

Internal Audit of the Lao People's Democratic Republic Country Office

January 2017



Office of Internal Audit
and Investigations (OIAI)
Report 2016/23

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Lao PDR Country Office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office in Vientiane from 2 to 21 June 2016, and the audit covered the period from January 2015 to 31 May 2016.

The 2012-2015 Lao PDR country programme had been extended to 2016. The country programme, which was aligned with the country's Seventh National Social Economic Development Plan (NSED) 2011-2015, consisted of six main programme components: *Communication; Education; Health and nutrition; Child protection; Water, sanitation and hygiene; and Social policy*. There was also a cross-sectoral component. The total approved budget for the country programme was US\$ 59.6 million, of which US\$ 7.9 million was regular resources (RR) and US\$ 51.7 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 have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme, as OR.

The country office is in Vientiane; there are no zone offices. At the time of the audit (June 2016), it had a total workforce of 52 posts (13 international professionals, 16 national officers, and 23 general service). The total expenditures during the period from 1 January 2015 to 31 May 2016 were US\$ 17.9 million.

Actions agreed following the audit

The audit noted a number of areas where controls were working well. The office had identified both overall and sectoral advocacy themes, and reported that its advocacy efforts had helped lead to an increasing Government domestic budget disbursement for vaccines. From discussions with Government and donors, the audit team found that UNICEF had contributed to some significant policy achievements; these included integration of priority child health and nutrition issues into the 2016-2020 NSED, Health Strategic Plan and National Strategy and Plan of Action for reproductive, maternal, newborn and child health. UNICEF had also helped bring about the first official allocation (of about US\$ 240,000) for the procurement of nutrition commodities.

The office was leading the 2017 Lao Social Indicators Survey (LSIS) II, which is due to be completed in 2018. The survey collects baseline data for the NSED and for continued monitoring of progress towards the Sustainable Development Goals (SDGs). UNICEF had also helped the National Research Institute conduct an assessment on the economic consequences of undernutrition in Lao PDR; this was then used to inform key decisions on accelerating high-impact nutrition interventions.

As of 19 July 2016, the office had raised 90 percent (US\$ 57 million) of its funding requirements for the 2012-2016 country programme. The total budget ceiling for 2015 was US\$ 15 million, of which most had been spent by the year end. The funding status was regularly reviewed during country management team meetings.

The audit's testing of a sample transactions, together with discussions with UNICEF staff and partners, showed that cash transfers and liquidations were generally processed appropriately. Training on accounting procedures was provided for some Government partners. The office had generally adequate processes for donor reporting.

The office's Human Resources Development Team (HRDT) ensured adequate planning of staff training. The staffing structure for the 2017-2021 country programme was based on a systematic assessment of needs as well as existing skills.

As a result of the audit, however, and in discussion with the audit team, the country office has agreed to take a number of measures to address the issues raised in this report. One is rated as high priority (that is, requiring immediate management attention). This is as follows:

- Improve management of individual and institutional contracts. This will include clear definition of contractual terms, documentation of all amendments, making payments according to agreed terms, assessment and documentation of contractor performance, and closure of contracts upon completion.

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 over and processes of the office were generally established and functioning during the period under audit.

The Lao PDR Country Office, the East Asia and Pacific Regional Office (EAPRO) and OIAI will work together to monitor implementation of the measures that have been agreed.

Contents

Summary	2
Objectives	5
Audit Observations	5
Performance monitoring	5
Data and information systems at sub-national level	6
Harmonized Approach to Cash Transfers (HACT)	8
Evaluations	9
Contract management	10
Annex A: Methodology, and definition of priorities and conclusions	13

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.

Audit observations

Performance monitoring

Performance monitoring refers to the measurement of progress in achieving specific results in relation to the UNICEF-supported country programme. At the time of audit in June 2016, the office was in the fifth year of its extended 2012-2016 country programme. The office reported six out of 17 outputs¹ as completed, and the rest on track as of the end of 2015.

The United Nations Development Assistance Framework (UNDAF) Action Plan was the platform upon which all UN agencies outlined their commitments to the Government of Lao PDR's development agenda. UNICEF was the second largest contributor to the UNDAF, contributing to eight of the 10 UNDAF outcomes. Since an evaluation of the UNDAF had been completed in early 2016 (see below), the audit attempted to verify the results reported by the office by comparing them to the assessment within the UNDAF evaluation (which was itself based on progress reported by each UN agency).

This comparison noted some discrepancies. For example, although the UNICEF reporting system showed 17 outputs, the office had actually contributed to 28 outputs of the UNDAF (of which six were achieved and the rest were on track).

UNDAF evaluation: The 2016 evaluation noted that the UN system faced challenges in monitoring the large number of outputs (79), with 220 indicators for 10 outcomes. The evaluation also noted that information was lacking for a significant number of outputs (about 25 percent of them), due to design and monitoring weaknesses.

The major conclusion of the evaluation was that the design of the UNDAF, and the monitoring of its implementation, did not enable a fair assessment to be made of the UN's contribution to the outcomes. Recommendations were made to strengthen UNDAF monitoring at both outcome and output levels. Based on these and other, broader, findings of the evaluation on monitoring and reporting constraints, the audit could not obtain adequate assurance regarding the UNICEF office's own controls in this regard. The audit team was, however, informed that the country office was participating in the implementation of the UNDAF evaluation recommendations, some of which have informed the design of the new 2017-2021 UNICEF country programme.

¹ UNICEF programmes plan for results on two levels. 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.

2017-2021 results and resources framework: At the time of the audit visit in June 2016, the office's 2017-2021 country programme document (CPD) had already been submitted to the Office of the Secretary to the Executive Board (OSEB). The audit reviewed the CPD's results and resources framework and noted that there were 15 outcome indicators for the six outcomes.

Thirteen of the indicators were based on the 2012 Lao Social Indicators Survey and other sources including surveys, assessments and evaluations. However, two indicators were to be determined from the Lao Social Indicators Survey (LSIS) II which was expected to commence in 2017. The lack of these indicators meant that the office would not have an effective basis to measure programme performance for the related programme result areas.

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

- i. Review its results and resources framework and define indicators for all the results areas.
- ii. Ensure that there is alignment between the results reported in UNICEF's own systems and the stated UNICDEF contributions to the UNDAF outputs and outcomes.

Staff responsible for taking action: Chief of Policy, Monitoring and Evaluation

Date by which action will be taken: December 2017

Data and information systems at sub-national level

The generation, availability and analysis of reliable data on children and women is crucial to ensure appropriate programme design, implementation, monitoring and evaluation. The 2012-2016 country programme document (CPD) emphasized the strengthening of national and subnational planning and data systems. One programme component included an output on availability and use of disaggregated data in at least five selected sectors and five provinces, both for development planning and for monitoring the situation of children. Support to strengthening administrative data systems was also identified as a key component of monitoring for results for two of the programmes within the supported country programme.

In almost all consultations with Government, donor partners and programme staff, the audit heard that systems for data collection, analysis and use for health were still weak. At decentralized levels, the office provided some evidence of the utilization of data from the health management information systems (HMIS) for review and planning in the UNICEF priority districts/provinces. However, the audit was also told that the level of disaggregation of data was not always sufficient to inform district and sub-district level planning. Where UNICEF had helped assess data and information availability, issues were raised on the lack of systematic data quality checks, and on weak data analysis and interpretation skills at district level, leading to poor use of data for planning and monitoring. Some of these weaknesses, noted in provinces that the audit team visited, were aggravated by the use of manual forms. These forms were submitted monthly—from health centres to districts, and districts to provinces – and their use tended to worsen inaccuracies and delays.

For education programmes (including WASH² in schools), inconsistencies in data collection at school level compromised quality of analysis, according to some Ministry of Education

² WASH: water, sanitation and hygiene.

officials, a major donor and a non-governmental organization (NGO) partner who commented that no effective quality assurance mechanisms were yet applied. This was evident when the country office assisted procurement and distribution of textbooks for grades 3-5 students for the academic year 2015-2016. The office had hired a consultant to undertake projections of textbook requirements for students in grades 3-5 for 2015-2020, using relevant national data (such as the number of children per grade). However, these data were not sufficiently reliable as a basis for calculation, so the consultant spent up to eight months attempting to generate the required estimates for one year.

The audit noted that UNICEF had supported strengthening of district-based education systems within four focus districts. Also, the Government's education information management system (EMIS) was enhanced by a web-based educational databank, Lao EduInfo, which was developed with UNICEF assistance. The audit verified the existence of this platform.

In child protection, significant data limitations (including insufficient disaggregation) were attributed to the lack of a systematic mechanism for data collection related to child protection. This has thus far posed challenges for effective programme design, planning and implementation, although in 2015 UNICEF supported collection of baseline data through the completion of the National Study on Violence against Children.

In all sectors, the audit team found that there were several development partners supporting the strengthening of various aspects of data and information — availability, collection, analysis and use. However, coordination of this support has been weak, resulting in inconsistencies in the frequency of data collection, and sometimes in confusion regarding tools to be used for collection.

The audit noted that, in the area of data and information, development partners had high expectations of UNICEF, with commensurate reputational risk. Although UNICEF was a key participant in the UN monitoring and evaluation (M&E) group, it was not clearly evident that this forum was used to alleviate some of the burden and issues related to data and information. The audit also noted that the UNICEF office's strategies for strengthening data systems at sub-national level were very similar in the forthcoming country programme to those for 2012-2016, with no indication of the efficacy of such strategies within the earlier five-year period. The audit was of the view that there was scope for more integration in this area with other UN agencies, and for such an approach to be reflected in the UN's overall M&E framework.

The office was aware of the above issues; it agreed with the need to support systematic coordination and strengthening, but commented that the data systems were huge and that the necessary support could not be provided by any single agency.

Agreed action 2 (medium priority): The office agrees to commission an assessment of its role and capacity regarding strengthening of administrative systems and related mechanisms for collection, analysis and use of data and information at sub-national levels. The assessment will be used to clearly articulate UNICEF's role in different sectors so as to assist the provision of support that is more systematic and collaborative and is better coordinated with other development partners.

Staff responsible for taking action: Chief of Policy, Monitoring and Evaluation and Deputy Representative

Date by which action will be taken: October 2017

Harmonized Approach to Cash Transfers (HACT)

UNICEF offices are expected to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner. Offices are required 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. 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 audits and special audits.

The office spent US\$ 3.6 million in cash transfers in 2015. This was its largest area of outlay, comprising 27 percent of the office's annual expenditure. The audit reviewed the office's HACT assurance plans and related activities for 2015 and noted the following.

Training: During 2015, the office had conducted four group HACT training sessions for partners, in three regions. However, the audit found that there were two key partners that had received cash transfers but had not been invited to these training sessions (they had received US\$ 92,035 and US\$ 52,509 respectively during the period between January 2015 and May 2016).

Spot-checks: Some inconsistencies were noted in the quality of spot-check reports. These pertained mostly to follow-up of recommendations from previous spot-checks. The office had produced a new reporting template for more systematic follow-up of spot-check recommendations, but it was too early to know whether this was working as intended.

Spot-check reports were sometimes delayed. The office had stipulated three weeks as the deadline from the time a spot-check was conducted to approval by both UNICEF and the implementing partner, but there were several cases where it had taken from three to seven months. Also, some partners said they did not always have the opportunity to discuss the observations and ensure they understood them before approval was requested.

Agreed action 3 (medium priority): The country office agrees to implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2015 HACT guidelines and procedures, including taking the following specific steps:

- i. Providing HACT training for all implementing partners receiving cash transfers from UNICEF.
- ii. Periodically monitoring the implementation of the HACT assurance plan to ensure adequate implementation of spot-checks and timely finalization of spot-check reports.

Staff responsible for taking action: Chief of Policy, Monitoring and Evaluation; Deputy Representative; and Chief of Operations

Date by which action will be taken: October 2017

Evaluations

The office had planned four evaluations during the period 2012-2015. One was emergency-specific; this was a joint UN evaluation of the community management of acute malnutrition (CMAM) programme.³ The others were evaluation of a joint programme on Maternal and Child Health Nutrition with UNFPA; an end-of-programme evaluation of the UN joint programme on maternal and child health; and evaluation of the water, sanitation and hygiene programme.

There were clear accountabilities for evaluations, and the quality assurance for terms of reference and reports functioned well. One management response had been completed, to the evaluation of the WASH programme; and some recommendations were used to inform strategies for the 2017-2021 country programme. However, the audit also noted the following.

Evaluating programme strategies: The 2012-2016 country programme had had several strategies. These included improving geographical targeting of outcomes to enhance impact at the local level. There was selection of one province as a 'learning zone', to demonstrate the added value of collaboration between programme interventions and to identify the best combination of high-impact early childhood care and development programme interventions.

There had been some assessment of these strategies. However, there had been insufficient evaluation of their sustainability, relevance, effectiveness or practicality, or of the assumptions on which they had been planned. Neither had there been sufficient examination of actual progress towards achievement of planned outcomes. These evaluative activities would have objectively informed areas within the 2017-2021 country programme that build on, or are a continuation of, the prior strategies.

Each programme component, and most outputs, also had a capacity-strengthening strategy. In most interviews with implementing partners, donors and programme staff, the audit team heard that a major constraint was a very weak capacity within Laos to plan, manage, monitor, implement and review interventions, especially at sub-national level. The forthcoming 2017-2021 country programme outlined several capacity-development strategies, yet there had not been any evaluative activity to ascertain what had worked and what had not in this area during the current programme. The strategies in the new programme were thus not supported by objective assessment.

Evaluation of programme performance: As noted in the evaluation of the UNDAF which was completed in June 2016, it was not possible to adequately assess the relative impact and effectiveness of those outputs which were either supported by more than one agency or implemented through joint programmes (which constituted approximately 48 percent of the programme). This was due to weak planning and collaborative arrangements, weak analysis and reporting, and the limited number of joint activities which were actually carried out. Hence, there was an insufficient body of objective assessments on overall programme performance.

The office stated that the focus on learning through geographical targeting was changed during the 2014 mid-term review, and that, in the office's opinion, there was sufficient

³ The CMAM was part of a joint UN response to poor nutritional status in vulnerable groups following Typhoon Ketsana in September 2009. Besides UNICEF, the UN agencies involved were the World Health Organisation (WHO) and World Food Programme (WFP).

evaluative information to guide programming. The audit was also told that the UNICEF Eastern Asia and the Pacific Regional Office would be carrying out a region-wide evaluation of selected strategies.

The audit concluded that there would have been scope to increase objective input on the 2017-2021 country programme design, and hence strengthen programme design, through further evaluative activities. Such input would have provided valuable information on relevance, eventual impact and sustainability, which could not be obtained from reviews, monitoring and research.

Agreed action 4 (medium priority): The office agrees to review its plans for evaluation activities, determine areas where further assessments are required, and ensure effective evaluation of the relevance, sustainability, and eventual impact of supported country programme components.

Staff responsible for taking action: Chief of Policy, Monitoring and Evaluation; Monitoring and Evaluation Specialist

Date by which action will be taken: December 2017

Contract management

The office hired 78 individual consultants during the period January 2015 to May 2016, for a total value of US\$ 1.6 million. During the same period, the country office issued a total of 50 institutional contracts amounting to US\$ 4 million, or 23 percent of the total country office expenditures during the period under audit; of this, US\$ 2.3 million was for construction-related activities. The office also issued 72 purchase orders for supplies, amounting to US\$ 1.7 million or 10 percent of total expenditure.

The audit reviewed the management of both individual and institutional contracts and noted the following.

Individual contracts: The audit sample included 11 contracts amounting to US\$ 722,139. Segregation of duties was ensured during the candidate review process, and all contract submissions above the established threshold were reviewed by the Contract Review Committee.

However, the audit noted that consultancy payments were not always linked to the specified deliverables, which contributed to unrealistic payment terms. For example, several consultants hired for six to 11 months had contractual terms that specified either one or two lump-sum payments, which were not linked to deliverables included in the terms of reference (ToRs). In one case, a consultant had delivered only eight of the 12 expected deliverables and had reported inability to deliver the remaining four due to constraints experienced by the partners. Despite this, the fees were paid in full with no explanation being documented. The office said that in this case the supervisor of the consultant had left prior to the completion of the contract, which led to weak monitoring and evaluation of the work performed.

The audit also noted gaps in the documents requested before hiring a consultant. UNICEF requires that these include approval from the Division of Human Resources (DHR) when hiring former UNICEF staff; they should also include a certificate of health. These documents were not always obtained. In one case, a consultant who had been hired without obtaining the

certificate of health had subsequently terminated the 11-month contract after just three months due to poor health.

Contract amendments and/or extensions were not always submitted for approval by the relevant sections in a timely manner. In some cases, notes for the record approving amendments were submitted and approved between two and four months after the contract closing date. This meant that the consultants had worked beyond the original agreed period without valid contracts, and the office had created an expectation that the contract would be formally extended.

Construction of sanitation facilities: The sample of institutional contracts reviewed by the audit team included the construction of sanitation facilities, including latrines in schools. There was phased monitoring of construction to ensure adherence to specifications. The office also applied a 10 percent retention fee, to guarantee that the contracted works were delivered to the set standards.

However, the stipulated contractual terms were not always adhered to. For example, a contract for the construction of 25 latrines required the contractor to provide a written guarantee of the integrity of the structure of the building that was valid for at least 10 years prior to issue of the certificate of substantial completion. However, no such guarantee was received. Also, contractors were required to provide monthly reports of work in progress, but this was not done. The office said that that, since most contractors had limited capacity to write reports, the office had opted to hire a consultant to fulfil this role. It also said that the contractual terms were not always effective in preventing delays or quality issues. The actual contract delivery had not met the required standards: the audit noted that, in the construction of 25 latrines in 25 schools (total contract value of US\$ 167,328), 75 quality defects had been found in 20 schools. These had not yet been rectified by the time of the audit in June 2016.

Assessment of contractors: The office had conducted a pre-qualification exercise in late 2013 to establish a contractor database of 63 contractors for construction projects. The office reviewed the database in 2015 and excluded 23 unqualified and inactive contractors, and downsized the database to 40 contractors. However, the audit observed that the performance of contractors was not adequately documented. In addition, poor performance was not always accurately reflected in the assessment. For example, in the case of the above mentioned contractor responsible for construction of the 25 latrines, the quality defects detected during the defect liability period were not reflected in the performance assessment.

Closure of open contracts: The office did not always close contracts upon completion; 21 of 28 consultancy contracts and 17 out of 20 institutional contracts that were complete were still open at the time of the audit visit. This was attributed to manual monitoring of contracts by the country office using Excel tables, instead of monitoring in VISION. The country office took immediate action during the audit to close the contracts, pending the establishment of a regular process.

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

- i. Strengthen quality review mechanisms over all contracts to ensure deliverables are clearly defined, payment terms are clearly linked to deliverables, and payments are effected accordingly.
- ii. Ensure all required documentation is in place prior to awarding contracts.

- iii. Agree and document contract amendments, where necessary, in a timely manner, and ensure that contractors do not work without valid contracts.
- iv. Establish a process to ensure that contractual terms in the contracts are appropriate and are enforced before making payments in full.
- v. Ensure construction defects are rectified in a timely manner.
- vi. Ensure contractual performance assessments are adequately undertaken and documented.
- vii. Ensure that all contracts are closed upon completion.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: June 2017

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 headquarters 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 in the Summary 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 office 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 the office 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 the office needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed **significant** improvement to be adequately established and functioning.