Internal Audit of the State of Palestine Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the State of Palestine office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 9-31 July 2015, and the audit covered the period from January 2014 to July 2015.

UNICEF's programme in the State of Palestine is part of the 2015-2016 area programme *Palestinian children and women in Jordan, Lebanon, the Syrian Arab Republic and the State of Palestine*. The area programme has six components: *Education*; *Child protection*; *Adolescent development and participation*; *Health and nutrition*; *Water, sanitation and hygiene; and Social policy and evidence*. Not all these components are common to all four geographic areas; however, all six are being implemented in the State of Palestine, the last two only in that area. The total approved budget for the State of Palestine portion of the 2015-2016 area programme was US$ 20.2 million, of which US$ 4.7 million was regular resources (RR) and US$ 15.5 million was 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 donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR. The total State of Palestine office budget was US$ 42 million in 2014 and, as of May, US$ 55.7 million for 2015.

The State of Palestine office is based in East Jerusalem, with three zone offices located in Gaza, Nablus and Hebron. As of July 2015, the State of Palestine office had 81 approved posts, of which 22 were international professional, 25 were national officers, 33 were general service and one was a United Nations volunteer.

Action agreed following the audit

In discussion with the audit team, the country office has agreed to take a number of measures. One is being implemented by the country office as high priority – that is, to address an issue that requires immediate management attention. This is as follows.

- The office agrees to ensure that: the selection process of contracts for services exceeding established threshold is reviewed by the Contracts review Committee (CRC) before issuance of contracts; contracts for services are signed before start date; reference checks are conducted for selected candidates for consultancies; and performance evaluation of consultants is completed as required.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the country office, in the areas examined by this audit, were generally established and functioning during the period under audit.

The State of Palestine office, the Regional Office and OIAI intend to work together to monitor implementation of the measures that have been agreed.

Contents

Objectives

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

The audit observations are reported 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 reviewed 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 this audit.

The audit found a number of controls functioning well. For example, the office had established the key management priorities, and assigned staff responsibilities for them within the Annual Management Plan (AMP), along with performance indicators. The priorities in the AMP were reflected in the performance evaluation reports (PERs) of key staff members, and were monitored at section level and in the Country Management Team (CMT) meetings.

The office had assigned staff responsibilities and delegated authorities for performing financial control functions through the Table of Authority (ToA). The audit review noted that most of the roles and authorities given to staff in UNICEF's management system, VISION, were aligned with the delegation of authority given in the ToA approved by the Special Representative. (This is the designation for the head of UNICEF's Palestine office, which is part of an area programme rather than being a country programme on its own.) The office monitored progress on completion of performance appraisals of staff members. As of 21 July 2015, about 93 percent of all staff members completed their performance evaluations for 2014.

However, the audit also noted the following.

Management of zone offices

The audit reviewed whether the zone offices received adequate technical support, had clearly assigned responsibilities and accountabilities, and had been delegated adequate authority to discharge them. It also reviewed whether the zone offices had the staff they needed. The audit noted the following.

Roles of zone offices: The responsibilities, authorities and accountabilities of the zone offices had not been clearly set out in the AMP or any other equivalent document. Although the AMPs for 2014 and 2015 identified the key priorities, they did not identify any specific deliverables and key performance indicators and targets for the zone offices. These could have included (for example) frequency of field-monitoring visits, status of cash transfers, or completion rate of PERs. The audit did note that the office has been developing a system for clearer definition and assignment of responsibilities. It had in fact made this a priority in the 2015 AMP, and had been seeking examples from other country offices and the Regional Office in the absence of organizational guidance.

Reporting lines: The programme staff at the field office in Gaza reported to the Chief of Field Office (CFO). The CFO reported to the Special Representative in Jerusalem. However, the reporting relationships of zone offices' programme staff to the chiefs of sections based in Jerusalem was not clearly defined. This was partly because those reporting lines were not reflected in the staff members' job descriptions or in their annual performance appraisals. Neither were they set out in the AMP.

Human resources capacity: The Gaza office had 27 established posts; Hebron and Nablus had two each. As of 21 July 2015, 10 of the 27 posts in Gaza were vacant. One of the two posts in Nablus was vacant; in Hebron, both were. The office said that two vacant posts, one in Hebron and one in Nablus, had been approved for abolition. Vacant posts limited the zone offices' capacity to support implementation and monitor programme activities and results. The office explained that three of the 10 vacant posts in Gaza were newly established with effect from 1 July 2015, and that as of August, recruitment for three international posts was in its final stages, with recommendations submitted to the Division of Human Resources (DHR).

Oversight and technical support: The challenges in recruitment affected the office's ability to oversee and assist the zone offices. In some cases, the office had to undertake multiple rounds of advertisements to find suitable candidates. This, compounded by delays in recruitment reviews at the regional and HQ levels, and delays in obtaining visas, resulted in certain section chiefs' posts (e.g. Education; Child Protection; Water Sanitation and Hygiene) being vacant for periods ranging from seven months to over a year (see also observation *Vacancies and recruitment*, p6 below).

Due to the 51-day conflict in Gaza in July-August 2014, a substantial amount of additional technical expertise had been made available, including senior specialists and advisors from the Regional Office, Supply Division, and NYHQ. These provided support to and oversight of colleagues in the Gaza office. Overall, however, the challenges in recruitment affected the office's ability to provide sufficient oversight and technical support to the zone offices. The office recognized this, and stated that it was in the process of recruiting for vacant posts.

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

i. Review and clearly define the responsibilities, authorities and accountabilities of the zone offices, and establish mechanisms for assessing their performance.
ii. Clarify the reporting lines between sector staff in the zone offices and the heads of sections in the country office in the annual management plan or other accountability documents, as well as the corresponding responsibilities, authorities and accountabilities.
iii. Ensure that the zone offices have sufficient staff capacity for effective programme implementation by prioritizing recruitment of vacant positions.
iv. Establish a structured and systematic process and standards for effective oversight and technical support to zone offices.

Staff responsible for taking action: Special Representative; Deputy Representative; Chief of Operations; and Human Resource Specialist
Date by which action will be taken: March 2016

Agreed action 2 (medium priority): The Field Results Group (FRG) agrees to, in collaboration with the Division of Financial and Administrative Management (DFAM), the Division of Human Resources (DHR) and other divisions as needed:

i. Provide guidance to country offices on the management of zone offices, with particular focus on the responsibilities, accountabilities and reporting lines of zone office staff.
ii. Provide guidance on how country offices could effectively provide oversight and technical support in a structured and systematic manner.

Staff responsible for taking action: Chief, Implementation Modalities, FRG
Date by which action will be taken: September 2016

Vacancies and recruitment

Of the office's 81 posts, 15 (18 national and eight international) were vacant as of July 2015. Of these, 11 had been vacant for over six (and up to 10) months. Examples of posts that had remained vacant for over six months included Health and Nutrition Specialist (NO3), Child Protection Specialist (NO3) and Education Specialist (L4). Some posts, such as the section chief of Water, Sanitation and Hygiene (WASH) and the section chief for Education, were filled after being vacant for over a year. Vacant posts could put strain in the existing staff and affect achievement of results.

The office completed 18 recruitments between January 2014 and July 2015. It had a work process and standard time line (60 days) for completing recruitment of staff from advertisement to offer letter. This standard had been set by the office itself; the more usual standard in UNICEF is 90 days. The audit reviewed seven cases of recruitment processes that had been completed. In six of them, the recruitment process had taken over four (and up to six) months. Difficulties in getting suitable candidates was a major factor contributing to the delays in recruitment process. Some posts were advertised two to three times before being filled.

The audit also noted that while the office verified degrees for national staff, it did not do so for external candidates selected for IP posts. The office was not aware that it was supposed to do so.

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

i. In consultation with the regional office, develop a strategy and a risk mitigation action plan for high vacancies and delays in recruitment of staff.
ii. Review its processes and benchmarks, and monitor performance to identify and address bottlenecks, to ensure that the recruitment processes are completed within established timeline.
iii. Ask external candidates, once selected, to provide certified copies of certificates and verify the copies with originals presented by candidates when they join the office.

Staff responsible for taking action: Human Resource Specialist and Chief of Operations
Date by which action will be taken: December 2015

Enterprise Risk Management

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

The office had conducted a RCSA in 2010 and updated it in 2013 and in 2015. The RCSA had identified nine risk areas, identified risk drivers, and rated the risks for potential impact as well as likelihood. Of the nine risk areas, one had a rating of very high, two were rated as high risk and six as medium. The office had identified risk mitigation actions in both the 2013 and the 2015 updates of the RCSA. However, the office had not specifically developed action plans for those actions. There were thus no staff specifically assigned responsibilities for mitigating actions and no timelines for them, although follow-up of such actions was given as a priority in the AMPs. In general, there was no evidence of systematic monitoring and reporting on implementation of risk mitigating actions in either 2014 or 2015. The office was aware of this, and stated that it was drawing up an action plan for the risk mitigating actions, as well as assigning responsibilities and timeframes. It had also set better implementation of the ERM as one of the key management priorities in the AMP for 2015.

Agreed action 4 (medium priority): The office agrees to:

i. Assign staff responsibilities for the risk mitigation actions identified in the Risk and Control Self-Assessment (RCSA), along with specific indicators and targets, and timelines for completion, review and reporting of progress on actions.
ii. Ensure that progress on implementation of actions for mitigation of key risks is periodically reviewed by the country management team (CMT).

Staff responsible for taking action: I, Deputy Representative and Chief of Operations; ii, Special Representative
Date by which action will be taken: I, November 2015; and ii, December 2015

Governance area: Conclusion

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

2 Programme management

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

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

All the above areas were covered in this audit.

The audit found that controls were functioning well in several areas. The office had established effective processes to respond to the humanitarian needs of children during and after the Gaza crisis. The response was effectively planned and coordinated by the main office in Jerusalem, in close consultation with the Gaza field office, with guidance and oversight from the Regional Office. For six months, both offices were fully mobilized to assess needs, plan humanitarian interventions, procure supplies and deliver urgent support.

This was acknowledged through the award of a UNICEF Staff Team Awards for 2014 (by the Gaza Field Office team), the organization’s highest internal honor recognizing achievements by staff. During and after the 51-day War in Gaza in July/August 2014, the award recognized that all members of the Gaza Field Office demonstrated exceptional commitment, courage and perseverance in responding to the humanitarian needs of children and their families. This was despite working under intense pressure and with great personal sacrifice, and enabled UNICEF to provide immediate and continuous life-saving humanitarian relief, along with critical sectorial coordination and leadership.

The office had conducted an evidence-based analysis to identify the most vulnerable children and use the information to ensure equity in designing the country programme. It had held several consultation workshops with partners and stakeholders to analyse the causes of inequity, discrimination and disparities, with a focus on the most vulnerable groups.

The office had a structured and strategic approach to advocacy, including for humanitarian situations, and a well-defined process for undertaking advocacy with government and implementing partners. It also supported its advocacy themes with factual evidence.

There were adequate processes for ensuring that the country programme plan and data were correctly entered in VISION. For the three programmes sampled by the audit, the outcomes, outputs and activities outlined in rolling workplans signed with partners[1] were properly reflected in VISION. There was also adequate alignment between the information in the results matrix of the country programme action plan[2] and VISION.

There were adequate controls to ensure that the country office annual report complied with UNICEF guidelines. This was also the case for reporting on results in the Results Assessment Module (RAM). The audit reviewed RAM reporting for two sampled programmes (WASH[3] and Child Protection) for the year ended 2014 and found there was adequate reporting on results as well as progress against each indicator and target.

The office had drawn up a resource mobilization strategy in 2014 and regularly reviewed the funding status during CMT meetings as well as during mid-year and annual reviews. The office was aware of funding gaps and had taken steps to increase fundraising through proposals to, and meetings with, donors. The office also had effective processes for donor reporting. Out of 35 donor reports, 32 were issued on time from January 2014 to July 2015. Of the three remaining reports, two were late by less than five days. In a review of five sampled donor reports, the result statements checked by the audit were supported with sufficient appropriate evidence. Interviews with two donors confirmed that they were satisfied with the timeliness and quality of recent donor reports.

However, the audit also noted the following.

Results-based work planning

Workplans are expected to detail the expected outputs, indicators, targets, and baselines, the activities to be carried out, the responsible implementing institutions, timelines, and planned inputs from the partners and UNICEF. Workplans serve as the basis for programme disbursements to partners and are expected to be signed with key partners before the end of February of the year of implementation (as recommended by the Programme Policy and Procedures Manual). The office’s workplans were rolling workplans, and were prepared with partners for the period 2014 and 2015-2016.

Signature of workplans: The six workplans for 2014 were signed by the government partners and UNICEF between 7 April and 14 May in 2014, some time after the deadline of end of February. However, for 2015-2016, the six workplans were signed between 24 December 2014 to 28 January 2015, well within the expected timeline and enabling an earlier start to programme implementation.

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[1] UNICEF offices agree workplans with their implementing partners. 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.

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

[3] Water, Sanitation and Hygiene.

Development of workplans: The 2015-2016 workplans included six programmes. The audit reviewed three sampled workplans – for WASH (three outputs,[4] 35 activities); Child Protection (four outputs, 25 activities); and Social Protection and Inclusion (three outputs, 18 activities). The workplans for 2014 and for 2015-2016 had been developed in close cooperation with key line ministries and other partners. Partners interviewed in Gaza and Ramallah confirmed that the workplans were aligned with their needs and priorities.

The office used the results-based budgeting approach in developing the workplans and had a procedure for costing estimated planned resources. Further, the key programme outputs outlined in the workplans were linked to the outcomes included in the CPAP and UNDAF.[5] There was a clear logic to the way results were set out in the CPAP.

However, the audit review of the workplans found that the sampled programme outcome and outputs were not always specific and measurable. For instance, the words "improved", "increased", and "strengthened" are not conducive to measurement. Further, although the activities generally contributed to the achievement of stated output or target, those activities were not always clearly defined. For example, for the WASH programme, two activities, related to support for water tankering to schools in Gaza and the West Bank, did not describe the nature and extent of support to be provided.

There were reasonable numbers of activities per output for the Child Protection and Social Protection and Inclusion programmes with an average of 6.7 and six activities per output respectively. However, the WASH programme had an average of 11.7 activities per output, which the audit considered high. Two outputs had activities ranging from 12 to 18. This would reduce the office's focus on the tasks in hand.

The indicators were defined at the output level for the three sampled programmes. Baselines were adequate. The number of indicators per output varied from two to four for all outputs of WASH and Child Protection. For Social Protection and Inclusion, however, one output had only one indicator, and some activities had no indicators. The means of verification – that is, the source of information for the measurement or verification for indicators – were set for the WASH and Social Protection and Inclusion programmes but not for the Child Protection programme. The office explained that this was an oversight. However, the means of verification for this programme were defined in the CPAP.

Finally, the RR, OR, other and total budget were generally identified for each activity for the three sampled programmes. However, there was no budget for three activities of the Social Protection and Inclusion programme. For the WASH programme, there was not always a separate budget for each planned activity; in some cases, more than one would be grouped under the same budget. Each activity should be costed in order to establish the budget for each output.

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[4] UNICEF programmes plan for results on two levels, outcomes and outputs. An outcome 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 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.

[5] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and a Government, setting out the latter's chosen development path, and how the UN will assist.

The above weaknesses in workplans were due to insufficient oversight of the application of controls defined in the Programme Policy and Procedures Manual. They could lead to delays in programme implementation, and also made it harder for the office to monitor and measure progress.

Agreed action 5 (medium priority): The office agrees to increase oversight of the development of workplans, and develop guidance and provide refresher training to staff as necessary so as to ensure rolling workplans are established in accordance with the Programme Policy and Procedures Manual, being signed by February with specific and measurable expected results; clearly defined and budgeted activities; and focused activity per output.

Staff responsible for taking action: Deputy Representative; Monitoring and Evaluation Section; Special Representative; and Regional Office
Date by which action will be taken: December 2015

Harmonized Approach to Cash Transfers

Total cash transfers to implementing partners amounted to US$ 8.1 million in 2014, and US$ 4.4 million from January to end of June 2015. During the period January 2014-June 2015, the office reported that it had signed programme cooperation agreements (PCAs) with 35 NGOs for a total disbursement of US$ 8.7 million.

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on the 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, while maintaining sufficient assurance on the use of funds.

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. There should also be a macro-assessment of the country’s financial management system.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audit and special audits. There should also be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle.

HACT is also required for UNDP and UNFPA. Country offices are expected to cooperate with them where possible when implementing HACT, for example through joint assessments of partners that are common to more than one agency. There was a UN HACT Coordination Team and UN staff had been trained on HACT in May 2015. The UN’s Resident Coordinator had assigned leadership of HACT implementation in Palestine to UNICEF. The office had identified partners common to UNDP and UNFPA, and had conducted audits and micro-assessments of several of them in 2014-2015, and shared the reports with UNDP and UNFPA in June 2015. The office planned to conduct joint micro-assessments in 2015.

However, the audit noted the following.

Governance: The office had taken several steps to increase oversight over HACT implementation. It had designated two HACT focal points and established an internal HACT Committee. The terms of reference of the committee, updated in May 2015, were appropriate. No progress report as such was submitted to the CMT, but the office discussed HACT regularly during the CMT and programme coordination meetings.

The HACT Committee met only once in 2014 (it was supposed to meet quarterly). However, it had met twice in 2015 as of 30 July. The audit reviewed minutes of meetings of 5 May 2015 and found that action points were specific and relevant but lacked assigned responsibilities and timelines. The office reported that agenda of meetings were shared through emails and Outlook invitations, and that meetings reviewed action points from earlier ones.

Macro-assessment: As approved by the Regional Office, the office did not conduct a macro-assessment of the financial management capacity of the Palestinian government, relying instead on an existing assessment done by the World Bank together with UNDP and other parties. The report, issued in July 2013, included an assessment of the functioning of the Supreme Audit and Administrative Control Bureau (SAACB) of the Palestinian government. However, the office had not decided whether the SAACB would undertake audits of government implementing partners. It had also not decided how it would use the results of the macro-assessment to address specific risks and capacity gaps in the public financial management system.

Micro-assessments: The office reported in the HACT status report in inSight[6] that it had planned micro-assessments of 16 partners in 2014 and had completed all of them – although, because of the 2014 crisis, they were actually done in the first half of 2015. As of the end of June 2015, the office had completed two out of the 25 micro-assessments planned to be carried out in 2015. The office used the results of the micro-assessments to establish the risk rating, and type of cash transfer, for each partner.

Assurance plan: The HACT assurance plans for 2014 and 2015 were approved in October 2014 and in the first quarter of 2015 respectively. There were some delays in the implementation of the 2014 HACT assurance plan because of the war in Gaza in July-August 2014 and the subsequent emergency response, which mobilized the whole office until the end of the year. Given this situation, the 2014 HACT assurance plan was not fully risk-based and did not cover the whole year. However, the office had begun micro-assessments and audits by mid-October 2014, with spot checks starting the previous month. The HACT status report in inSight as of the end of December 2014 showed that 11 out of 14 planned spot checks had been completed. All 18 of the 2014 planned audits were completed (although, because of the crisis, they were done in the first half of 2015).

The office's 2015 assurance plan was risk-based. The frequency of spot checks and programmatic visits was clearly linked to risk profiles of partners, and to the total cash transfers a partner was expected to receive. The office had planned to conduct 60 spot checks

[6] inSight (sic) is the performance component in UNICEF's management system, VISION (Virtual Integrated System of Information). inSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

in the second half of the year, but had in fact completed 36 of the 86 planned programmatic visits as of the end of June 2015, leaving only 50 to be done.

Capacity building of partners and staff: Though the office did not prepare a financial management capacity development plan for each partner, it reported that all designated staff of implementing partners had been trained on HACT as well as all country office's staff in 2015. Further, 23 out of the office's 54 staff completed the HACT on-line training course as of end of 24 July 2015. Government partners and NGOs met by the audit confirmed that they had received the HACT guidelines.

The office told the audit of challenges it faced with one specific local NGO. As requested by the office, the audit visited it to review the adequacy of assurance activities. On 13 July 2015, the office had finalized a note for the record that documented the 13-year partnership, and summarized the history of financial mismanagement and concerns as first identified in 2010. The office informed audit that the partner was the only one able to implement the programme in question. However, it also noted recurrent control weaknesses. Though the office had increased assurance activities over the years, they were insufficient, and the recommendations that were made were not sustained by the partner. In June 2015, given the history of significant issues and concerns identified since 2010, the office agreed on additional risk management measures with the partner.

As of the time of the audit, the office was considering conducting a special audit (as expected under UNICEF HACT procedure). In light of the risk of the partner, the audit thought the office should also consider other types of cash transfer, such as reimbursement, or change the frequency of instalments of direct cash transfer to monthly so as to minimize the risk of loss or misuse of funds. It would also be wise to: increase the extent of verification of supporting documentation of expenditures; request the partner to submit monthly progress reports on implementation of recommendations stemming from assurance activities; request and review audited annual financial statements; and assign responsibilities and set specific timelines for strengthening the capacity of the partner.

Spot checks: The audit reviewed a sample of five out of 14 spot checks conducted from January 2014 to June 2015. The spot-check reports were properly approved by the implementing partners, the spot-check team members, the Chief of programme section, and the Chief of Operations. However, the recommendations stemming from the sampled spot checks did not address the root causes of problems. For instance, in one case, the spot-check team member noted that the invoices were not stamped "paid" and recommended that they should be, but without addressing the core reasons as to why they had not been (such as lack of established policy and assigned responsibilities, and weak oversight by the partner). This was important so as to ensure sustainability of the control. Also, although the spot-check reports included management comments and action plans, these did not always have target dates and assigned responsibilities.

Follow-up on recommendations: The spot-check template requires follow-up of any recommendations from micro-assessments and/or prior spot checks. This had been done in the sample checked by audit. For programme visits, follow-up was done by each programme section but not systematically recorded at either section or office level (see also observation *Programme monitoring*, p17 below).

Recent actions by management: The above shortcomings were mainly due to other competing priorities, mainly the humanitarian crisis in Gaza that occurred in July-August 2014, which required the mobilization of all staff over the following months. The office was aware of the problems noted above and had included HACT implementation as a key management priority in its 2015 annual management plan. It had also started to strengthen assurance activities. For instance, the office reported that almost all active implementing partners and all staff with HACT-related responsibilities have been trained on HACT. At the time of the audit, the office was in the process of hiring a consultant to support HACT implementation, including follow-up of recommendations from micro-assessments and audits, together with the implementing partners.

Agreed action 6 (medium priority): The office agrees to strengthen oversight of the application of UNICEF expected controls as defined in the HACT policy and procedures, taking the following specific steps:

i. In consultation with the UN Resident Coordinator and the Country Management Team, decide:
   a) whether the Supreme Audit and Administrative Control Bureau (SAACB) of the Palestinian government will undertake audit of government implementing partners during the two-year programme cycle; and,
   b) how to address specific risks and capacity gaps associated with the management of cash transfers through the public financial management system. The grounds for both decisions should be recorded.

ii. Ensure the HACT Committee meets quarterly to monitor HACT implementation, and regularly follows up implementation of action points stemming from their meetings.

iii. Regularly monitor implementation of critical and urgent recommendations stemming from micro-assessments, programmatic visits, spot-check reports and scheduled audits, and report on progress to the HACT Committee.

iv. Increase staff training on spot checks, with emphasis on how to review root causes of control weaknesses and draw up relevant recommendations to record them.

v. For the partner mentioned in the above assessment:
   a) conduct a special audit;
   b) consider alternative types of cash transfer, such as reimbursement, or provide a monthly direct cash transfer together with increased verification of supporting documentation of expenditures;
   c) ask the partner to submit monthly progress reports on implementation of recommendations stemming from assurance activities;
   d) request and review audited annual financial statements;
   e) clearly assign responsibilities and timelines for strengthening financial management capacity for any new programme cooperation agreements (PCAs) with the partner; and,
   f) ensure assurance activity, monitoring and reporting obligations are clearly defined in any new PCA.

vi. Ensure all staff with HACT-related responsibilities have completed the online HACT course.

Staff responsible for taking action: Deputy Special Representative; HACT focal persons (Programme and Operations); HACT consultant; and HR Specialist
Date by which action will be taken: March 2016

Programme cooperation agreement (PCA) review process

In line with UNICEF guidelines, the office had a PCA review committee (PCARC) for the period under audit (it replaced it with a partnership review committee, or PRC, in June 2015, in line with the new guidelines that took effect from 1 June 2015).[7] The purpose of a PCARC/PRC is to review proposals for partnerships with NGOs and make recommendations to the Representative accordingly.

From January 2014 to June 2015, the office had PCAs with 35 NGOs for a total disbursement of US$ 8.7 million. The audit reviewed a sample of 10 PCAs and noted that submissions to the PCARC were complete and included all PCA agreement documents. It took an average of 12 days from the date of submission to PCARC to the date of signing of the PCA (ranging from 1 day to 29 days). In fact, the old guidelines on PCAs (which were valid for most of the period under audit) set no timeline for this. The new guidelines, effective 1 June 2015, state that it should be done within 45 days.

All 10 sampled submissions complied with UN Security Council resolution 1267.[8] Amendments to PCAs checked by the audit had been reviewed and approved in accordance with UNICEF policy.

However, the audit also noted that in one case, there was no evidence that the PCA budget was reviewed and approved by the authorized individual from the Operations section. Further, the office did not use a list of up-to-date standard unit costs against which to compare with costs quoted in PCAs and ensure they were reasonable. In four cases, the performance of partners with previous PCAs was not reviewed prior to concluding new PCAs. Finally, four of the 10 PCAs sampled had values over US$ 1 million, meaning that the office should have informed the Regional Director before signing them; it had not done so (the new guidelines do not include this requirement). These weaknesses were mainly due to weak oversight of the application of controls set out in UNICEF policy.

The audit noted that the office had updated its standard operating procedures (SOPs) in May 2015 to define the workflow for the preparation of PCAs.

Agreed action 7 (medium priority): The office agrees to increase oversight of the partnership cooperation agreement (PCA) review process; and develop standard unit costs to assist review of the reasonableness of programme cooperation agreements (PCA) budget.

Staff responsible for taking action: Partnership Review Committee Secretary; Deputy Special Representative; and Chief of Operations
Date by which action will be taken: December 2015

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[7] The requirements for the period under audit were set out in the *Guidelines for Programme Cooperation Agreements and Small Scale Funding Agreements* (CF/EXD/2009-011). With effect from 1 April 2015 these guidelines have been superseded by UNICEF *Procedure For Country And Regional Office Transfer Of Resources To Civil Society Organizations* (FRG/PROCEDURE/2015/001), which introduces a number of changes (for example, SSFAs may now be used up to a threshold of US$ 50,000). However, the former guidelines were in force for most of the period under audit (January 2014-June 2015), and offices were not required to adopt the new guidelines until 1 June.
[8] Resolution 1267 concerns sanctions against terrorist organizations and its associates. Offices should check that agreements are not made with organizations listed as being so associated.

Programme monitoring

UNICEF offices should carry out regular field monitoring of programme implementation, in collaboration with implementing partners. Section 5.3 of the UNICEF Programme Policy and Procedure Manual (PPPM) states that managers should be open to modifying original plans during implementation, and that comparing progress against targets helps identify shortcomings before it is too late. Field monitoring is also an important assurance activity in the context of HACT. Offices should conduct mid-year and annual programme reviews jointly with Government and NGOs so as to review progress, identify constraints and lessons learned, and implement corrective measures.

Mid-year and annual reviews: The 2014 mid-year and annual reviews assessed progress against indicators and targets for each programme output, as well as challenges and lessons learned. However, the mid-year review was not done together with implementing partners, mainly because of the Gaza crisis in July-August 2014.

For the 2015 mid-year review, the Jerusalem office held bilateral consultation meetings with government and NGOs partners for each individual programme. In the Gaza office, the mid-year review was done with implementing partners for all programmes. The office also held a 2015 internal mid-year review workshop with all programme sections to review progress against the 2015 annual management plan, 2015-2016 rolling workplans, country programme action plan and integrated monitoring and evaluation plan. The mid-year review was comprehensive and identified key action points.

One government partner indicated that it would prefer to have plenary sessions with all key partners to review progress, identify constraints and lessons learned during the mid-year and annual reviews, instead of having individual consultation meetings.

Field monitoring: Staff vacancies reduced the office's capacity to undertake programme visits. For instance, in the Gaza office, three of the seven international posts were vacant as of 24 July 2015. Further, the posts of programme chiefs for all programmes in the Jerusalem office were filled by officer-in-charge during several months in 2014 and 2015, thereby reducing monitoring capacity in the West Bank and Gaza (see also observation *Vacancies and recruitment*, p6 above). Despite these constraints, the office reported that it completed 100 out of 120 planned programme visits in 2014, and 36 out of 86 as of the end of July 2015 in the context of HACT.

The audit reviewed the way in which the office planned and executed field-monitoring activities, and how it used the results. The following was noted.

Field-monitoring planning: None of the programme sections prepared a monthly or quarterly field-monitoring plan indicating purpose of visit, programme, staff name, partners and time. There was also no consolidated monitoring plan for the Jerusalem office, including Gaza, Hebron and Nablus zone offices. The use of a consolidated monitoring plan would have assisted coordination of field monitoring visits between programme sections and between the Jerusalem office and zone offices, as well as with partners and donors. At the time of the audit, a monitoring plan template had been drafted and was being discussed by the Monitoring and Evaluation Working Group.

OIAI field visits: The audit visited three projects related to WASH, child protection and education in Gaza and one WASH-related project in Hebron. Implementing partners interviewed by the audit confirmed that they had strong relationships with UNICEF and were satisfied with support it gave them. They also stated that they had been trained on HACT. The audit also witnessed distribution of water to beneficiaries in a remote area in Hebron. Two individuals, a beneficiary and the representative of the village council, confirmed that the programme increased access to quality drinkable water at a lower cost.

However, partners interviewed noted some delays in the receipt of supplies. For instance, in one case, the PCA was extended by 10 months, partly because of late delays due to controls imposed by the Government of Israel on the transfer of programme supplies into the Gaza strip. This constrained timely delivery of services to beneficiaries (see observation *Supply procurement*, p28 below).

Field-monitoring reports: Each programme section is expected to use the field-monitoring report template and related guidelines issued by the office in May 2012 for the planning, conduct and reporting of visits. Monthly monitoring visits were required for all partner agreements (NGOs and Ministries) regardless of the partners' risk profile.

The audit reviewed a sample of eight field-monitoring reports covering three programmes, in the Jerusalem office and Gaza zone office. Progress and constraints were generally well described. However, the sampled reports showed insufficient evidence that results had been reviewed against indicators reported by partners. The audit found that although the office's template covered activities and results, and end-user monitoring, it was not specific regarding the monitoring of the accuracy of results against the indicators and targets in the PCAs or workplans. This was mainly due to the lack of a specific requirement in UNICEF HACT guidance prior to July 2015 (as noted earlier, besides its programmatic importance, field-monitoring is an important assurance activity under HACT). As of the time of the audit, the office was updating its internal monitoring guidelines and templates to address this.

The audit also noted that four out of the eight sampled reports included a review of supplies (the other four concerned activities that did not involve large quantities of supplies). Though the template requires an assessment of supplies, none of those four reviewed whether supplies were delivered according to specifications, or on their quantity and quality. However, two of the four did comment on the timeliness of delivery of supplies.

Four of the eight sampled reports included follow-up action points that were not sufficiently specific and measurable. Further, in five cases the responsibilities for following up on the action points were not assigned; and in seven cases no deadlines were set. Chiefs of programme sections confirmed that follow-up and action points were discussed at section meetings, shared with other programme and operations staff through email, and recorded on the office's shared drive. However, there was no system to monitor and record implementation of critical follow-up actions stemming from field monitoring.

The office had not analysed field visits by purpose, programme, location, staff and partners to identify lessons learned, constraints and areas for improvement.

Recent actions by management: In 2014 and 2015, the office had taken steps to increase and refocus its monitoring capacity. For instance, two staff with monitoring and evaluation responsibilities were being recruited for the Gaza and Hebron zone offices at the time of the audit. Further, the office had recently re-launched the Monitoring and Evaluation Working Group to review its monitoring approach, processes and tools (the group had initially met in July 2014 but then did not meet again until May 2015 due to the emergency in Gaza).

The office had changed its monitoring approach to ensure field monitoring was linked to the risk profile of partners in the context of HACT. It had also started rolling out MoRES,[9] and using the humanitarian performance monitoring (HPM) system[10] to monitor and report on HPM indicators. It was taking steps to improve quality of monitoring and frequency of reporting against performance indicators. At the time of the audit, the office was considering establishing an online monitoring and reporting system to cover both humanitarian and development indicators.

Agreed action 8 (medium priority): The office agrees to increase oversight of field monitoring and the application of the relevant UNICEF policies and procedures. It also agrees to take the following specific steps:

i. Ensure mid-year and annual reviews are conducted together with implementing partners.
ii. Develop field-monitoring plans for Jerusalem and zone offices to increase coordination of field visits (including joint visits) between programme sections, offices and partners.
iii. Complete the revision of the field-monitoring checklist and internal guidance as planned. In so doing, clarify the requirement to review progress, and the accuracy of partners' progress reports, against established indicators and targets. This should be done using agreed means of verification in line with the latest procedures for the Harmonized Approach to Cash Transfers.
iv. Train staff on the revised guidance and field-monitoring checklist, with particular emphasis on the need to: review quality and timeliness of programme supplies; and establish specific follow-up action points with assigned responsibilities and timelines.
v. Analyse field visits by purpose, programme, location, staff and partners to identify lessons learned, constraints and areas for improvement during the annual management review.

Staff responsible for taking action: Deputy Special Representative; Chief Social Policy; Programme and Planning Specialist; and Monitoring and Evaluation Specialists
Date by which action will be taken: i, ii and v, December 2015; ii and iii are reported by the office as having already been implemented

Management of grants

On 27 January 2015, UNICEF signed a donor agreement for US$ 10,959,300 to provide support to affected children and families in Gaza through improved access to essential WASH services. The donor conditions are extremely strict due to the donor's policies in relation to activities in Gaza.

UNICEF is responsible for overall supervision, oversight and quality assurance, and is accountable to the donor and beneficiaries for financial implementation and the achievement of project results. The grant covered the period from 28 January 2015 to an estimated completion date of 28 October 2016. The grant was to be used for rehabilitation and

[9] MoRES is the Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged. It highlights the fact that there are critical conditions or determinants which either constrain or enable the achievement of results for particular groups of children.
[10] HPM is a methodology for gathering information on the performance of humanitarian interventions quickly, in order to monitor performance in crisis situations.

upgrading of damaged water networks and wastewater networks and a number of related activities, including improved water storage and sanitation facilities and hygiene practices at the household level.

The audit met the donor, who expressed satisfaction with its working relationship and cooperation with UNICEF. The donor confirmed that UNICEF responded quickly to their needs and queries. The office had established good governance mechanisms to manage the grant and oversee implementation. In total, seven UNICEF staff were assigned to the project. The office assigned responsibilities for the overall management of the grant to the Chief of WASH in Jerusalem with support from a WASH specialist and a programme assistant based in Gaza.

The office had held eight coordination meetings with the donor as of 28 July, and the minutes showed specific action points with assignment responsibilities and timelines. A steering committee had been established, composed of representatives of UNICEF, donor and key government partners; this committee was responsible for project preparation and project guidance, monitoring and decision-making. The committee was expected to meet quarterly. The first meeting was held on 10 June to review programme activities and coordination mechanisms.

The audit noted the following.

Progress: As of 28 July 2015, the office had committed funds for about US$ 2.4 million, and had spent US$ 59,975. Progress so far included design and preparation of bills of quantities for several activities related to the rehabilitation and upgrading of water and wastewater networks; these had been done immediately following approval of the implementation plan. Other activities, such as the tendering for the procurement and distribution of hygiene kits were expected to start in July. However, as of 29 July 2015, the office had not awarded contracts for rehabilitation and reconstruction activities; and had not signed purchased orders for the procurement of hygiene kits. These activities were due to be completed by the end of July and August respectively.

The office told the audit that it expected contracts would be awarded by the end of August. This was a month later than expected. Regarding the hygiene kits, the vetting of the suppliers by the donor was being prepared as of the end of July. The office said that there was a three-month "Inception Phase" stipulated in the agreement when no activity was to be implemented. Instead, time was to have been spent on planning and preparation by UNICEF and the donor to gain a better understanding of the project's expected work processes and requirements, especially with the donor's vetting process. This meant some uncertainty in timelines.

When the audit met the donor, the latter confirmed that the project was about one month behind schedule. The vetting of grantees and contractors, as requested in the donor agreement, might have taken more time than expected, thereby contributing to the delay. The donor said that UNICEF staff assigned to the project had received training on the vetting procedures.

Compliance with donor conditions: UNICEF is expected to submit quarterly performance reports 30 working days after the end of each calendar quarter. The donor confirmed that it received the first quarterly report on time, on 30 April, and that it met donor requirements. The second progress report was submitted to the donor on time on 31 July 2015 as scheduled.

The office was also expected to prepare a performance monitoring plan to track and document progress towards expected results; this plan was to be ready at the same time as the implementation plan, i.e. by 30 April 2015. The first quarterly report, on 30 April, had confirmed that UNICEF was finalizing the performance monitoring plan. The third revision was sent to the donor on 16 July. As of 29 July, the plan had not been finally approved by the donor. The office told the audit that UNICEF and the donor had been working closely to ensure relevant indicators were aligned to the implementation plan. The office also said it had tried to ensure compliance with the donor's vetting procedures without compromising efficient project implementation.

Further, UNICEF was expected to submit an initial GEO-MIS (geographic management information system) report within 30 days from approval of the implementation plan with follow-on reports on a quarterly basis. The GEO-MIS report had not been completed as of 29 July 2015. The office informed the audit that the GEO-MIS report would be prepared as soon as implementation and construction started (and that this was as agreed in the minutes of the coordination meetings with the donor), and once the performance and monitoring plan had been approved by the donor.

The office had no checklist for monitoring and reporting on compliance with the critical donor conditions and timelines defined in the donor agreement. This would help identify red flags and would also assist preparation for coordination and steering committee meetings with key partners and the donor. The office said it was a top priority and it was working on it at the time of the audit.

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

i. Give priority to finalization of the performance monitoring plan and the geographic management information system (GEO-MIS) report.
ii. Draw up an oversight checklist to assist monitoring of compliance with the conditions and timelines defined in the donor agreement, implementation plan and performance monitoring plan; and discuss and report any major deviations during coordination and steering committee meetings to ensure timely corrective action.

Staff responsible for taking action: WASH Head of Section; Emergency WASH Specialist (Gaza); Programme and Planning Specialist; and Monitoring & Evaluation Specialist
Date by which action will be taken: The office reports the actions as having been implemented

Programme evaluation

UNICEF country offices establish integrated monitoring and evaluation plans (IMEPs) for the country programme. The purpose and shape of the IMEP are set out in the UNICEF's Programme, Policy and Procedure Manual. They are essentially calendars of the major research, monitoring and evaluation activities, and should be designed to focus on the most critical information needs of decision-makers.

The IMEP should define the planned activities, assign responsibilities for them, and give estimated budgets and timelines. Plans should be realistic and the necessary resources should be provided. They should cover all major aspects of monitoring and evaluation, including studies, surveys, research, assessment and capacity building, as well as formal evaluations. There should also be adequate procedures for follow-up of recommendations stemming from the evaluation activities.

Offices normally prepare an IMEP for the whole country programme, plus annual ones that reflect the latest realities and adjustments. The office had prepared an annual IMEP for 2014, and a two-year IMEP for the 2015-2016 country programme. The 2014 IMEP included 20 planned IMEP activities, including three programme evaluations. The office reported that 71 percent had been completed as of the end of December 2014. However, two of the three planned evaluations had been cancelled due to the Gaza crisis.

The 2015-2016 IMEP was more focused, with 11 planned activities, including one planned programme evaluation. Three further evaluations that were under discussion at the time of the audit in July 2015. The office provided management responses and followed up on implementation of recommendations from recent evaluations. It monitored the status of implementation of IMEP twice a year.

Areas of high programme expenditure should be should be evaluated, as should responses to major humanitarian emergencies, and each programme outcome result component when expenditure has reached US$ 10 million. However, the office had omitted some significant programme components in 2015-2016; for example the current IMEP did not include planned evaluations of any programme interventions in Gaza, which had accounted for a significant part of the programme budget.

Moreover the resources devoted to the IMEPs were limited; the estimated budget for the sole planned evaluation for the 2015-2016 IMEP amounted to US$ 166,200, an average of US$ 83,100 per year (although this was before the addition of the three further evaluations that were under discussion). For the three evaluations originally planned in 2014, the budget had been US$ 90,000. This was only 0.2 percent of total annual programme expenditures for the year. For the period January-May 2015, it had been 0.3 percent (compared to 0.6 percent in UNICEF globally). This was insufficient in both years, given the size of the country programme.

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

i. Review the 2015-2016 IMEP and ensure major programme components with planned expenditures over US$ 10 million are scheduled to be evaluated during a programme cycle.
ii. Ensure funds allocated to programme evaluations are sufficient to assess the relevance, efficiency, effectiveness and sustainability of key programme interventions.

Staff responsible for taking action: Deputy Special Representative; Chief Social Policy; and Monitoring and Evaluation Specialists.
Date by which action will be taken: The office reports the actions as having been implemented

Programme management: Conclusion

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

3 Operations support

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

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE) as well as management of records. 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 the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had effective monitoring mechanisms that ensured timely liquidation of direct cash transfers (DCTs). As of 27 July 2015, no DCTs had been outstanding for over nine months; those over six months amounted to US$ 119,000, or 4 percent of the total outstanding (which was US$ 3.2 million).

In all cases reviewed, transactions were correctly coded against appropriate general ledger accounting codes and, for cash transfers, the information on the results of micro-assessment of partners had been entered into VISION. The office prepared bank reconciliations within the deadlines established by the Division of Financial and Administrative Management (DFAM) and cleared reconciling items promptly.

The office prepared cash forecasts and uploaded them into the bank optimization portal of the UNICEF intranet on a monthly basis. The audit review found that the amounts for replenishment of bank accounts and monthly disbursements were in line with the cash forecast amounts, with no significant variances.

However, the audit also noted the following.

Financial processing and reporting

The audit reviewed management of financial transactions and noted the following.

Delayed payments: The audit review noted delays in making payments to partners from the cash-on-hand account in Gaza. As of 23 July 2015, there were outstanding payments (including training and transportation payments to government staff) that had been pending since May 2015. The audit also noted payments made in July 2015 for allowances and expenses overdue for over six months. This exposed UNICEF to reputational risks. The delays arose in part from delays in replenishing the cash-on-hand account from the country office in Jerusalem.

Supporting documents: UNICEF Financial and Administrative Policy 5 (Supplement 1) requires payments to be made against an original invoice in order to prevent duplicate payments; they should not be made against vendor statements or other types of documents. However, in four of the seven institutional contracts reviewed, the original invoices were not attached to the payment documents.

Accounts Payable: A review of Accounts Payable open items (report generated on 24 July 2015) found long-outstanding open items aged more than three months up to over two years old. These include one open line item posted in 2013 with an amount of US$ 19,181; 42 open line items posted in 2014 with a net amount of US$ 32,232; and 21 open line items posted in year 2015 (between 1 January 2015 and 24 April 2015) with a net amount of US$ 9,016. The open items may represent incomplete transactions or errors and may block funds that might otherwise be used for other purposes. Long-standing open items may also lead to duplicate payments.

Goods Receipt/Invoice Receipt (GR/IR): There were open items that had not been cleared for a period ranging from one to nine months. These included one open line item posted in October 2014 with a total amount equivalent to about US$ 3,000, and six open line items posted during the period from January 2015 to June 2015 with a total amount of about US$ 4,200. Un-cleared GR/IR items may represent differences between quantities received and paid for, or services/goods received but not paid for, or errors that have not been corrected.

Open trip commitments: There were outstanding commitments that had not yet been processed for payment; they were from about a month to over two years old. The open items may represent incomplete transactions or errors and may block funds that might otherwise be used for other purposes. The long-standing open items may also lead to duplicate payments.

Recovery of Value Added Tax (VAT): VAT receivables were reviewed and claims submitted promptly to UNDP for recovery from the responsible tax authority. However, there were long-outstanding VAT receivables that had been submitted but not yet recovered. As of 24 July 2015 the VAT ledger showed a balance of US$ 45,916, of which items totalling USS 18,916 had been posted in 2014. It was explained that, starting in 2015, the tax authority delayed refunds despite repeated follow-up from UNDP.

Periodic closure of accounts: In nine out of 20 year-end account closure activities, the office missed the DFAM deadlines, with delays ranging from two to 81 days. This could lead to delays in the preparation of financial statements at headquarters.

Agreed action 11 (medium priority): The office agrees to strengthen oversight over the financial management and reporting, and to take the following specific steps, assigning responsibility, and providing training, to staff as necessary:

i. Ensure that cash-on-hand accounts are replenished on time and that partners and vendors are paid promptly.
ii. Ensure that payments are adequately supported with original invoices from institutional contractors.

iii. Ensure that accounts payable, goods receipt/invoice receipts, and open trip commitments are regularly reviewed to identify errors and are cleared promptly.
iv. Through UNDP, follow up with the relevant revenue authority to identify and address causes for delays in getting value added tax (VAT) refunds from the government.
v. Ensure that periodic closures of accounts are processed, and required reports and annexes are submitted, in line with the accounts closure schedule and instructions given by the Division of Finance and Administrative Management (DFAM).

Staff responsible for taking action: Chief of Operations and Administrative and Finance Specialist
Date by which action will be taken: iii, iv and v, November 2015; for i and ii, the office reports the actions as having already been implemented

Travel management

In two out of 10 cases reviewed, travel requests had been made very close (one to three days) before the travel start date. This can increase ticket costs. In one of these cases, time constraints meant that a flight ticket was purchased directly by the traveller (without three quotations). The audit noted that the office did not include timeline for submission of travel requests before travel date in the work process for travel.

The audit also noted that in five out of the 10 cases reviewed, security clearance had not been attached to the travel documents. The office's travel work process did not include a control step to check that clearance had been obtained. The office said that there had been a failure to file security clearance along with travel documents, and that no travel to places like Gaza could happen without security clearance.

Also, as of 27 July 2015, the office had 53 travel authorizations open for over 15 days after completion of travel, of which 32 were open for over 60 days. The office stated that this had been reduced to 38 and 25 respectively as of 31 July 2015.

Agreed action 12 (medium priority): The audit agrees to strengthen oversight of travel management and to take the following specific steps:

i. Review the work processes for travel to ensure that there is a timeline for key steps in the travel process, and a requirement for security clearance to be submitted to the Operations section (Admin) before approval of travel and processing of travel entitlements.
ii. Ensure that staff members complete trip reports within two weeks of completion of travel and that there is timely closure of trips in VISION.

Staff responsible for taking action: Chief of Operations; and Administrative and Finance Specialist
Date by which action will be taken: The office reports the actions as having been implemented

Cash transfers to partners

UNICEF has procedures and controls that offices should follow to ensure that cash transfers made to partners for implementation of programme activities are disbursed, spent and accounted for in reasonable time. This includes obtaining reasonable assurance that cash transfers have been used as intended. Field monitoring, programmatic visits and assurance activities under HACT serve this purpose, but offices should also ensure that liquidation of cash transfers is done correctly and with any supporting documentation required. The audit review noted the following.

Certification of cash transfers: For processing of direct cash transfers (DCTs), the UNICEF Financial and Administrative Policy on cash disbursements requires programme officers to certify FACE forms[11] following a thorough review of the document. However, in nine of the 10 cases reviewed this had not been done.

Partners' designated officials: The office should have had a list of partners' designated signatories for FACE forms, with their specimen signatures, so as to be able to confirm validity of requests. It did not keep such a list, so FACE forms were processed without making sure that the requests had been submitted by the appropriate official of the partner.

Direct payments: In some cases a UNICEF office can pay a supplier directly for goods or services needed by a partner for programme implementation. According to the relevant UNICEF guidelines,[12] direct payment requests should be processed against FACE forms submitted from partners. It also requires that these be submitted in advance, and that the partner receive UNICEF authorization prior to entering into obligations with third parties and before start of activities. However, in three of the 10 cases reviewed, no FACE form was submitted; further, in five of the 10 cases, the office made direct payments without prior UNICEF approval having been given for the activity or purchase. The office stated that some payments processed as direct payments were in fact direct agency implementation, which does not require FACE forms prior to implementation of activities. It was taking action to ensure that the distinction was clearly understood by staff.

Payments close to expiry of grants: Payment of DCTs and implementation of activities are expected be completed before the expiry of grants. The audit review noted that the office at times processed DCT payments close to expiry of grants, resulting into implementation of activities after grant expiry dates. A total of 30 out of 211 DCT payments were processed against grants 29 days or less before grant expiry (in one case, only a day before).

Liquidation of cash transfers: For liquidation of DCTs, implementing partners should provide activity implementation reports along with the reported expenditures on the FACE form. The receiving officers then confirm that the implementing partners have spent the funds for intended purposes. However, these reports were not attached to the liquidation documents in any of the 10 cases reviewed. Also, in nine of the 10 cases the programme officers (receiving officers) did not physically sign the FACE forms as required to confirm that the partners had used the funds for the intended purposes.

Attachment of FACE Forms in VISION: The scanned copy of the certified FACE form should be attached on the Funds Commitments (FCs) against which a FACE payment request is created, and when creating the 'reported utilization' type liquidation document. However, the office had not done this in any of the 10 cases reviewed.

Agreed action 13 (medium priority): The office agrees to strengthen oversight of cash

[11] 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.

[12] Financial and Administrative Policy 5 (*Cash Disbursement*).

transfers to partners, and to take the following specific steps:

i. Ensure partners' requests for cash transfers are certified by authorized staff members.
ii. Ask implementing partners to provide a list and specimen signatures of designated staff members who may sign requests for cash transfers on behalf of the partner concerned.
iii. Ensure partners submit Funding Authorization Certificate of Expenditure (FACE) forms for direct payments and that UNICEF authorization for direct payments is obtained before the start of the activities and before any commitment to a third party.
iv. Make direct cash transfers in time for implementation of programme activities before expiry of grants.
v. Secure activity reports from partners to support liquidation of cash transfers, and ensure that designated UNICEF staff members (receiving officers) sign FACE forms to confirm that funds have been spent for the intended purposes.
vi. Attach approved FACE forms against funds commitments in VISION as required.

Staff responsible for taking action: Chief of Operations; Operations Manager (Gaza); Administrative and Finance Specialist; Section Chiefs; and Special Representative.
Date by which action will be taken: December 2015

Contracts for services

The office had issued a total of 145 contracts for services (56 to consultants and 89 to contractors), with a total cost of US$ 15.2 million during the period from January 2014 to July 2015. The audit noted the following regarding management of contracts for services.

CRC review: The office did not consistently ensure that the proposals for individual contracts were submitted to Contracts Review Committee (CRC) if they exceeded US$ 40,000 (which was the office's threshold for CRC submission). Of the five cases reviewed, one of those that exceeded the threshold was not submitted to the CRC and a second was submitted four months after issue of the contract. The office stated that these cases were oversights.

Issue and signature of contracts: The office sometimes issued contracts after the activity start dates. The audit noted 56 contracts with a value over US$ 2,500 in which this had been the case (16 consultants and 39 institutional contractors). They had been issued between one and 183 days after the contract validity start dates. The office said that in some cases the activities had started on the basis of manual job orders (outside VISION) or long-term agreements, before issue of the purchase orders in VISION. The audit also reviewed the date of signature of 14 contracts and found that only six had been signed before the start date of contracts. The office stated that even though some contracts were not signed before their start date, the consultants and contractors did not start work until they were. The audit also noted that in six out of seven individual contracts reviewed, the reference checks had not been carried out before signature of contracts (UNICEF procedure requires this).

Performance evaluation: There should be an interim evaluation of performance of individual consultants upon reaching six months, but in four out of seven cases reviewed this had not been done. It was also noted that payments were being processed for those consultants although this should not be done until interim evaluations have been completed.

Health statements and insurance for consultants: In two of the seven cases reviewed, the health statements made by consultants were not on file, and in a further two cases the statements had not been signed by the supervisors. In addition, in four of the seven cases reviewed, the medical/health insurance that covers medical evacuation was not in the consultants' HR files.

Services after expiry: In seven of 14 cases reviewed, services (as recorded in VISION) were performed after the end of the validity period of the contracts (56 days after, in one case), indicating weak monitoring for timely implementation of contracts. This could lead to delays in achievement of the objectives of the activities.

Agreed action 14 (high priority): The office agrees to strengthen its oversight of the application of expected controls over contracts for services, and to take the following specific steps:

i. Submit proposed contracts for review by the Contracts Review Committee before issue and signature, if they exceed the established threshold for such review.
ii. Review the need for continued manual issue of job orders, and ensure that the contracts are issued and signed by both parties before start of the validity date.
iii. Carry out reference checks for individual consultants before award of contracts.
iv. Complete interim and final performance evaluations of consultants as required.
v. Obtain, and keep on file, health statements for individual consultants and medical/health insurance that includes medical evacuation.
vi. Receive services, and record them in VISION, within the timeframe in the contracts, ascertaining the reasons for any delays and taking appropriate action according to the contract terms and conditions.

Staff responsible for taking action: HR Specialist; Supply Manager; Section Chiefs; Chief of Operations; and HR Specialist
Date by which action will be taken: January 2016

Supply procurement

Supplies needed for programmes must be procured and delivered on time if implementation is to take place on schedule. This is especially important for emergency response. The office had a standard operating procedure (SOP) and work process for the procurement of goods and services and for pre-delivery inspection. Total procurement of supplies during the period from January 2014 to July 2015 amounted to US$ 7.6 million.

The audit noted the following.

Supply planning: There were significant differences between the office's supply plans and the actual amount of supplies procured. In 2014, the total amount procured was US$ 7.6 million against planned procurement of US$ 3.1 million. The gap was particularly noticeable for certain sections. Thus total procurement by the Basic Education and Child Protection sections in 2014 was 443 percent and 464 percent respectively of the planned amounts. For 2015, in contrast, the total actual procurement[13] as of 22 July for the whole office was US$ 805,000, or nine percent of the annual planned amount (US$ 8.9 million). Open supply requisitions without purchase orders as of 22 July 2015 amounted to US$ 3.7 million, while individual sections' actual procurement (purchase orders) ranged from one percent to 24 percent of the

[13] As defined by purchase orders issued.

planned amounts.

The emergency response in Gaza in 2014 would obviously account for much of the difference during that year. Also, some supplies for Education had not been procured because the construction of schools (by another UN agency) had not started as of July 2015. The office also said that procurement of hygiene kits (worth US$ 1.3 million) had not yet started due to lengthy vetting processes required by a key donor funding the project. The variations were therefore due in large part to factors beyond the office's control. However, vacancies in key posts, including chiefs of sections, also contributed. The level of vacancies also meant that as of July 2015, the office did not have staff dedicated to procurement of supplies.

Delivery of supplies: The audit noted that suppliers sometimes delivered late for local and direct order procurement. In 24 of the 30 purchase order items sampled for review of delivery of supplies, delivery was one to seven months after the purchase order delivery date. This delayed implementation of programme activities; during an audit field visit to Gaza, one partner stated that it received the supplies when the activity implementation time was over.

Both UNICEF itself and its suppliers experienced difficulties in getting supplies into the country, and this contributed to the delays. However, the audit also noted that the office did not establish realistic Target Arrival Dates (TADs) at the time the sales orders were being issued. In 24 of 30 sampled purchase orders issued by the office in 2014 and 2015, the audit noted a difference of one month to five months between TADs established in the sales orders and the delivery dates in the purchase orders. Unrealistic delivery dates could lead to unrealistic purchase order delivery dates and delays in delivery of supplies. The staff members responsible for raising supply requisitions had not been adequately trained on fixing realistic TADs for supplies when creating sales orders.

Agreed action 15 (medium priority): The office agrees to review and strengthen its oversight of the application of expected controls over supply procurement, and to take the following specific steps:

i. Ensure that the implementation of the procurement plan is regularly monitored, and constraints and variations between the plan and actual procurement are promptly identified and addressed.
ii. Ensure that delivery of supplies is monitored, and that bottlenecks are identified and addressed to ensure delivery according to purchase order delivery dates.
iii. Provide guidance/instructions to responsible staff members to ensure that the sales orders are raised with realistic Target Arrival Dates (TADs).

Staff responsible for taking action: Supply Manager; Supply and Logistics Officers; and Section Chiefs
Date by which action will be taken: February 2016

Storage and recording of supplies

The office had two warehouses – one in Ashdod, managed by a third party, and another managed by UNICEF itself in rented premises in Gaza. The warehouse in Ashdod was meant to be a transit warehouse for Gaza and for storing programme supplies for the West Bank. However, due to insufficient storage space in the warehouse in Gaza, supplies intended for distribution there had been stored in Ashdod. The audit noted the following.

Storage conditions: The audit visited the warehouses and noted that no temperature devices had been installed in either Ashdod or Gaza. In addition, all three fire extinguishers in the warehouse in Gaza had been expired for four months (since 4 April 2015).

The warehouse in Ashdod had medical supplies worth about US$ 130,000. They had been in the warehouse for about two months (since 20 May 2015). The manufacturer's recommended storage temperature for some of these drugs (e.g. metronidazole, metoclopramide, and sulfamethoxazole/trimethoprim) was between 20 to 25 deg C, but they were in a storage room without air conditioning at a time of the year when there is a risk that temperatures may be higher. The audit did not confirm the actual temperature at the time of the visit as there was no temperature monitoring device in the warehouse. The office stated that the medical supplies were intended for direct delivery to partners, not as pre-positioned supplies, and said it would obtain suitable storage facilities if these supplies were to continue to remain in the warehouse.

Aging of inventory: The total value of supplies in both warehouses as of 15 July 2015 was US$ 1.1 million. Inventory worth US$ 249,000 had been in the warehouse for over six months; of this, US$ 136,000 were prepositioned emergency supplies and US$ 113,000 were regular programme supplies. The office target was that pre-positioned emergency supplies should not be in the warehouse for more than 18 months. However, pre-positioned supplies worth about US$ 101,000 had been in the warehouses for over a year, of which US$ 54,000-worth had been there for between 18 months and three years.

As of 14 July 2015, supplies worth US$ 478,000, or 43 percent of total supplies, in the warehouses were recorded in VISION as direct delivery (DDEL). DDEL refers to supplies meant to be delivered directly to the partners upon arrival; they would not normally be stored in the warehouse. All supplies with the intent DDEL had been in the warehouse for about two to seven months. The office said it subsequently distributed some of these supplies, reducing them to US$ 160,000 as of 31 July 2015 and US$ 37,000 as of 6 August 2015.

Record-keeping and reporting: According to the agreement for the warehouse facility in Ashdod, the warehouse operator was required to submit monthly stock reports. However, this was not consistently done – only two reports from 2014 and one from 2015 were found on file. Also, the company's record-keeping, as reported to UNICEF, did not contain purchase order references or descriptions that could be matched with inventory records in VISION. Instead, the inventory report contained a broad and generic description of items such as "medical supplies", "carton", "educational", etc. that would not be easily traced to VISION records. This made inventory verification difficult. The company said that it would have no objection to presenting inventory records and reports with the content and format that UNICEF required.

Agreed action 16 (medium priority): The office agrees to review and strengthen its oversight over storage and recording of supplies, and to take the following specific steps:

i. Expedite the process for securing additional space for storage of supplies in Gaza, ensure that all warehouses have temperature monitoring devices, and replace the expired fire extinguishers with valid ones.
ii. Store medical supplies at temperatures specified by the manufacturers.
iii. Review the supplies in the warehouse and ensure that all programme supplies over six months and pre-positioned supplies older than 18 months are delivered to partners, and that the supplies with direct delivery (DDEL) intent are delivered to

intended users and not kept in the warehouse.

iv. Review the record-keeping and reporting system used by the warehouse operator in Ashdod, and take action to ensure that its inventory records contain adequate descriptions of supply items, including purchase order references that could be matched with office records in VISION. Also, ensure that the operator complies with the monthly reporting requirements specified in the contract.

Staff responsible for taking action: Supply Manager and Supply; Logistics Officers; Operations Manager (Gaza) and Programme Section Chiefs
Date by which action will be taken: March 2016

Information and communication technology (ICT)

UNICEF procedures require ICT controls including, among others, authorization for access to ICT systems and resources, maintaining an ICT operations manual, a Business Continuity Plan (BCP), and a disaster recovery plan. There is also a requirement for offices to have effective backup routines and to keep backup disks off-site. The audit noted the following.

Access: The audit noted cases where the access to ICT network and applications was granted to new users based on an e-mail communication between the HR and ICT units, without approval by chiefs of the respective sections and by the chief of operations. In addition, the steps required for granting ICT access to new users were not in the ICT work processes.

Backups: The office had a process that ensured backup of file, server and shared-drive data as required. The ICT followed a daily, weekly and monthly backup schedule, and periodically tested data restoration. However, the office kept only the monthly backup disk off-site. This meant the office might not be able to restore the latest backup data in case of a crisis.

Business Continuity Plan (BCP): The BCP was prepared in accordance with the standard guidelines and updated in July 2014. However, it contained an outdated organogram that showed an office structure and positions that no longer existed. In addition, the list of crisis management team members, crisis response team, and critical and essential staff contained individuals who had left the office.

ICT operations manual: Offices should produce their own ICT operations manual, in accordance with the UNICEF ICT guidelines provided in the ICT Electronic Handbook. As of July 2015, the office had not done this. A manual would provide guidance for new and existing ICT staff to ensure smooth ICT operations in all situations.

Agreed action 17 (medium priority): The office agrees to strengthen its oversight over the information and communication technology (ICT), and take the following specific steps:

i. Update the ICT work process and ensure that the granting of users' access to ICT resources is properly authorized.
ii. Review the process for keeping backup disks to ensure that as recent data as possible, from weekly or daily backup, is kept off-site.
iii. Update the Business Continuity Plan (BCP) to reflect the current organogram and an up-to-date list of critical staff members.
iv. Prepare an operations manual with all the relevant components.

Staff responsible for taking action: ICT Officer and Chief of Operations

Date by which action will be taken: December 2015

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the control processes over operations support, as defined above, 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, 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 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.