

Internal Audit of the Republic of Croatia Country Office

December 2017



Office of Internal Audit
and Investigations (OIAI)
Report 2017/22

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an internal audit of the Croatia Country Office. The objective of the audit was to assess the office's governance, risk management and internal control processes, with a focus on key risks to delivering UNICEF's objectives. The audit team visited the office from 3 to 7 July 2017, and the audit covered the period from January 2016 to June 2017.

The 2017-2021 country programme has three main components: *Early childhood development*; *Child protection*; and *Innovative partnerships and platforms for child rights*. The approved budget for the five-year programme amounts to US\$ 13.42 million of Other Resources (OR). In line with UNICEF policy, no Regular Resources (RR) budget was approved for the office as Croatia is a high-income country that is expected to fund its country programme with resources generated locally from the private sector. RR are core resources that are not earmarked for a specific purpose. OR are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement.

As of June 2017, the country office had a total of 25 approved posts, of which 13 were for national officers and 12 for general service staff. The country office is in the capital, Zagreb, and is headed by a national Programme Specialist.

The audit noted a number of areas where internal controls were functioning well. The office had thoroughly analyzed skills availability against the requirements of the current country programme. The Operations Unit provided a good level of support to the other units in the office; in particular, it had established systems to help programme staff monitor their activities and their budget more efficiently. The office had prepared management responses to all the evaluations that had been completed, and was monitoring implementation of the actions arising.

The office had also prepared detailed annual workplans for its private sector fundraising (PSFR) and was monitoring these closely. There was effective reporting to individual donors through an annual report and quarterly newsletters. The audit team noted that the office had arranged that no commission was charged for the PSFR bank accounts, thus keeping costs down, and that there was a good segregation of duties in the processing of PSFR income.

Action agreed following the audit

The audit identified a number of areas where further action was needed to better manage risks to UNICEF's activities. In discussion with the audit team, the country office has agreed to take a number of measures to address these risks and issues. None are being implemented as a high priority; that is, to address issues requiring immediate management attention.

Conclusion

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

The Croatia Country Office, the Europe and Central Asia Regional Office (ECARO), and OIAI will work together to monitor implementation of the measures that have been agreed.

Contents

Summary	2
Objectives	5
Observations	5
Country programme planning	5
Annual work planning	6
Programme results	7
Programme reviews	8
Advocacy plan	8
Resource mobilization and leveraging	9
Evaluation	10
Annex A: Methodology, and definition of priorities and conclusions	12

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.

This report presents the more important risks and issues found by the audit, the measures agreed with the client to address them, and the timeline and accountabilities for their implementation. It does not include lower-level risks, which have been communicated to the client in the process of the audit.

Audit observations

Country programme planning

The Croatia Country Office started a new country programme in 2017; this runs through 2021. In line with the latest organizational guidance,¹ the office had prepared strategy notes for its programme components. It had also prepared a draft Country Programme Action Plan (CPAP)² to include the legal provisions required to formalize agreement with the Government on expected results, management arrangements, and respective responsibilities. The office had updated its Situation Analysis (SitAn) on children and women in the country; this had been done in 2014 as part of the mid-term review of the previous programme. The audit team also saw a number of other studies that the office had used as the basis for the design of the current programme. The office told the auditors that it would update the SitAn later in 2017.

While the previous programme included only one broad component (*Alliances for equity and social inclusion of the most vulnerable children*), the current programme consists of three specific programme components: *Early childhood development (ECD)*, *Child protection*, and *Innovative partnerships and platforms for child rights*, together with a *Programme effectiveness* component.

The office had prepared a strategy note for each of these programme components. These are part of UNICEF's latest approach to country programme planning, introduced in 2016. When planning new country programmes, country offices produce these notes for the programme as a whole, or for one or more components, depending on the size and complexity of the planned programme. Strategy notes set out how results will be achieved, and how UNICEF in particular will contribute to their achievement. They are internal documents, but UNICEF's programme guidance recommends that they be prepared following consultation with partners.

UNICEF's Field Results Group (FRG) reviewed a sample of programme strategy notes in November 2016 and found that the strategy note for the Croatia Country Office's *ECD*

¹ Advice on preparation of strategy notes is given in section 3.07 of UNICEF's Programme Policy and Procedure Manual, and in the Field Results Group's *Guidance on the development of Programme Strategy Notes* (FRG/GUIDANCE/2016/001, updated 18 May 2017).

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

programme was a good-quality example; it also noted the strategy note for *Innovative partnerships and platforms for child rights* was good at showing the process through which results would be achieved.

The audit team's own review of the strategy note for *ECD* found it had a well-articulated vision, and that selection of priority issues was based on a defined set of criteria and was supported by evidence. However, in some instances, proposed interventions were derived directly from the issues without identification of their root causes, giving insufficient assurance that those root causes would be addressed.

The *Child protection* strategy note was found to need more substantial improvements: the vision behind the programme component was not clearly stated (it was formulated as activities rather than a vision), there was often no analysis of the causes of the issues to be addressed, and the rationale for prioritized areas of intervention was not clear (for example, it was suggested that the office was in a unique position to undertake an activity, but it was not stated why).

The office told the audit team that Croatia had been one of the first countries to embark on UNICEF's new country programme preparation approach, and that they had not found the relevant guidance and instructions to be very clear when preparing the programme. The office also told the auditors that there had been an internal quality assurance process for the review of the draft strategy notes based on the check-list recommended by headquarters, although this review had not been documented.

Agreed action 1 (medium priority): The office agrees to use the forthcoming annual programme review to further strengthen its strategy notes and, if needed, to adapt planned interventions in the following year's annual workplans.

Responsible staff member: Deputy Head of Office

Date by which action will be taken: 31 December 2017

Annual work planning

A country programme is operationalized through workplans that provide detailed activities and budgets, and that set out what will be accomplished at the end of the period. UNICEF offices agree these workplans with their partners.

The office used a standard template for the presentation of all three 2017 sectoral annual workplans. This included information on the activities by output, timeframe and implementing partner. However, the audit team noted that none of the 2017 workplans included output indicators with their baselines, targets or means of verification, and they did not clearly define the specific results to be achieved at the end of the workplan period. This made it difficult to track progress effectively to ensure the intended results.

Also, the workplans did not specify the estimated budget of the planned activities, or the funding gap if any. The office told the audit team that the budgets for the activities had not been mentioned in order to avoid lengthy discussions with implementing partners, but that the lack of milestones had been an oversight. The audit team confirmed that detailed budgets for activities and tasks were in fact available internally and were being used by the office to monitor funds utilization. However, as workplans are documents produced jointly with the Government partner, and there is joint ownership, the partner should also have all relevant

information made available to it as part of the process.

Agreed action 2 (medium priority): The office agrees to ensure that workplans include expected results over the period they cover and reflect the agreed planned budget at activity level.

Responsible staff member: Deputy Head of Office

Date by which action will be taken: 31 March 2018

Programme results

UNICEF is committed to results-based management. Achievement of a country (or other) programme's goals should be measured against appropriate indicators, and recorded in UNICEF's results assessment module (RAM) which allows progress to be viewed across the organization. The audit reviewed the office's measurement of its results and its statement of those results in the RAM.

For nine of the indicators in the previous country programme, the baseline values had not been determined at the start of the programme. Two indicators in the new programme for 2017-21 also lacked baselines. The audit also noted that the office did not have a structured process to ensure that all missing baselines and/or targets were identified, and that the necessary surveys and other research were included in PRIME³ to ensure that the status of qualitative indicators can be measured at the required intervals.

Positively, the audit noted that the programme design was appropriate for a high-income country, including as it did many qualitative indicators that were suited for a country environment where support focuses on increasing knowledge, skills, capacity and understanding of children's rights.

At the end of the end of the previous country programme in December 2016, Croatia Country Office's results as uploaded to the RAM showed that none of the outcome and output results of the 2012-2016 country programme were fully met. In fact, the audit team's own review of status of achievement of the outputs suggested that the office could actually have rated some output results as met, if the office had undertaken an overall assessment of each output. Where the targets for one or two indicators had not been met, the office had been cautious in assessing results as fully achieved. In fact, it may be reasonable to do so if the targets for the key indicators have been met.

On the positive side, the office provided evidence that partially-achieved results of the previous country programme had been carried over into the current one.

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

- i. Each indicator included in the programme results has a baseline and a target.
- ii. Surveys or research are planned when required as a means of verification.
- iii. Achievement of results is reflected fairly in the results assessment module (RAM).

³ PRIME (Planning for Research, Impact Monitoring and Evaluation) is an electronic tool used by UNICEF country offices, regional offices and headquarters to share information about future and on-going evaluations, research and studies, including capacity-development activities in Monitoring & Evaluation (M&E).

Responsible staff members: Deputy Head of Office and Child Rights Monitoring Officer
Date by which action will be taken: 31 December 2018

Programme reviews

UNICEF offices should hold at least one annual programme review jointly with key counterparts. This review assesses progress towards planned programme results, identifies constraints, challenges and opportunities, and decides on corrective measures for the following workplans.

At the end of 2016, the office conducted sectoral annual reviews with relevant counterparts and a consolidated review under the leadership of the Ministry of Foreign and European Affairs. However, the minutes of the annual programme review did not include the status of achievement of the results, and there were no specific recommendations on how to improve subsequent workplans. Further, there was no evidence that these minutes had been agreed upon jointly, or that the office had prepared a comprehensive report to supplement the minutes.

Agreed action 4 (medium priority): The office agrees to ensure that annual programme reviews with Government counterparts and other implementing partners include a review of the achievement of results so far, as well as specific recommendations that can be reflected in subsequent workplans.

Responsible staff member: Deputy Head of Office
Date by which action will be taken: 31 December 2017

Advocacy plan

Croatia being a high-income country, the Government has the technical and financial capacity to implement programmes with significant impact. In this context, advocacy is a key component of UNICEF's role in Croatia, to ensure support for changes in legislation, policies, systems and practices aimed at fulfilling the rights of women and children. In the Programme Policy and Procedure Manual (PPPM), UNICEF's suggested programming approaches in high-income countries include, among others, monitoring of and advocating for child rights, and policy advocacy.

Due to the rapidly-changing political environment, the office had decided to develop an advocacy plan for a two-year period only (2017-2018), to be adjusted as needed. Following the recruitment, for the first time in this office, of an Advocacy Officer in early 2017, a draft advocacy plan was drawn up by the Communication Unit in consultation with the Head of Office and the Programme and Partnership Units. At the time of the audit, the plan was not yet finalized, but the office said this would be done by September 2017.

The audit team reviewed the draft plan and noted that it contained both advocacy and regular programme activities, did not provide evidence that set objectives were realistic and affordable, and did not spell out the concrete gains for the country if the objectives are achieved.

In addition, the target audiences were not clearly identified. The types of individuals mentioned included children, parents, relevant NGOs, the Ombudsperson for children,

education and child-rights experts, but without a clear delineation as to which were decision-makers and which were ‘messengers’. Further, the messages in the plan were too broad, and were not adapted to each of the decision-makers who were being targeted.

The office also had yet to determine what information was already available to support its advocacy efforts, and what would need to be gathered. The office said that once it had established what information was still needed, it would gather this as part of the Situation Analysis (SitAn) update planned for later in the year.

Finally, the audit team noted that the office had yet to establish a process for monitoring the implementation of the advocacy plan.

The office acknowledged the need to reinforce staff capacity in advocacy, but said it was hard to identify where the relevant assistance and advice could be obtained within UNICEF.

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

- i. Seek assistance, with help from the regional office, in developing the capacity of relevant staff in advocacy.
- ii. Improve the draft advocacy plan by preparing specific advocacy messages to effectively target each category of decision-makers, with a corresponding action plan as required by the organizational guidance.⁴
- iii. Gather the evidence required to support the office advocacy strategy.
- iv. Establish a process for monitoring the implementation of the advocacy plan.

Responsible staff members: Head of Office, Communication Officer and Advocacy Officer
Date by which action will be taken: 31 October 2018

Resource mobilization and leveraging

As Croatia is a high-income country, the 2017-2021 budget did not include any allocation of Regular Resources, meaning that the office had to ensure its functioning and programme implementation using only Other Resources (OR) funding. Moreover, UNICEF expects countries that have attained high-income status, but maintain a UNICEF programme, will be net contributors to UNICEF’s core income – thus supporting the continuation and expansion of UNICEF work elsewhere, in particular in the least developed countries (LDCs) and sub-Saharan Africa.

A major source of funds for the Croatia Country Office was pledge donors – that is, private individuals pledging a certain amount every month. In Croatia, these represented UNICEF’s main private sector fundraising (PSFR) channel, and had reached a very high penetration rate per capita (the second highest penetration of any UNICEF country office in the world after Uruguay, according to the office). This source of funding had started to plateau, with a slower growth and decreased fundraising efficiency.⁵

Thus, in order to achieve the fundraising target for 2017-2021 of US\$ 19.6 million, the office

⁴ See *Advocacy toolkit: A guide to influencing decisions that improve children’s lives*.
https://www.unicef.org/evaluation/files/Advocacy_Toolkit.pdf

⁵ Number of standing orders per hour was 0.59 in 2016 compared to 0.77 in 2015, and the cost per standing order increased to 122.13 HRK in 2016 from 95.32 in 2015.

had prepared a partnerships and resource mobilization strategy that included, beyond PSFR, the mobilization and leveraging of corporate and public resources, either financial or other types of engagement and assistance. The office had also established a separate Partnership Unit that reported directly to the Head of Office, and a resource mobilization committee in charge of monitoring implementation of the strategy and adjusting it as the local context evolved and new opportunities were identified.

The audit reviewed the office's partnerships and resource mobilization⁶ strategy, and noted that it planned to secure 90 percent of the funds needed through the PSFR plan while the remaining 10 percent would be secured from public and other fundraising sources. The office was thus heavily dependent on the resources raised from private sector and, mainly, pledge donors.

The office conducted a number of assessments in the area of PSFR. These assessments included gathering of lessons learned from past activity and a desk review of existing secondary data, as well as a primary data gathering on individual donors. However, the office had not assessed the private sector's impact on enhancing child rights in Croatia, with a focus on those areas covered by the country programme. An assessment of this type – which is required by UNICEF's guidance – would help define effective engagement with the private sector. The office said that a specific study was planned in 2018 to fill this gap.

The office told the audit team that it had in the past not had sufficient internal capacity for corporate partnerships and public fundraising. This gap had been filled by the recruitment of a Partnership Officer in February 2017, a few months before the audit visit.

Agreed action 6 (medium priority): The office agrees to determine how best the Croatian private sector might contribute to achievement of the country programme results, identify opportunities to decrease dependency of fundraising on pledge funding, and set specific objectives and related action plans accordingly.

Responsible staff members: Head of Office and Partnership Officer

Date by which action will be taken: 31 October 2018

Evaluation

Country offices should evaluate significant programme components in order to determine their value and effectiveness. Pilot projects and models are also expected to be evaluated before they are scaled-up. The latter is especially important for the Croatia Country Office, as it is actively promoting the sharing of experience with other countries. However, the office had not yet made arrangements to ensure at least one programme component was evaluated during the country programme cycle, or that pilot projects were evaluated before being taken to scale. Strengthening the office's evaluation function would help improve the design and implementation of the programme and allow a focus on the most efficient and effective interventions.

The office explained that evaluative activities were selected following bilateral discussions between the Monitoring and Evaluation Officer and Programme Officers and during

⁶ While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader as it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

programme meetings. However, the office had not provided the programme units with guidance on the selection of these activities.

Agreed action 7 (medium priority): The office agrees to strengthen its evaluation function to ensure that evaluation of at least one programme component is conducted during the country programme cycle, and that pilot projects are systematically evaluated before being scaled-up or shared with other countries.

Responsible staff members: Deputy Head of Office and Child Rights Monitoring Officer
Date by which action will be taken: 30 June 2018

Annex A: Methodology, and definitions of priorities and conclusions

The audit used a combination of methods, including interviews, document reviews, 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 its clients 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 client's own (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 auditing 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 one of 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.