Internal Audit of the Federal Republic of Timor-Leste Country Office

December 2015

Office of Internal Audit
and Investigations (OIAI)
Report 2015/38

oiai

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Timor-Leste Country Office. The audit took place from 20 July to 17 September 2015, and covered governance, programme management, and operations support during the period from 1 January 2014 to 20 July 2015.

The 2015-2019 UNICEF country programme in Timor-Leste has four main components. They are *Child health and nutrition*; *Quality education*; *Child protection*; and *Participation and social inclusion*. There is also a cross-sectoral component.

With the restoration of stability and after two elections, the UN Security Council voted in late 2012 to end its 10-year peacekeeping mission in Timor-Leste by the end of the year. Meanwhile the Government of Timor-Leste launched a Strategic Development Plan (2011-2030) and a five-year development programme (2012-2017), which reflected the shift in national focus from security issues to long-term sustainable development. The 2015-2019 UN Development Framework (UNDAF) reflects this shift, and states that for the first time since the restoration of independence in 2002, the UN mandate will focus solely providing long-term support to national development priorities.

The UNICEF country programme has a total budget of US$ 60.65 million for the five-year period. Of this, US$ 5.65 million is regular resources (RR) and US$ 55 million is 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 such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without donor agreement.

The UNICEF country office is based in Dili, and has a total workforce of 54 approved posts (16 international posts, 17 national officers and 21 general service staff). There are no zone offices.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Five are being implemented as high priority—that is, they concern issues that require immediate management attention. These issues are as follows:

- With the restoration of stability in Timor-Leste, the country programme will, for the first time, focus solely providing long-term support to national development. However, the new development-focused programme had an Other Resources funding gap of 66 percent. The office has agreed to counter this by putting in place an advocacy strategy to influence support for children, as well as prioritize the fundraising activities for underfunded outcomes and, where possible, identify where programme activities could be converged for funding proposals.

- HACT was not implemented for the previous UNICEF country programme. In November 2014, the country office obtained approval to adopt a modified approach with respect to Government partners. However, at the time of the audit the country office had not properly implemented HACT with respect to NGOs. The office has agreed to implement HACT as approved in the modified approach.

- The office had undertaken construction projects in 2014 that had experienced numerous delays. The office has agreed to ensure that risk management is embedded at an operational level, so that any construction project is accepted only after a detailed planning risk assessment of available in-country capacity. The office also agreed to prepare a summary of lessons learned.
- The office has agreed to put in place a monitoring framework that consolidates and rationalizes the individual programme section monitoring plans, and ensures timely resolution of the findings from monitoring visits.
- The office has agreed to strengthen controls over procurement by maintaining a database of pre-qualified vendors, ensuring adequate segregation of duties in the procurement process, and competitive selection of vendors. It has also agreed to institute processes to monitor and report on the performance of vendors during the contract.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over Timor-Leste country office were generally established and functioning during the period under audit.

The country office, with support from the East Asia and Pacific Regional Office (EAPRO), and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI)   December 2015

Contents

Objectives

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit Observations

1   Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area 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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered.

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). This 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 office had updated its risk profile annually during the period under review, and had discussed it during the Annual Management Review meeting in December 2014.

When identifying risks, offices should consider their root causes. They should also identify the risk drivers, which are the factors or circumstances that could lead to the risk becoming

concrete, and draw up adequate measures to mitigate the causes of risk. The audit noted that not all the action plans in the RCSA addressed the identified risk drivers.

For example, one of the risks identified by the country office was the weak capacity of implementing partners and UNICEF staff to plan, implement, monitor and report on results. The related risk driver was identified as the high turnover of partner staff. The mitigating actions planned by the office were capacity-building for partners, Results-Based Management RBM/Programme Planning training for UNICEF and partners, and results reporting through the UNICEF Results Assessment Module. These did not address the risk driver, which was the partner staff turnover.

In another example the risk drivers noted by the office was a perceived conflict of interest during the contracting process and several issues with the quality and timely completion of UNICEF-funded school construction projects. The action plan was to insert a new clause in the bidding documents for new construction contracts, asking the contractors to specifically report any conflict of interest; however, this transferred the mitigating actions to third parties, which would not in itself effectively address the type of risk drivers identified.

The identification of relevant mitigating actions is important not only for management of risk, but for helping the office identify any risk drivers that it cannot effectively mitigate. In such cases, the office should clearly indicate whether or not the risk is acceptable given the office's risk appetite. If it is not, then the issue must be scaled up to the Regional Office or the relevant risk owner for their action.

Agreed action 1 (medium priority): The country office agrees to put in place risk mitigation measures that adequately address the risk drivers/root causes. If there are risks that cannot be effectively mitigated, the office agrees to document in the risk assessment whether or not it is an acceptable risk and if it is not, to whom it has been scaled up.

Staff responsible for taking action: Representative, Deputy Representative and Operations Manager
Date by which action will be taken: 31 March 2016

Performance management

An effective performance management process enables managers to evaluate the performance of individual staff members, and obtain optimum productivity by aligning individuals' day-to-day activities with business objectives and priorities. The UNICEF guidelines[1] on performance appraisal and performance management require that individual workplan outputs and performance indicators reflect the contribution of the staff member to the relevant results as outlined in the annual management plan (AMP).

Some staff responsibilities for implementing office priorities, as assigned in the AMP, were not reflected in the performance evaluation reports (PERs) of the individual concerned. For example, the Education Chief was to lead programme priority 8, "Quality Basic Education". The defined indicator for that priority was that the Education Management Information System (EMIS) Data books for 2014 and 2015 should be published. However, there was no corresponding output in the Education Chief's PER. In another example, both the Supply

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[1] Administrative Instruction CF/AI/2011-001, Amendment 1.

Officer and Operations Manager were to lead Operation Priority 3.3 under Supply: "Conduct a local market survey". One of the indicators for this was that an "updated list of suppliers is available and revised in VISION[2] data accordingly". This was not in the Supply Officer's PER. When individual goals are not aligned with the office's strategy and priorities, there is a risk of lower productivity due to unclear expectations and inconsistent evaluation criteria.

Agreed action 2 (medium priority): The country office agrees to ensure that individual workplan outputs and performance indicators are clearly linked with the staff member's expected contribution to the office's annual management plan.

Staff responsible for taking action: Representative, Deputy Representative and Operations Manager
Date by which action will be taken: 31 March 2016

Delegation of authority

Each office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. The Representative should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. The ToA should be reflected in the roles assigned within UNICEF's management system, VISION. An understanding of these roles and the responsibilities assigned to staff is essential in approving role assignments.

A key requirement is to ensure, as far as possible, adequate segregation of duties. This is achieved by assigning different roles to different staff members in such a way as to avoid situations whereby one individual is being responsible for an entire transaction cycle, without any other checks by another individual.

The audit reviewed the approved delegations of authority during the period under review, the roles assignment in VISION and segregation of duties. The review found that all high- and medium-risk conflicts noted were resolved just prior to the audit and staff had signed letters acknowledging their delegated authorities in July 2015. However, there was no documented evidence of the actions taken to mitigate any role conflicts between January 2014 and July 2015. Neither had the staff signed any letter of acknowledgement prior to July 2015. If segregation-of-duty conflicts are not reviewed regularly and any mitigating actions documented, there is a risk that delegated authorities may be abused or bypassed.

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

   i.   Document the mitigating actions taken for any high- or medium-risk segregation-of-duty conflicts.
   ii.   Ensure staff regularly acknowledge their delegated authorities.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 January 2016

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[2] VISION is UNICEF's management system (Virtual Integrated System of Information).

Governance: Conclusion

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

2   Programme management

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

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

All the areas above were covered in this audit.

The audit found that some controls were functioning well. A timely Situation Analysis (SitAn) had been done in conjunction with the Government of Timor-Leste (the SitAn is a review of the situation of children and women in a country, to inform country programme design). A costed Integrated Monitoring and Evaluation Plan was in place and was reviewed regularly.

However, the audit noted the following.

Work planning
The steps required to carry out a country programme are identified in the country programme action plan (CPAP), a formal agreement between a UNICEF office and the host Government that sets out the expected results, programme structure, distribution of resources and respective commitments. The activities that will realize these commitments are outlined in workplans that an office agrees with its partners.

The workplans should refer to the relevant annual milestones to which the activities contribute, and identify the implementing partner(s) and the total budget required to carry out the activities. As a result of a change of government in February 2015, the signature of the CPAP for 2015-2019 was delayed, and the 2015/2016 rolling workplans[3] and CPAP were

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[3] Workplans can be annual or multi-year, or they can be 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

signed after the execution of the audit, in late September 2015. However, the audit reviewed three out of the five draft workplans before they were endorsed by the Government, and noted the following.

Rolling workplans: As implementation of the new country programme had been delayed, the few disbursements that were being made were based on activities continuing from the approved 2014 workplan but in line with the draft 2015-2019 CPAP. The office had approval to make these disbursements from the Regional Office, provided there were also letters of request from the relevant ministries. However, the nine-month delay meant that planned implementation would be skewed to the fourth quarter of the calendar year, and the latter year of the RWP. Now that the 2015-2019 CPAP has been signed, the planned activities will require careful reassessment; the delays in implementation mean that some results might not be achieved, and the OR programme budget allocations might not be used within the agreed period.

The rolling workplan budgets are based on UNICEFs Regular Resources (RR) and Other Resource (OR) contributions, and there were a number of planned activities that were unfunded or underfunded. In the 2014 rolling workplans, the audit noted two cases where the detailed unfunded amounts did not add up mathematically (WASH and Child Protection). In one instance an activity stated that there was a US$ 30,000 to be transferred to Government but nothing was noted under the actual budget expenditure column. In another instance, a 2014 workplan had one outcome and three outputs with no baselines, targets or means of verification. It was thus unclear how the budgeted amounts required for the activities were arrived at or how progress against targets was to be monitored. The audit attributed these weaknesses to the quality review process over the contents of the workplans.

Baselines and targets: For 2015, it was found from the sample reviewed that two workplans had a few baselines that were to be determined through surveys. Also, in a number of cases, the Method of Verification for the baseline and the target were simply stated as Ministry data. That in itself was not a problem, but there was no indication that that data had been triangulated and proved to be sufficiently accurate and up-to-date for implementation monitoring. In fact, under the same workplan and in the CPAP, there were activities to improve data quality and availability – indicating that the current data systems were still wanting.

Achievement of outputs: The audit noted that some 2015 activities were exactly the same as those in 2014, e.g. "support baseline and end line surveys of pre-school models in target districts" (only one district was different). Also repeated was an activity for the development of a five-year EMIS action plan and printing of an out-of-school report. These cases raised the question of whether the resources had not previously been adequate to complete the tasks set, why implementation had been slow or delayed, and whether the challenges of the previous work plan were actually addressed – given that there was no change in how the activity was being implemented. The audit also noted that the 2014 Country Office Annual Report did not always state what mitigating actions will be undertaken to address the implementation challenges.

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

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.

through the following measures:

   i.   Reassess the timing of workplan activities and ensure that signed workplans are based on a realistic assessment of their achievability in the remaining timeframe.
   ii. Check the programme budgets for mathematical accuracy and clear articulation of activities, and assess the relevant budgets for reasonability.
   iii. Ensure quality review processes over workplans clearly analyse any previous challenges and/or delays in implementation, and ensure that the new workplans address any impediments identified.
   iv. Review the means of verification, and ensure they are valid and provide an accurate assessment of implementation progress.

Staff responsible for taking action: Deputy Representative
Date by which action will be taken: 31 December 2015

Emergency preparedness

UNICEF's Programme Policy and Procedure Manual (PPPM) states that emergency risk management activities are essential in enabling UNICEF to organize an effective rapid response in any emergency that does occur. They should be agreed with partners and should be part of sectoral workplans. (Internal emergency risk management activities will usually be included in cross-sectoral or management workplans.)

In order to monitor such emergency risk management activities, the priority emergency preparedness/crisis activities need to be recorded in the Preparedness section of the EWEA[4] system. The audit noted that the office had made updates in EWEA, with the latest being in July 2015. However, despite the country undergoing significant change, with a largely peaceful election and the withdrawal of the UN peacekeeping force in 2012, the medical evacuation procedures and UNICEF security plan that were in the EWEA system were for 2009 and 2007 respectively (however, the system was updated during the course of the audit, on 7 August 2015).

The office stated that there was an agreed protocol for releasing items from the Government warehouse and that UNICEF regularly monitored the stock. However, the supply preparedness checklist uploaded in the EWEA system was unclear as to exactly where the stocks it referred to were kept. The checklist also stated that once the existing stocks ran out, supplies would be obtained from the Government. But it did not give the basis for that statement or say whether there had been an assessment to ensure that Government would be able provide UNICEF with these supplies (the audit noted that the SitAn had referred to supply-chain bottlenecks in the country). The country office stated that there were protocols in place, but these were not documented in the checklist.

Agreed action 5 (medium priority): The office agrees to ensure that the emergency preparedness plans are properly updated and the necessary agreements/arrangements are clear and documented.

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[4] "Early Warning-Early Action" (EWEA) is a UNICEF system to ensure readiness for emergencies via online reporting on risk assessment and preparedness planning. It is based on the involvement and dialogue between users across all sectors (Management, Programme, Operations) and all levels of the organization (country offices, regional offices and HQ).

Staff responsible for taking action: Deputy Representative
Date by which action will be taken: 30 November 2015

Resource mobilization

Country offices should have a clear, comprehensive resource mobilization[5] strategy for securing approved Other Resources (OR) for the country programme. The total OR that was expected to be mobilized by the country office was US$ 55 million. The office had developed a resources mobilization strategy in 2014 in time for the 2015-2019 country programme.

The audit reviewed the strategy and noted the following.

Significant funding gaps: The strategy included a thorough analysis of prior country-progamme resources, and looked at the current funding gaps for 2015-2019. It concluded that around US$ 18.6 million was expected in OR funds, leaving a funding gap over the five-year programme of US$ 36.3 million (or 66 percent of the total needed). At the time of the audit, the OR funding gap was 66 percent of the total needed. However, the size of the funding gaps ranged from 96 percent (for the *Social policy and advocacy* output) to 44 percent (for the *Pre-school learning* output). The strategy noted that the total funding gap would have to be covered by thematic funds and other donors.

The resource mobilization strategy stated that outputs under the *Child health and nutrition* and *Quality education* outcomes had better prospects for funding than the outputs under the child protection and participation, social inclusion and cross-sectoral outcomes. It therefore identified child protection and social protection as the greatest areas of need. Despite this, its proposed approach to private fundraising for these areas stated simply that: "With the commencement of oil production in Timor-Leste, there are opportunities to tap into the corporate social responsibility programmes of oil companies."

The audit reviewed funding proposals made during 2014, and during 2015 up to the date of the audit. Only in 2015 had there been one specific proposal for *Child protection*. Also, the funding proposals issued did not, as a matter of course, consider aspects of underfunded programmes that could be addressed in, or converged with, the proposals for other programme sections. The office did draw up concept notes in 2015 that had a few areas of convergence, but this had not been translated into formal proposals. Furthermore, one of the main donors to *Child protection* had indicated that their support for the programme would end in November 2015. Although the office had managed to negotiate an extension, the lack of funding or withdrawal of a major donor for these sectors could have considerable impact on the results for outcomes that are a significant component of the country programme.

Agreed action 6 (medium priority): The office agrees to review its strategy for mobilizing resources to support the implementation of the country programme. The revision will give priority to fundraising for underfunded outcomes. Where possible the office will identify activities that could be converged for funding proposals.

Staff responsible for taking action: Representative, Deputy Representative and Operations Manager

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[5] While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes resources in the form of people, partnerships, or equipment and other in-kind donations.

Date by which action will be taken: 31 March 2016

Advocacy

UNICEF country offices are expected to advocate actions that contribute to the fulfillment of the rights of children and women. This should be done through deliberate efforts, based on demonstrated evidence, to directly and indirectly persuade decision-makers, stakeholders and relevant audiences.

Although advocacy is a separate function from resource mobilization, the two are closely related, as advocacy in relation to a need will help leverage Government and other support for those areas. An office's strategies in these areas should therefore complement each other. However, there was no documented complementary advocacy strategy. The audit noted that this is of particular importance because, as the country office's resource mobilization strategy acknowledged, it is increasingly difficult to raise funds for Timor-Leste now that the country has achieved lower-middle income country status.

Reduced OR and a lack of a complementary advocacy meant the office might not be able to mobilize the required resources for effective implementation of the programme.

Agreed action 7 (high priority): The office agrees to put in place and document an advocacy strategy to influence policies, programmes and resource allocation.

Staff responsible for taking action: Representative, Deputy Representative and Chief of Planning, Monitoring and Evaluation
Date by which action will be taken: 31 March 2016

Partnerships

According to VISION, at the time of the audit the office had 34 active partners between 2014 and 2015 of which 12 were NGOs and 22 Government partnerships. The audit noted the following.

Data on partner staff: The audit reviewed a sample of six NGO partners and noted that some key information on their staff, such as current directors, stakeholders and registration certificates, was not available. This information is essential, as UNICEF offices are bound by UN Security Council resolution 1267, which requires that they ensure they do not contract with entities and key individuals or partners on a list of those associated with Al-Qaeda or the Taliban. The office did have a checklist that required the provision of staffing and board-of-directors information, and four of the partners sampled had these checklists, on which some of the information was available. The micro-assessments[6] or simplified financial checklists could have been used as a source of updated personnel data.

Contracting of partners: The new UNICEF procedure[7] issued in April 2015 requires that non-

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[6] Micro-assessments are part of the Harmonized Approach to Cash Transfers (see following observation).

[7] The regulations 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

Government partners be identified preferably through a competitive bidding process taking into consideration any comparative advantage. Most partners were engaged prior to this procedure, and although the office had contracted only one partner in February 2015 through an Expression of Interest, most had been identified through various non-competitive means.

The audit found an instance where the Technical Reference Panel approved a programme annual budget of US$ 132,385, although the supporting documents provided for a budget of US$ 219,988.40. There was no documented clarification on the difference.

The audit noted instances where a programme cooperation agreement (PCA) had been approved but the NGO had yet to provide copies of its registration documents. In another case the PCA review committee (PCARC) submission was marked as incomplete and there were questions as to where some information should be validated, but the PCA was still approved.

Of the NGO partners sampled, one was being contracted for the first time in 2015. However, of the remaining partners, only one had a prior evaluation/recommendation available for the PCARC. Although the submission form did require the head of section to provide their opinion on the performance, this did not provide a detailed assessment against agreed actions. This was needed, given that most of the PCAs reviewed had budget amendments or non-cost extensions due to non-completion of the work.

Partner database: There was no specific partner history/database maintained. Such a database is recommended by the UNICEF Programme, Policy and Procedure Manual, to differentiate active partners in one year from partners who will not be used/are blacklisted, or have been used before and may be used again. The office had also not mapped potential partners in the country; this should be done as part of the regularly-scheduled SitAn and as a requirement of the Manual's section on Civil Society Partnerships.

Agreed action 8 (medium priority): The office agrees to enhance the management of partners by taking the following steps:

i.   Perform periodic mapping pf partners, and comply with UNICEF's procedure for country and regional office transfer of resources to NGOs in the selection or registration of potential partners.
ii. Regularly update implementing partners' profiles, and check against the list maintained under UN Security Council Resolution 1267.
iii. Maintain a separate record of partners assessed as non-performing or no longer suitable for partnership, indicating the reasons why they have been so listed.
iv. Obtain references and evaluations of partners and provide them to the Programme Cooperation Agreement review committee (PCARC).

Staff responsible for taking action: Deputy Representative and Heads of Sections
Date by which action will be taken: 30 April 2016

Harmonized Approach to Cash Transfers
Offices are expected to implement the Harmonized Approach to Cash Transfers (HACT). With

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Office Transfer Of Resources To Civil Society Organizations (FRG/PROCEDURE/2015/001), which introduces a number of changes. However, offices were not required to adopt the new guidelines until 1 June.

HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. At country level, HACT involves a macro-assessment of the country's financial management system.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audit and 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 and the agencies are meant to work together to implement it.

In 2010, the UN resident coordinator for Timor-Leste wrote a letter of request to the UN Development Group requesting deferral of HACT in Timor-Leste. On that basis HACT was not implemented for the previous UNICEF country programme. A revised HACT framework, endorsed by UNDP, UNFPA and UNICEF, was adopted in February 2014. In addition, on 1 August 2014 UNICEF issued new UNICEF-specific HACT guidelines to all Regional Offices that all offices were required to implement.

Macro-assessment: A macro-assessment should be undertaken at least once per programme cycle. The result is used to determine whether the country's Supreme Audit Institution (SAI) will be used for audit of government implementing partners. Authorization from the Government is not necessary to complete a macro-assessment, as no original data is collected. However, no macro-assessment had been done. Also, although the International Monetary Fund had prepared a public financial management performance report on Timor-Leste in August 2010, the information had not been used in the last programme cycle. For the current programme cycle, the UNICEF office had been asked to take the lead in hiring a consultant to conduct a macro-assessment in close collaboration with UNFPA and the UN Resident Coordinator's office.

Micro-assessments: The office did not micro-assess any of its partners in 2014. In November 2014 it obtained approval from the Deputy Executive Director, Field Results Group, to adopt a modified approach with respect to Government partners, as the Government had rejected requests to permit micro-assessments.

However, this did not extend to NGOs. UNICEF's HACT procedures require that micro-assessments are undertaken at least once per programme cycle on implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For 2014 only one fell into this category, but NGOs below that level can be checked against the simplified financial management checklist set out in the HACT procedure. However, this was done for only one NGO in 2015 and two in 2013. Given that the micro-assessments had not been done, HQ had advised the office to class all implementing partners as high risk, and it had done this.

For 2015, the office prepared a micro-assessment plan in July 2015. Based on the planned transfers, four NGOs will require micro-assessments. At the time of the audit these had not yet been done, though cash transfers were ongoing. The plan also included micro-assessments for 19 Government partners, but these will only be performed if the Government grants permission.

Spot checks: During the 2009-2014 country programme, partners were asked to submit all receipts and supporting documents to UNICEF for liquidation. Therefore no spot checks were performed. For 2015 the assurance plan includes spot checks based on the new guidelines. At the time of the audit, however, no on-site spot checks had been performed as the client was performing desk reviews for all partners.

Funding of assurance activities: Assurance activities were funded from various programme funds and no special fund was set aside. The new guidelines reinforce the requirement that this be done. One of the Key Performance Indicators against which country offices will now be measured is the percentage of funds allocated to these activities.

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

i.   Ensure the macro-assessment is performed as a matter of priority and the implications for the programme are reflected in the Risk and Control Self-Assessment.
ii.   Urgently put in place arrangements to perform the micro-assessments or simplified checklists as required.
iii. Ensure funds are specifically set aside for activities under the Harmonized Approach to Cash Transfers.

Staff responsible for taking action: Representative, Deputy Representative and Operations Manager
Date by which action will be taken: 31 March 2016

Construction projects

During the period under review the country office had Programme Cooperation Agreements worth US$ 500,000 for water-system design and construction and received a procurement authorization for the construction of 13 schools, worth US$ 1.6 million.

UNICEF supply guidelines require thorough planning and project management to ensure the success of construction activities. Construction activities that are not properly planned or managed can result in cost overruns, poor quality, time delays and programmatic setbacks. The audit noted that the water-system projects were frequently extended because of delays in implementation, and there was no documented technical review of that implementation or of the causes of the delays provided to the PCARC when it was asked to consider the extensions.

In respect of the school construction, only one of the schools was completed within the planned construction period. The remaining schools were completed later. Such delays in construction pose significant risks for the country office. The risks posed include the expiry of the grant provided for the construction, reporting and reputational concerns with the donor, the inability to realize performance bonds or bank guarantees and/or the diversion of unplanned resources to the management of those risks. Moreover such delays point to inadequate planning.

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

   i. Where UNICEF may not have the expertise/capacity in-house, to only accept construction projects after a detailed risk assessment that takes into consideration the country context.
  ii. Prepare lessons learned from the schools construction process, make suggestions for improvement and communicate both of them to the Regional Office and to relevant HQ Divisions.
 iii. Coordinate with the Supply Division in order to implement an agreed plan of action based on the country office's review of the challenges in the construction projects.

Staff responsible for taking action: Deputy Representative and Operations Manager
Date by which action will be taken: 30 April 2016

Supply planning

Supply planning should be carried out in collaboration with relevant stakeholders and integrated into all programme planning – including workplans and emergency response plans. The consolidated supply plan for 2014 totalled US$1,453,926, of which Health accounted for 53 percent, WASH (water and sanitation) 29 percent and Education 12 percent.

The audit compared the 2014 supply plan to the relevant rolling workplans for three sections and noted that it was difficult to relate the amounts planned for to what was budgeted (i.e. those activities that clearly made reference to the supplies). The rolling workplan budgets did not tally with the supply estimate.

The office noted that some line items in the supply list were not given the correct activity reference, and that two other sectoral supply plans did not indicate the actual activity number; and that it was therefore not possible to trace the entire sample of activities selected to the workplan. There were similar discrepancies in the 2015 supply plan when compared to the draft rolling workplan. Clear and accurate linkages of the supply plan to the workplan would help the development of appropriate procurement and logistics strategies.

Further, when the audit tried to relate one of the plans to what was budgeted, it found in some cases the budget in the workplan was lower than the supply-plan estimate. The office said this was because this programme was implemented by three ministries, two of which had to sign workplans for different sectoral programmes. However, the distinct components could still have been included in the different workplans signed for by the relevant ministries and an internal document used to consolidate them for the particular section. Accuracy in budgeting is important for cost control and fund management

Agreed action 11 (medium priority): The office agrees to enhance supply planning by providing a detailed plan with clear and accurate linkages to the workplan, and budgets that have been reviewed for reasonability and accuracy.

Staff responsible for taking action: Deputy Representative and Operations Manager
Date by which action will be taken: 31 March 2016

Programme monitoring

Monitoring is clearly important for programme implementation, but is also an assurance activity under HACT, helping establish that funds have been spent as agreed. The Programme Policy and Procedure Manual emphasizes that several elements are needed for an effective monitoring framework. They include detailed plans and schedules, field visits, analysis of information, progress reporting and monitoring of action taken as a result of monitoring visits.

The office had no consolidated framework; each section developed, and was responsible for, its own monitoring strategy. The lack of an overarching framework can prevent identification of delays or problems in implementation, particularly where programmes converge. Moreover travel plans were approved monthly by the individual sections, and there was no overview of the plan to ensure adequate coverage of all activities and districts or coordinated feedback on bottlenecks.

The audit also noted the following.

Use of reports: The PPPM states that field-trip reports should contain clear findings and recommendations, and be shared with concerned staff. The field-monitoring guidance note issued in July 2015 further requires that priority recommendations/actions have a target date for completion and assigned focal point for follow-up, and that major findings and bottlenecks are discussed in relevant meetings.

The client had a field-monitoring database for 2014 that itemized who travelled, the type of monitoring and observations or suggestions. However, the audit noted that the database had not been updated to show the full results for the year. It also noted that the sheet contained data for both monitoring trips and normal programme activities, and that there was no final analysis of what was planned against what was actually done. For a number of trips, the follow-up status was not indicated (even where there was a set timeline), or was shown as ongoing or not started.

Supply end-user monitoring: For programmes with major supply components, programme and operations staff should systematically monitor delivery and end-use of supplies. UNICEF's Supply Division has detailed guidelines for this. Even where the control of programme supplies has been transferred to a partner, the office remains accountable for ensuring the quality of the results achieved through their provision. However, end-user monitoring was not specifically planned for. This was important given that the review of the previous country programme highlighted poor transport and logistics in the country – in particular, the availability of vaccines and failure to get them to remote locations.

Agreed action 12 (high priority): The office agrees to put in place a monitoring framework that consolidates and rationalises the section strategies by:

   i.   Providing for more detailed monitoring plans that will ensure appropriate geographical and/or output coverage, based on mapped programme activities and established standards for the frequency of field-monitoring visits.
   ii. Ensure there is a process to regularly update major field-monitoring findings and ensure timely resolution of agreed actions.
   iii. Ensure the field monitoring/assurance plan includes supply end-user monitoring as required.

Staff responsible for taking action: Deputy Representative and Operations Manager

Date by which action will be taken: 31 January 2016

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). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All of the above areas were covered in this audit, with the exception of information and communication technology as it was assessed as low risk in the planning risk assessment.

The audit found that controls were functioning well over a number of areas. Bank accounts were reconciled promptly, and bank and cash balances were regularly monitored and well managed. The office had regularly updated the Business Continuity Plan, with the latest update being in July 2015.

However, the audit noted the following.

Cash-transfer management
Cash transferred to partners during period under review was US$ 2.9 million, of which $2.1m related to Government partners and US$ 800,000 to NGOs. The audit sampled cash transfers to 12 implementing partners, of which six were NGOs and six were Government partners. The review noted the following.

Activity-based advances: UNICEF's Financial and Administrative policy on cash transfers states that direct cash transfers (DCTs) are requested and released quarterly for a programme implementation period not exceeding three months. However, the implementing partners' "Requests for Advances" were submitted per activity, even though workplans are planned on a quarterly basis and one such request could have covered the quarter. This increased the office workload and would have taken time away from the bigger picture of managing programme implementation.

The audit also noted instances where the activity quoted on the FACE form[8] did not correlate with the activity in the rolling workplan, or reflected a different budget. For example in a payment request in June 2014, the amount requested was approximately US$ 33,000; however, the budget in the rolling workplan for the activity was for US$ 8,000 and a different source of funds had to be sought.

Refunds: The audit noted a number of significant refunds, totalling approximately US$ 181,000 (6.2 percent) of the direct cash transfers in the period under review. Most of the refunds were made six to nine months after the advance was obtained. In the sample reviewed there was one instance when US$ 37,000 was advanced and US$ 33,000 was refunded over nine months later because the activity could not take place and was deferred. The release of the funds to a partner that is not able to make full and timely use of them reflects inadequate planning, and may expose the funds to possible misuse on unplanned activities. It can also lead to incorrect reporting, as the funds may be reported as fully utilized when in fact substantial amounts are later returned by the implementing partner.

In one case, a payment in July 2014 was liquidated in June 2015 with an unspent balance of approximately US$ 6,000. The reason provided by the partner was that not all the participants attended the event being funded (10 absentees out of 15 participants), but refreshments and stationery had already been purchased. Timely liquidation ensures funds are utilized before grant expiry and any refunds can be re-programmed. This is essential in grant management.

Long-outstanding DCTs: The 2015 HACT procedure states that direct cash transfers are provided to implementing partners to be spent within three months on agreed-upon programme activities. As of 15 July 2015, the total outstanding for more than three months was US$ 623,000, of which 30 percent was older than six months and 22 percent more than nine months. There was a similar ageing pattern at the end of 2014. That indicates systemic delays in liquidation of cash transfers. The audit also noted in the review of the PCAs that the office was requiring the partners to provide the liquidations within six months, not three as per the HACT procedure.

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

i.   Comply with the Financial and Administrative policy on cash transfers and ensure cash transfers are disbursed for a period not exceeding three months.
ii.   Release cash transfers on the basis of agreed timeframes in the workplans, having considered the partner's ability to implement the agreed activities within those timeframes.
iii. Regularly follow up outstanding direct cash transfers and ensure reasons for delayed liquidations are addressed in partner meetings.

Staff responsible for taking action: Deputy Representative and Operations Manager
Date by which action will be taken: 29 February 2016

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[8] 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. It should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent.

Procurement management

According to VISION, the value of procurement for goods and services in the period under review amounted to US$ 4.6 million, or 30 percent of total expenditures. The audit noted the following.

Market survey and pre-qualifying assessments: The office provided support to a number of construction projects, including the construction of pre-schools, and the construction and rehabilitation of primary schools, including construction of water and sanitation facilities. However, no market survey of potential vendors was conducted between October 2009 and June 2015.

Given that the often low quality and high price of supplies offered continued to be a genuine concern, the country office conducted a market survey in July 2015 in Dili with the assistance of UNICEF's Indonesia country office. However, there was no record of pre-qualifying capacity assessments on the suppliers that were already being used, nor of compliance with UN Security Council resolution 1267 (see observation *Partnerships*, p13 above). In addition, the review did not note any reference or conflict-of-interest checks for the suppliers contracted.

Roster and bidding: No roster had been compiled for pre-qualified suppliers. In 11 of the 27 vendors sampled, suppliers invited to quote were selected by supply staff from a list of those previously used. There was no open tender or bid. There were instances where individual supply staff were not only responsible for identifying suppliers, but also for selecting who should bid and conducting the selection. This indicates an inadequate segregation of duties.

Contract management: The country office awarded three contracts to the same supplier totalling US$ 75,869, with similar outputs and within a 15-day period. Despite the total amount being above the threshold for review by the Contracts Review Committee (CRC), which was US$ 50,000, the CRC was not notified and did not review the contracts.

VISION records show 15 of 22 sampled contracts were signed on or after their start date. Furthermore, although the office stated services were evaluated before final payment, there were instances where there was no proof of work done – and none of the contracts sampled had a documented performance evaluation. There were late deliveries for six procurement contracts, with no evidence of follow-up or penalties applied. The audit also found that signed contracts and performance evaluations were not attached in VISION, and changes in the invoice total were not updated.

The audit also noted that, according to VISION, of the 48 contracts issued during the period, 32 were still as listed as open even after expiry of the contract. Not closing a contract means that unused funds cannot be reallocated.

Consultants and individual contractors: According to VISION, the office had issued 48 consultant contracts during the period under review for approximately US$ 842,000.

UNICEF administrative instruction 2013/001, amendment 2, outlines the circumstances under which consultants and individual contractors may be engaged. According to the administrative instruction, the latter is an individual engaged by UNICEF under an individual contract whose work assignment may involve functions similar to those of staff members, and must be short-term. From the sample of 12 contracts reviewed by audit, it was found that three personnel, temporarily engaged to perform duties and functions similar to those of staff members, were contracted as consultants instead of contractors.

Medical clearances for should be issued no more than four weeks prior to initial appointment and will remain valid for one year from the date of issue. In two of the consultant's sampled, the health statements provided were invalid. In one instance it had been issued in March 2013, nine months before the contract commenced. In the second case it was 13 months.

Agreed action 14 (high risk): The office agrees to strengthen the management of procurement by taking the following steps:

i.   Maintain rosters of technical assistance and goods and service providers, and put in place standard procedures for their pre-qualification and inclusion on the roster; and regularly review and update the roster.
ii. Ensure procurement of goods and services is on a competitive basis by complying with UNICEF requirements on selection, and maintaining segregation of duties between those staff members undertaking sourcing and those responsible for purchasing
iii. Perform and document pre-qualifying capacity assessments and reference checks, including checks to comply with UN Security Council resolution 1267 and checks for conflicts of interest, prior to contracts being issued.
iv. Institute a process to ensure that contracts issued to a single supplier that fall beyond the Contracts Review Committee threshold are appropriately reviewed.
v.   Ensure contracts are signed before work or assignment starts.
vi. Institute processes to monitor the performance of vendors, as well as documenting evidence of completion and the final performance assessment.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 December 2015

Vendor information

VISION transaction records shows 652 vendors had been created for the office as of June 2015. The audit noted that at least 102 vendors had the same names but were given different vendor numbers. Also, the Vendor Master Record showed incomplete vendor information (for example, no physical or postal address). There were 309 vendors recorded in VISION with physical addresses that appeared incomplete or inaccurate, such as 123/12345/9999/xxx, etc.

Incomplete or duplicate vendor records could lead to incorrect payments. They could also lead to cash transfers being made to partners with previous transfers outstanding for long periods.

Agreed action 15 (medium risk): The office agrees to periodically review vendor master records to ascertain their validity and completeness, to check for duplicate entries and to institute a process to ensure checking for duplicates before a new record is created.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 January 2016

Inventory management

The office inventory was physically counted at the end of 2014, and was reconciled to VISION. However, not all inventory accounts in VISION were reviewed and reconciled. The audit found that the Inventory Warehouse Materials (1300110) and Inventory Freight Capitalization (1310180) accounts had credit balances of US$ 12,400 and US$ 36,800 respectively, for more

than three years, resulting from entries passed by HQ. However, the office had not followed them up.

One of the standard instructions for UNICEF's year-end closure of accounts is to review and clear the Goods in Transit (GIT) account of entries pertaining to goods already received. At the time of the audit the GIT account was US$ 93,200, of which US$ 40,900 related to 2014. The country office indicated that goods had been transferred to partners, but VISION had not yet been updated.

Agreed action 16 (medium risk): The office agrees to ensure timely review and reconciliation of all inventory records in VISION, and to update the Goods in Transit account on a regular basis.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 January 2016

Property, plant and equipment

The country office conducted a physical count at the end of 2014 and performed a reconciliation in VISION. However, VISION was not properly updated. For example a computer that was donated and two that were stolen in 2013 were not removed from the system. The acquisition dates of 13 items were inaccurate. There were a number of instances of incomplete information, such the location of assets, acquisition dates, original values and inventory numbers.

Whilst the discrepancies observed would not in themselves lead to material misstatement, they could be indicative of weaknesses record keeping that could lead to material error. They could also increase the risk of loss and fraud and could affect the accuracy of asset disclosure in the notes to the financial statements.

Agreed action 17 (medium priority): The office agrees to carry out timely review and reconciliation of asset accounts, ensuring all long-outstanding and unusual items are followed up and cleared.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: 31 January 2016

Operations support: Conclusion

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

Annex A: Methodology, and definition of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]

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

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

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

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

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

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

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