efforts related to external communication had not been documented in the Results Assessment Module of VISION.

Agreed action 7 (medium priority): The country office agrees to strengthen internal support to programme sections on communications, and coordinate monitoring of results from C4D strategies so that the office is able to systematically document its efforts in this respect .

Target date for completion: March 2016

Responsible staff members: Communication Specialist

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over programme were generally established and functioning during the period under audit.

3 Operations support

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

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All of the above areas were covered in this audit, with the exception of inventory management since the office does not have a warehouse for supplies.

The audit noted a number of areas where controls were functioning well. Based on samples reviewed, bank reconciliations were completed on time, with appropriate segregation of duties and no long-outstanding unreconciled items. Accounts closure at year-end was promptly and adequately completed and reported.

Contracts for services and supplies had been reduced to a minimum, and when they were issued, it was on the basis of a competitive selection. This included procurement services performed for the Government. During 2014 the office issued only 18 contracts for a total of US\$ 183,507, all under competitive selection. During 2015, six contracts had been issued for a total of US\$ 100,420, also all under competitive selection.

The Contract Review Committee (CRC) and Property Survey Board (PSB) were run by the Hub in Panama, with terms of reference based on the Service Level Agreement (SLA). There were mechanisms to share costs with other UN agencies, including sharing of premises and operating costs.

However, the audit noted the following.

Budget management

In 2014 and 2015 the office received Regular Resources (RR) of US\$ 999,937 and US\$ 1,184,302 respectively. UNICEF country offices are supposed to allocate the RR to outputs based on their approved workplans. However, at the time of receipt of RR budget allotment in both 2014 and 2015, the country office had allocated RR to outputs based on the best assumptions of the programme specialists and officers, instead of the approved workplans. This practice prevented the office from methodically allocating the RR budget based on the

expected results agreed with the government counterparts, and instead led to planning based on funds availability and best assumptions.

At the time of the audit, the office was using an Excel table to compile the budget requests for RR for each programme component. This was monitored every three months by a programme assistant under supervision of the Deputy Representative, so as to reallocate any unused funds. However, the audit was unable to fully reconcile this Excel table with individual submissions because it did not completely reflect cross-sectoral components and additional submissions communicated via e-mails.

At the time of the audit the office was discussing multi-year or rolling instead of annual workplans with the counterparts, to minimize time spent in finalizing the workplans.

Agreed action 8 (medium priority): The country office agrees to allocate resources systematically based on the workplans and relevant cross-sectoral costs.

Target date for completion: January 2016

Responsible staff members: Programme specialists, Deputy Representative, Operations Assistant

Financial management

The audit reviewed the office's financial management and made the following observations.

Purchases by staff: Staff in the zone offices at times used their own funds to procure small items, and then were reimbursed while visiting the country office. This is not in line with UNICEF procedures, as it could lead to staff spending resources without adequate approval, and also affect cash balance management. The situation had arisen because there was no standard procedure for procuring goods for the zone offices.

Delegation of financial authorities: Staff who have been delegated to be authorizing, purchase-order releasing, receiving, certifying, approving and paying officers must formally acknowledge this understanding by signing an Acceptance of Delegation. The office had yet to implement this practice.

Leave recording: The audit selected a sample of five staff members and reviewed their leave records for two months. For two of the selected staff members, the leave records in the system were not complete. There were leave days that were manually approved and taken, but not yet recorded in the UNICEF system. This could lead to waste of staff time, and also weak recording of leaves in the system.

The office said that delays in recording leave by staff members was due to the workload for the staff in charge. However, the audit noted that the leave of a number of staff were being processed manually instead of entered into VISION by the staff members themselves. This should only be done for staff without VISION access (i.e. drivers). However, there were several other staff whose leave had to be processed manually as their reporting lines had not been properly reflected in the UNICEF system.

Agreed action 9 (medium priority): The country office agrees to strengthen financial management with the following steps:

- i. Ensure staff members acknowledge delegated financial roles by signing the Acceptance of Delegation form.
- ii. Clarify reporting lines in VISION and ensure that staff members with access to it use it to process their own leave applications.

Target date for completion: January 2016

Responsible staff members: Operations Assistant and HR Assistant

Direct cash transfer (DCT) management

DCT was the largest programme input in 2014. The office spent US\$ 1,119,216 in DCTs in that year, or 28 percent of annual expenditure. The audit sampled the seven largest implementing partners in 2014 (based on DCT transferred by dollar value), and tested 10 cash transfer payments, nine liquidations and one refund. These sampled cash transfers were for a total of US\$ 412,503, about 37 percent of 2014 annual expenditure on DCTs.

While the DCTs were generally well-managed, the audit noted the following.

Processing timeliness: There were delays in processing payments and liquidation of DCTs. In three cases, involving three separate partners, the payments took between two and four weeks, from the date of payment request stamped received to payment processed in the system. Also, liquidation of one of those three DCTs took four weeks from the date the FACE form⁶ was received and approved to recording in the system. The office said that limited staff capacity due to staff turnover, or internal processes of the partners, often caused the delays.

Segregation of duties: The audit found a case of a liquidation processed without adequate approval. The FACE form had been verified only by the programme assistant and not endorsed by the accountable programme specialist/officer. However, the liquidation was posted in the system as fully spent. The office said that this was an oversight.

Delays in processing DCTs could lead to delays in achieving results and also weaken UNICEF's reputation. Processing DCTs without adequate approval could risk inappropriate use of resources.

Long-outstanding DCTs: There was US\$ 14,000 of DCT outstanding for over nine months from a Government counterpart (the Ministry of Health).

Agreed action 10 (medium priority): The country office agrees to strengthen the process for direct cash transfers (DCTs) by:

- i. Establishing the reasons for delays in DCT processing and taking measures accordingly.
- ii. Processing the DCT documents based on adequate approval.
- iii. Making necessary arrangements with partners to close long-outstanding DCTs.

⁶ The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

Target date for completion: February 2016

Responsible staff members: Operations Manager, ECD Specialist and Operations Assistant

Travel management

Travel represents an important item for the office, due to the high cost and the frequency of trips performed. During 2014 the office spent US\$ 205,518, and in 2015 they had already spent US\$ 148,052 as of August 12.

Due to the large number of trips that are completed during the year, to simplify the process, the country office had adopted the practice of issuing a single Travel Authorizations (TAs) that covered several trips, and as such the number of trips reflected in VISION was much lower than the number actually taken. This weakens accountability and control over travel.

In addition, in the office's monthly trip plan, each trip was classified according to the likelihood that it might be cancelled or re-programmed, to minimize the cancellation or amendment of TAs that had already been issued. Each traveller drew up their own monthly travel plans, which were then reviewed and approved by the Deputy Representative.

The audit tested a sample of five trips, and noted that monthly travel plans did not incorporate all staff travel. In two cases travel by Operations staff had not been reflected in the monthly travel plan. The audit also noted that the sampled TAs were not always processed promptly, as they were issued three to eight days prior to the travel date. UNICEF procedures require that the travel is booked at least 14 days in advance.

Further, the audit noted that travel costs were not always accurately recorded and reported. In all five cases, there was incorrect use of miscellaneous travel accounts. For example, when the office had to procure services or assets in the field, cash was given to the traveller under the miscellaneous travel costs. This led to under-reporting of contracts or operating costs and over-reporting of travel costs. Also, in two of these cases, travel by United Nations Volunteers was recorded under the wrong GL account (travel conducted by staff). Inaccurate recording and reporting of travel costs could lead to misrepresentation of the country office's expenditure, and ultimately affect UNICEF's financial reporting.

Agreed action 11 (medium priority): The country office agrees to strengthen travel management with the following steps:

- i. Process all Travel Authorizations promptly and book travel at least 14 days in advance unless there are exceptional circumstances beyond the office's control.
- ii. Accurately record and report costs relating to travel.

Target date for completion: February 2016

Responsible staff members: Representative, Deputy Representative, Programme Specialist, Operations Manager

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office's operations support were generally established and functioning during the period under audit.

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, and testing samples of transactions. 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 report is issued in final. 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 of 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.