Internal Audit of the Pakistan Country Office

December 2017

Office of Internal Audit and Investigations (OIAI)
Report 2017/21

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Pakistan country office. The audit sought to assess the office's governance, risk management and internal controls. The audit team visited the office from 24 August to 7 September 2017, and the audit covered the period from January 2016 to August 2017.

The 2013-2017 country programme has had four main programme components and a cross-sectoral component with a total budget of US$ 410.7 million. The 2018-2022 country programme has five programme components: *Neonatal and child survival*; *Nutritional status of girls and boys*; *Children in school and learning*; *Children are protected from violence, exploitation and neglect*; and *Safely managed water and sanitation services*. There is also a cross-sectoral component. The total budget is US$ 600 million, of which US$ 156.27 million is Regular Resources (RR) and US$ 443.73 million Other Resources (OR). RR are core resources that are not earmarked for a specific purpose. OR are contributions that may have been made for a specific purpose or programme, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved ceiling.

The Pakistan Country Office is in Islamabad, with provincial zone offices in Peshawar, Lahore, Karachi and Quetta. As of October 2017, the country office had 282 approved posts, of which 35 were international professionals, 139 were national officers, and 108 were general service.

The audit identified a number of areas which were functioning well. For example, in preparation for the 2018-2022 country programme, the office undertook a countrywide change management process that involved all staff, to ensure workforce alignment with the strategic shift in the country programme. Further, in August 2016, they performed a consultative risk assessment process that involved consultations with country office staff and field offices. The office had also taken steps to strengthen the results-focused culture by training over 80 staff in results-based management.

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, particularly in view of the difficult operating environment in parts of the country.

In discussion with the audit team, the country office has agreed to take a number of measures to address these risks and issues. Three are being implemented as a high priority; that is, to address issues requiring immediate management attention. They are as follows.

- Recognizing the inherent vulnerability to fraud and other abuse within its operating environment, the office has agreed to perform a detailed fraud risk assessment, with support from the Regional Office and Headquarters, and to ensure adequate mechanisms are in place to manage this risk within UNICEF's risk appetite. The office will also advocate within the United Nations and donor community in Pakistan for greater information-sharing and more coordinated approaches to fraud risk management.
- The office has agreed to draw up a partnership strategy to facilitate better management of its key partnership risks. It will also review controls over the accounts into which funds

are being transferred to ensure that there are adequate measures in place to safeguard these funds, where necessary developing further mitigating actions with approval from the regional office and/or headquarters.

- The country office's various programme assurance, monitoring and measurement frameworks were not aligned to ensure the effectiveness, coverage and quality of assurance activities and monitoring of progress towards planned results. The office has agreed to develop a cohesive assurance and monitoring plan that includes well defined and contextualized indicators and beneficiary feedback mechanisms; to conduct risk-informed assurance activities and follow-up on issues identified; and to improve its management of third-party monitors.

Conclusion

Based on the audit work performed, and acknowledging the challenging operating environment for UNICEF and its partners in Pakistan, OIAI concluded that the country office's governance, risk management and internal controls needed improvement to be adequately established and functioning.

The Pakistan Country Office, the Regional Office for South Asia (ROSA) and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations December 2017

Contents

Audit objectives and scope

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 auditee to address them, and the timeline and accountabilities for their implementation. It does not include lower-level risks, which have been communicated to the auditee in the process of the audit.

Audit Observations

Situation analysis and priority-setting

UNICEF programmes are intended to be evidence-based. As part of the programme design process, offices should carry out an analysis of the situation of children and women (known as a SitAn) and set programme priorities accordingly. To ensure the effectiveness and efficiency of interventions, the causes of deprivation or need should be clear, and should also be differentiated by region as necessary, especially in a large country like Pakistan. There should also be appropriate indicators to assess whether or not those causes are being addressed in the course of the programme.

Adjustments to the 2013-2017 country programme results matrix were undertaken during the 2015 mid-term review. The changes, which related specifically to some outputs and their corresponding indicators, were meant to clarify the planned programme results and improve how they would be measured or verified. In addition, multi-year workplans were introduced to identify geographical and issue-based areas of intervention.

In preparation for the 2018-2022 country programme, the office had commissioned a SitAn in the form of a desk review of the situation of children and their families in Pakistan.

However, the audit noted the following:

Situation Analysis and deprivation analyses: To support the SitAn, the programme sections undertook detailed deprivation analyses using existing information sources. Although provincial-level consultations were undertaken, the strategies developed did not actually benefit from in-depth provincial causal analyses as these had been done at country-office level. Moreover, in some instances the analyses did not fully reflect the provincial situation, as the causes of inequities at provincial level were not as readily discernible. More context was needed to guide provincial planning.

The office stated that efforts had been made to consult stakeholders at provincial level, but acknowledged that the process faced time constraints. When they reviewed the attendance list for the consultation, the auditors noted that not many of the key decision-makers had been involved. The engagement of key stakeholders in preparing an appropriate causal analysis is a key principle in UNICEF's SitAn process. If such engagement is inadequate, there will be insufficient provincial-level ownership, and hence collective commitment.

Programme priorities: Work planning processes need sufficient resources to enable province-specific analysis, prioritization, consultation and setting of targets. During the 2013-2017 country programme, the office had outlined a set of criteria to guide identification of interventions at provincial and district levels. The office subsequently developed a child well-being index, compiled from provincial MICS[1] data; this index was the basis for ranking all the districts and selecting those that would receive priority in the new country programme.

However, the audit noted that, for a number of sectors, this was not in practice matched by a commensurate level of prioritization. For one province, the audit team was shown matrices of the distribution of programme interventions based on the child welfare index (CWI). Staff said it was not fully reflective of all interventions supported; for example, they said that for Health, other criteria were used to select districts for piloting interventions prior to scaling up. The office also stated that the return of displaced persons to the province might have contributed to additional UNICEF-supported humanitarian activities, not covered by the CWI. Nevertheless, in some programmes, there was some lack of clarity as to the consistency of criteria used to select and prioritize.

In another province, the programming was more around advocacy, legislation and policy, and strategy formulation. The downstream activities that were included were mainly demonstration projects for Government to consider taking to scale. In 2016, the office reformulated its provincial workplans to improve clarity of the expected results; however, the prioritization of activities and outputs remained unclear in some sectors. The office argued that the broad outcomes and outputs could mask the intentionality, but that the focus would be ensured during the development of future multi-year workplans.

The outputs for the 2018-2022 country programme were defined and standardized at national level, following the provincial-level workshops. This increased the risk that the strategies identified would not effectively address critical issues for children as outlined in the SitAn. During the workshops, additional priorities emerged alongside the identification of areas of possible UNICEF support. Therefore, the process to ensure appropriate focus and perform a quality assurance on the rolling workplans for the first segment of the 2018-2022 Country Programme will take time. The draft timeline provided to the audit tesam was tight, and provided little room for consultation, quality assurance and feedback. This increases the risk that the workplans developed will be insufficiently specific.

Sequencing of results: The audit team noted in its review of the 2013-2017 country programme that that there was insufficient sequencing of planned interventions. For example, if one of the outputs was the formulation of a policy, there was no breakdown of the key activities such as surveys, technical assistance and demonstration projects, or the order in which these needed to occur.

Results sequencing requires that those activities that are most important to achievement of results, and their relevant milestones, are prioritized.

[1] The Multiple Indicator Cluster Survey **(**MICS) is a survey technique developed by UNICEF to provide rigorous data across a range of fields from households, from women, from men and concerning under-fives. MICS is designed to provide internationally comparable data on the situation of children and women.

Agreed action 1 (medium priority): To improve its results formulation, the country office agrees to:

i. Ensure adequate space for timely in-depth consultations with relevant Government decision-makers, ensuring engagement of key stakeholders in the development of a causal analysis.
ii. Allocate sufficient resources to work planning (including time and quality assurance) to enable province-specific analysis, prioritization, and determination of SMART[2] targets.
iii. Ensure that there is appropriate sequencing of results on the basis of the programme priorities identified.

Responsible staff members: Deputy Representative, CFOs and Chief Planning & Monitoring
Target date for completion: 30 June 2018

Risk management

Effective risk management helps country offices to identify key risks and establish appropriate responses. This increases the chances of achieving the anticipated results for children, reducing performance variability, surprises and related losses. UNICEF's Enterprise Risk Management (ERM) policy provides a structure for the assessment of risks to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes.

The Pakistan Country Office performed a consultative process on the ERM in August 2016, involving both country office and zone office staff. This identified 74 risks, which were then classified by function and condensed into 12 categories of the highest risks. The audit reviewed this risk assessment and noted the following.

Holistic risk assessment: UNICEF's ERM guidance states that "when identifying risks, it is important to think widely about potential internal and external factors that could affect the achievement of results and management objectives." However, the audit team noted that most of the 12 highest risks identified were internal, while the 2018 -2022 CPMP[3] better articulated external risks such as Government devolution and the role of the Pakistan National Disaster Management Authority (NDMA) in responding to disasters at country level. The office stated that this was because the ERM exercise had been undertaken in the middle of 2016, whilst the majority of the new country programme work occurred during 2017. It could be said that this reflects a change in the key risks, and the ERM should have been updated anyway. However, the audit team noted that the challenges of devolution were present prior to 2016 as was the Government stance on the role of the NDMA.

A holistic approach to risk management moves from a fragmented methodology (with separate risk assessments for day-to-day operations and the overall country programme) to an integrated and strategically-focused ERM process that not only includes risks associated with unintended financial losses, but also strategic, programmatic, and key external risks.

[2] SMART: Specific, measurable, achievable, relevant and time-bound.
[3] When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

Such an approach should also ensure that these risks and how they are managed is kept under review and updated as necessary during implementation.

Provincial context: External risks vary from province to province, and can differ significantly in terms of security, provincial Government capacity and demographics amongst other things. There are also differences in the way Government devolution has progressed in each province. This, in turn, affects the way UNICEF's programmes need to be implemented. In addition, the interest of donors in particular sectors and provinces varies, and this too should have been reflected in the office's programmatic strategies.

While there is no specific UNICEF organizational requirement for location- and sector-specific risk assessments, their absence in a highly decentralized environment significantly weakens risk management. Some additional direction in this area is found in UNICEF's guidelines on risk-informed programming, which suggests consideration of the capacities of actors at national and decentralized levels to better understand bottlenecks and identify relevant influencers/decision-makers.

Agreed action 2 (medium priority): The country office agrees to:

i. Perform risk assessments that include both internal and external risks to the achievement of objectives, along with overarching strategic risks to the country programme.
ii. Identify the appropriate sub-national levels at which risk assessments and mitigating measures should be contextualised to better inform province-specific programming.
iii. Periodically revisit these risk assessments at key points during implementation, particularly before and after significant events which may affect the risk environment.

Responsible staff members: Deputy Representative, Chief of Operations and Operations Specialist – Internal Control/Assurance
Target date for completion: 31 March 2018

Fraud risk management

The primary responsibility for the prevention and detection of fraud rests with those charged with governance of the country office. As part of the design of its new anti-fraud strategy, UNICEF headquarters is developing tools and guidance to assist country offices in assessing and managing fraud risk, and these are expected to be rolled out during 2018. In the meantime, country office management must themselves take appropriate steps to ensure that the risk of fraud and other abuse is managed within UNICEF's risk appetite.

The Pakistan Country Office had demonstrated its commitment to combatting fraud by creating a unit (headed by the Specialist - Internal Control) whose primary function is to decide on fraud prevention, investigative activities and risk-mitigation measures in consultation with management. The audit reviewed this function and noted the following.

Detailed fraud risk assessment: The office's overall Risk and Control Self-Assessment (the RCSA) had identified the risk of fraud and outlined the main mitigating actions. However, the office had not recorded a detailed assessment of its vulnerabilities to the various specific types of fraud and abuse that it might face, such as asset misappropriation, fraudulent statements, corruption, bribery and conflicts of interest. Such an assessment would help the office identify which particular activities are most vulnerable to fraud and put the office at greatest residual risk, after assessing the adequacy of the preventative and detective controls already in place, for instance within programme design and implementation. This detailed understanding is key to applying effective anti-fraud responses and thus maximizing the likelihood that the office's resources will be spent on results for children rather than diverted for personal gain. The audit team was informed that an office-specific assessment was being written at the time of the audit visit but was still at a formative stage.

Prevention, detection and response: The current focus of the Internal Control team in the Pakistan office was on logging, assessing and investigating allegations received and performing HACT[4] assurance activities. In addition, with the departure of the Field Office Coordinator, additional activities were temporarily allocated to the team, which diluted its focus and having an adverse impact on the segregation of duties.

Although the risk assessment broadly outlined some mitigating actions for fraud risk, the audit team noted that their implementation was not systematic. For example, there was a drive to reduce the number of partners. To do this, the office had instituted a competitive partner selection process. However, this was not applied across the board, and there were several legacy partnerships that did not come under the same scrutiny.

Furthermore, for Government partners, the June 2012 Public Financial Management and Accountability Assessment[5] had noted that substantial amounts of extra-budgetary flows to Government were disbursed outside the national procedures. So, Government procedures for banking, authorization, procurement, accounting, audit, disbursement and reporting do not apply to donor funds, which are often managed by authorized project authorities in assignment accounts. Additionally, most extra-budgetary funded projects are not audited by the Auditor General of Pakistan (AGP). This was true for funds from UNICEF Pakistan, in that the transactions were managed outside the Government systems (see also observation on *Partnership management*, below). No additional due diligence and screening measures had been put in place to manage this exposure, even though corporate procedures did not adequately mitigate the risk.

Another key preventative action that the country office could have considered was targeted training. Although the office was ensuring that its staff undertook the mandatory online ethics training required under UNICEF policy, management had not considered the identification of key staff (such as Chiefs of Zone Offices) for specific additional training in fraud awareness and response that would increase the chances of fraud being prevented or detected at the local level, for instance through better programme design, implementation and monitoring.

Coordinated approach: There were no specific tools in place to facilitate the identification of anomalies and abnormal trends in programme performance or other activities. Neither was there coherent exception reporting and analysis from the information collected through programme monitoring, spot checks and allegations.

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[4] HACT is the Harmonized Approach to Cash Transfers, the set of procedures under which UNICEF and other UN agencies ensure that their funding has been used by partners for the intended purpose. See observation *Programme assurance activities*, p17 below.

[5] This is an assessment carried out by the Government along with the World Bank, DFID, the EU and the Asian Development Bank. The report is available online at https://openknowledge.worldbank.org/handle/10986/26816.

The office said that it coordinated with UNICEF's central Office of Internal Audit and Investigations (OIAI) in responding to allegations. However, it had not as yet explored or advocated more systematic coordination with other parties, such as sharing of information on specific local exposures to fraud and abuse and on anti-fraud mechanisms within the UNCT,[6] the HACT group and major donors based in Pakistan.

There was also no evidence that guidance had been provided within the country office and to its partners on the need to periodically obtain beneficiary feedback on the actual receipt and quality of assistance, and how this feedback should be built into Government systems. On end-user monitoring, the office had recently established mechanisms to assess the appropriateness, quality and condition of selected supplies. However, these mechanisms had yet to be implemented with actual end-users (e.g. within communities).

In general, the office was not regularly making use of benchmarking with other organizations on their anti-fraud activities and monitoring. This would help strengthen the country office's assurance that its programme design and implementation and management practices are adequate to ensure its resources delivered results for children, rather than those resources being diverted. It would also help contribute to and support the Government's efforts to strengthen its own systems against fraud, corruption and other abuse.

Agreed action 3 (high priority): The country office agrees to take the following steps, with support from the regional office and headquarters divisions:

i. Perform a detailed fraud-risk vulnerability assessment that includes identifying appropriate mechanisms for prevention and detection of, and response to, fraud and other abuse in UNICEF Pakistan's specific programmatic and operational contexts.
ii. Allocate resources for any additional mechanisms and tools which are required to strengthen the office's response, including targeted and focused training in fraud risk management for key staff.
iii. Institute periodic reviews of the efficacy of response mechanisms, adjusting these as necessary.
iv. Advocate better-coordinated approaches to fraud risk management with key partners in Pakistan, including facilitating the appropriate sharing of information to help in combatting fraud and other abuse.

Responsible staff members: Chief of Operations and Operations Specialist – Internal Control/Assurance
Target date for completion: 31 March 2018

Governance and office structures

An office should have effective governance mechanisms, and the office and staffing structure should be tailored to deliver the programme. The audit noted the following.

Governance structures: The Pakistan Country Office had the standard internal governance structures for a country office, and also participated in the normal external UNCT mechanisms. This included the UNICEF Country Management Team (CMT), which advises the Representative on the management of the country programme and on strategic matters, and

[6] UN Country Team, an internal UN term for the joint meeting of all the UN agencies or bodies active in a given country.

consists of senior staff from Programme and Operations sections, and staff representatives. The normal internal committees for reviewing proposed contracts and partnerships were also in place and the office had reviewed them, in line with UNICEF guidance, in July 2017.

The audit team reviewed a sample of minutes of meetings of these committees and noted that the coordination of these structures could be improved by clarifying the linkages between them. Procedural and activity performance indicators such as budget monitoring, assurance activities, and the number of direct cash transfers outstanding could have been discussed in detail at other relevant management committees, and when relevant reported to the CMT for strategic discussion. This would have better focused the CMT on strategy and results management and more ably supported the Representative in management and monitoring of the country office's overall performance.

Office structures: In preparation for the 2018- 2022 programme, the office had undertaken a comprehensive workforce review. However, it had also committed itself to ensuring that these changes would have minimal impact on its workforce, resulting in little differentiation in structure between the field offices. This compromise reduced the extent of structural change irrespective of changing programme thrust and workload across the office's area of operation.

The audit team also noted that, although some references have been made to differences in provincial government capacities, there had been no analysis that looked at relevant influencers and decision-makers at national and sub-national level. This increases the risk that the zone offices' structure and skillsets will not be aligned with points of authority and decision making at a sub-national level.

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

i. Organize its statutory committees' reporting processes so that Country Management Team meetings receive the information needed for strategic direction and management.
ii. In the next Programme Budget Review,[7] consider tailoring the organizational structures in the provinces to maximize effective alignment of structures and staffing with provincial strategies, the programme workload and the operating environment.

Responsible staff members: Representative/Deputy Representative
Target date for completion: 30 April 2018

Zone-office management

The country office in Islamabad was responsible for the consolidated programme and for providing technical oversight on implementation to the zone offices. There were zone offices in Peshawar, Lahore, Karachi and Quetta. The audit reviewed zone-office management and noted the following.

[7] The programme budget review (PBR) is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether these are appropriate for the proposed activities and objectives.

Work-planning processes: The office had introduced changes to its multi-year work-plans in 2015. The audit review of zone office workplans noted weaknesses in defining outputs, the use of the standard indicators, the means of verification to assess progress, and the planning of activities in almost all programmes, to varying degrees. For example, some activities or indicators were defined as outputs. These weaknesses would contribute to weaknesses in establishing achievements when consolidated at the national level.

The office was planning to use a detailed workplan format for provinces that required them to identify provincial annual and multi-year targets, baseline indicators, implementation strategies related to partnerships and supplies, and more. This requires adequate time and built-in quality assurance mechanisms to successfully undertake such a detailed exercise.

Accountabilities: The country office had adopted a centralized management approach, with most of the staff and decision-making in Islamabad, but the zone offices were nonetheless accountable for quality implementation and timely achievement of results. Under this approach, the country office sections take overall responsibility for results, but there is a lack of clarity in the accountabilities of the chief of the zone office *vis-à-vis* the implementation strategies and the related sectoral outcomes for the provincial workplan.

Lack of clarity in accountabilities for provincial contributions to the country office's results risks reducing the effectiveness of the programme. An example of this was an output relating to Out-of-School Children (OOSC), where two of the main activities related to technical assistance on Alternative Learning Programmes (ALPs) in vulnerable communities and improving the quality of the Education Management Information Systems (EMIS). However, the main indicators used for the outputs had no specific focus on OOSC and the EMIS. At the time of the audit, a survey of OOSC had not taken place in either province; additionally, a Government official had stated that the data systems for the formal education department and the Literacy and Non-Formal Basic Education unit were separated.

This meant that the baselines to assess progress of these activities were not in place; and yet the office had rated the overall status of the output as on-track, based on the assessments of all the field offices reporting. Without contextualised metrics, it is difficult to assess the significance of each individual zone office's contribution, whether an office did not contribute and why, and whether the zone office or sector chief was responsible for this. This undermines accountability for achieving planned results.

The country office intends to make the province-level plans more context-specific, so that specific zone-office contributions to the country programme results are more clearly defined in the 2018-2022 rolling workplans. To do this, the country office should distinguish between accountabilities so that they are aligned to the expected results of each unit. This process should also clarify the role and accountabilities of the chief of zone office in the results chain.

Zone-office coordination: At the time of the audit visit (September 2017), the Field Office Coordinator post had been vacant since March 2017. Even prior to that, though, the coordination of the offices was not systematic across sectors. A meeting of section and zone-office chiefs had been held in June 2017, and some chiefs had found this extremely useful in providing clarity and agreement between the programme sections and field offices. However, although it was agreed to hold such meetings more often, the next meeting had yet been planned or scheduled at the time of the audit. The form and timing of such forums should be instituted as part of the field coordination mechanisms, ensuring that outputs from the meetings are properly followed-up and are fed, as relevant, to CMT for strategic decisions and direction.

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

i. Look at aligning programme strategies, to the extent feasible, with the situation in each province, and periodically review actions for relevance and appropriateness.
ii. Assess zone offices' performance against targeted results and indicators that are locally appropriate.
iii. Document the overall accountability framework for delivery of results for the 2018-2022 country programme, focusing on results and cohesive programme delivery, and clarify the respective roles and accountabilities of the country office and its subordinate field offices within the result chain.
iv. Clearly set out the mechanisms and expectations for technical oversight of and coordination with the zone offices, ensuring linkage to the relevant chiefs' performance appraisals.

Responsible staff members: Deputy Representative, Chief of Field Operations and Chief of Planning & Monitoring
Target date for completion: 30 April 2018

Resource mobilization

The 2013-2017 country programme had a total budget of US$ 410.7 million, of which US$ 320 million, or 78 percent, was Other Resources (OR). During the period of the programme, the office had raised a total of US$ 299 million. The funding status for OR as at September 2017 was 94 percent of the OR ceiling for the 2013-2017 programme cycle, with variations in the funding status of individual programme components ranging from 26 percent (Child Protection) to 174 percent (Polio). The audit team noted that a detailed analysis of the output and geographical distribution of funds would find even more stark funding variations within the programme components and between provinces. The auditors also observed that the office was not adequately tracking funds raised against each output. Had it done so, it would have been better able to prioritize its efforts and to know which programme components and provinces required a change of focus or amendments to planned outputs.

For the coming 2018-2022 programme cycle, the office had planned a total budget of US$ 600 million (US$ 443.73 million, or 74 percent, of which was OR). The office said it had done an analysis that showed funds were available for the first two years of the new programme. However, a detailed fund history analysis as suggested above would be even more helpful now, given the planned increase of about 39 percent in OR. Such an analysis would aid appropriate activity/output sequencing, by sector and province, where there are clear indications that resources will not be received in time or will be insufficient.

The audit also noted that there is a transition from humanitarian interventions to medium- to long-term development programmes within the new country programme. This will affect the characteristics of the OR funding required. Development interventions are long-term and need resources to match. In addition, some of the provinces were already investing considerable sums in the social sectors, but there was no concerted advocacy by UNICEF to influence or leverage these investments towards providing services to marginalized women and children.

The office told the audit team that, in preparation for the transition, it had already begun engagements with key development partners, and had submitted proposals and concept notes for over US$ 106 million out of which US$ 12 million had been approved. It also estimated that additional OR funding of about US$ 25 million would be secured before the beginning of the new country programme. As of September 2017, though, the office still needed to develop a clear and comprehensive resource-mobilization strategy and an advocacy plan in support of the upcoming country programme.

Agreed action 6 (medium priority): The country office agrees to:

i. Undertake an in-depth historical analysis of funding patterns and use this to help develop a new-resource mobilization and advocacy strategy for the new country programme that would enhance the office's capacity for fundraising as well as leveraging results for children.
ii. In future, periodically analyse funding status by output, including current funding allocations, funds confirmed but not yet received, and proposals submitted to donors. This will help management respond quickly to any risks around insufficient funding, both overall and also in specific programme areas.

Responsible staff members: Deputy Representative
Target date for completion: 31 March 2018

Partnership management

The office transferred around US$ 55 million to 171 partners in 2016 and during 2017 up to the time of the audit. Of this, US$ 29 million (53 percent) had gone to NGOs and the remainder to Government partners, who were about 66 percent of the 171 implementing partners. The audit team reviewed the office's partnership management, including the strategic intent of the partnerships, and noted the following issues.

Partnership strategies: For the 2018-2022 country programme, the office had signalled its intention to focus more on upstream efforts in some provinces; this would require innovative approaches for building partnerships with key donors and academia and also working more closely with the Government and less with NGOs. However, the office had yet to set out the strategic intent of its partnerships, based on broader-level outcomes. This was needed to guide the identification of partners by the different sectors/offices within an agreed framework directed by the country office.

This was important, as the audit noted instances where large donors were involved in the same sector as one of the UNICEF zone offices, but for which the latter had not received funding and so represented a missed opportunity. Despite this, and with little time left before the start of the new country programme, the office had no clear strategy for high-impact partnerships with major actors.

Moreover, this area further highlighted the need for an all-inclusive partnership strategy (see also observation on *Resource Mobilization*, above). This would help define the risks of partnerships and specify fundraising contexts, ideas, events and opportunities for engagement with donors and academia, as well as resource-leveraging with the Government.

Government partners: The office had transferred funds to at least 113 Government implementing partners. As noted earlier (see observation on *Fraud Risk Management*, above), the office cash transfers to the Government are disbursed outside the normal official Government procedures. Further, the Government requires that all its funds and projects lapse on 30 June, when its fiscal year ends. This is an issue as the UN fiscal year ends on 31 December. The option chosen for cash transfers had been to use assignment (project) accounts, as such accounts are managed by authorized project authorities (with bank accounts opened with special approval using a specific process). However, this practice has been discouraged by the Government as it is not covered by its internal control mechanisms.

The audit team performed a review of the supporting documentation for a sample of Government bank accounts being used for cash transfers. The support for verification of the bank accounts differed. In one instance a letter of authorization was obtained from the secretary of the provincial department indicating the two staff responsible for maintaining the account. In another, a letter was received from the bank naming two individuals as responsible for the maintenance of the account. In the remaining cases, there was only a letter from the bank, rather than any explicit authorization from the Government department. Where there is no government approval for the setup of these banks accounts, there is the risk that the relevant authorities might not be aware of their existence. Also, as these accounts fall outside the Governments' internal control procedures, they would not be subject to scrutiny by the Supreme Audit Institution. All these factors increase the risk that funds held in these accounts may be misappropriated and not being used for their intended purpose.

Moreover, the bank letters merely stated that there was a named account, such as 'Nutrition Cell' or 'Director-General Health', but the name of the individual(s) managing the account was not indicated. In addition, the audit team found that some accounts were maintained by civil servants in their individual capacity (albeit under department or project names) and were single-signatory accounts.

It was also noted that in the One Programme (OP) II[8] for 2013- 2017, under partnerships, it is stated that the Economic Affairs Division (EAD) which represents the Government of Pakistan is the highest policy-level decision making authority for OP II and that the UNCT will work in consultation with them and provincial authorities. UNICEF signs the federal workplan with EAD and the provincial plans with the provincial Planning & Development (PND) departments. The UNICEF zone office then works with individual departments or units within the provincial governments to implement the programme. The signed workplans do not clearly indicate who the implementing departments are or the funds planned or given to those departments to facilitate scrutiny by EAD or the PNDs.

Selection of NGO partners: Based on the list of active partnerships provided to the audit team, 71 percent of the programme cooperation agreements (PCAs) were single-sourced, with the remaining being competitively selected. The office explained that it had tried to comply with the competitive selection process outlined in UNICEF's procedures, which discourages single-sourcing of partners for interventions and stresses the need for competitive selection. The office said that it had difficulties implementing this, as in some areas there was a limited number of NGOs who could perform the activities required. However, the use of direct selection as a common practice can create the perception of lack of transparency.

[8] The One Programme is the UN's overall vehicle of cooperation with the Government of Pakistan. See https://www.un.org.pk/one-un-programme/.

Competitive selection also helps ensure that the requirements of the relationship are clearly outlined and the capabilities and resources of the NGO should be considered in the selection.

The audit noted in some cases that the NGOs' contribution and the impact of the relationship on achieving objectives were unclear. For example, in some instances, the NGO appeared to providing specific services without any additional contribution, rather than being a partner who shares in the risks and rewards of the programme; in these cases, a PCA is the wrong contracting tool and a contract for services would be more appropriate.

Agreed action 7 (high priority): The country office agrees to:

i. Draw up a partnership strategy, which looks at the key partnership risks, provides clarity in the sharing of risks, and sets out what the responsibilities and obligations of each partner should be.
ii. Review all accounts into which funds are being transferred by the office to ensure there are adequate controls in place to safeguard those funds. Where necessary, implement supplementary compensating control procedures, taking account of actions adopted by other UN organizations or large donors in similar circumstances, and after escalating any such special procedures to the regional office and/or the Division of Finance and Administrative Management for approval.
iii. Wherever possible, apply the competitive selection process for partners, including a clear statement of the requirements of the partnership, and ensure the correct contracting tool is used in each case for services.

Responsible staff members: Chief of Operations
Target date for completion: 30 April 2018

Multi-sectoral approaches

The 2013-2017 country programme had a strong focus on humanitarian response. Pakistan's cumulative annual HAC[9] for 2013-2017 was US$ 216.9 million. The country office's portion amounted to US$ 101.5 million, or 46 percent. The audit team reviewed the office's current and planned cross-cutting strategies; it concentrated on Disaster Risk Reduction (DRR), strengthening of resilience, and social policy and social protection, as these had been underscored in the planning processes for the new country programme. The new programme stresses capacity-building of and support to the government emergency response mechanisms, rather than being directly involved in emergency response activities. The audit noted the following.

Disaster Risk Reduction (DRR) and resilience strengthening: In 2017, the office consolidated selected emergency related activities into one workplan which was signed by the National Disaster Management Authority (NDMA). This over-arching plan also provided support to the Provincial and District disaster management agencies.

Each sector planned and implemented detailed emergency preparedness and response activities within its own workplan to 2017. For 2018-2022, the DRR capacities were to remain within the individual sections, while implementation of resilience activities would be

[9] HAC stands for Humanitarian Action for Children. An HAC is an appeal that UNICEF launches for assistance for a particular crisis or emergency response, and will state how much UNICEF thinks it needs to raise for a given situation. The appeals page is at https://www.unicef.org/appeals/.

embedded as cross-cutting for select activities but undertaken by sector for others. However, the audit team noted that resilience strengthening, DRR and disaster management are multifaceted, requiring multi-sectoral approaches. The planning of preparedness and risk reduction/resilience outputs and activities by individual sector may therefore undermine the efficacy of the interventions.

Although the office planned to reduce direct implementation in emergency responses in the new programme, among the core activities to be maintained is that of contingency pre-positioning of emergency supplies (for an estimated 100,000 people). Pre-positioning for immediate response is multifaceted and the role of a first responder, in this case, the sub-district and district disaster management units. Capacity building at that level includes such functions. It is therefore unclear why the office continues to pre-position supplies for such a large number.

Social policy and protection: During discussion with some provincial Government partners, the audit team heard that there was a lack of social policy in some areas after Government devolution to underpin UNICEF-supported interventions. Although some sector workplans did have activities relating to the formulation of policy, the audit found that they were generic and did not clearly articulate how the office would contribute to the output. It was therefore difficult to state whether the activities undertaken were appropriate given the specificities of each province. The audit also noted that that support was only just beginning for systematic support to cross-sectoral issues of social protection in preparation for the 2018 – 2022 country programme. Discussions with programme staff did not suggest a consistent approach to this, with some sections undertaking these activities on their own, and mostly at federal level.

The office stated that there had been delays in implementing social policy and protection activities as the Social Policy post in the office had unexpectedly moved to the regional office, and on-going technical support was to be provided from there. However, both provincial Government partners and UNICEF offices had noted the need for varying technical skills at provincial level, and there was currently no systematic way to provide these.

Agreed action 8 (medium priority): The country office agrees to enhance multi-sectoral programming by ensuring that:

i. Multi-sectoral planning is in place and that the implementation of Disaster Risk Reduction strengthening and its appropriate oversight mechanisms is operationalized.
ii. A review of preparedness activities is undertaken, and that non-essential activities are stopped.
iii. Annual and personal performance plans state how social policy capacity and support will be provided within priority provinces.

Responsible staff members: Deputy Representative and Chief of Field Operations
Target date for completion: 30 April 2018

Programme assurance and monitoring

UNICEF country offices are required to monitor progress towards results. They must also ensure that funds disbursed have been used as agreed. For the latter, UNICEF and some other

UN agencies implement assurance activities that are set out under a set of procedures called the Harmonized Approach to Cash Transfers (HACT). This is a risk-based framework under which offices assess the risk attached to a particular partner and tailor their cash-transfer process and assurance activities accordingly. Two of the main activities in the assurance plans are spot checks of partners' financial management, and programmatic visits in which progress is discussed with the partner.

The audit team sought to assess the effectiveness of the monitoring processes, with a focus on the programmatic visits as a key input to monitoring and use of resources to ensure funds are deployed for intended purposes. The following was noted.

Level of assurance activities: According to the HACT key performance indicators in inSight,[10] at the time of the audit, the HACT assurance activities required for the office had a low execution rate in volume terms. The Islamabad office had performed 59 percent of the required programmatic visits, no spot checks, and 19 percent of the scheduled audits. For the zone offices, 78 percent of programmatic visits were carried out as planned, but only 29 percent of the required spot checks. It was also noted that assurance activities were planned to comply merely with the minimum HACT requirements and not the actual level of risk obtaining in the local environment – although, as noted above, even the minimum requirements driven by the HACT formulae were not being achieved.

Programmatic visits (PV): The programmatic visits should be conducted within a programme monitoring framework so that the office can obtain regular and consistent feedback on the activities planned with partners. In 2016 the office had issued an internal programmatic field-monitoring directive to staff; this clarified the roles of staff and that of programmatic monitoring team in the support and quality assurance of visit plans and reports.

The audit reviewed the zone-office plans for programmatic visits. These did not have a standard format or content; while some field office plans indicated locations (where relevant) and timelines, others did not. Information on the rationale for selection of location, geographic coverage and timelines of monitoring activities was insufficient, even though this information is critical to ensuring appropriate coverage of the programme. For example, if an implementing partner has activities in more than two locations yet receives three programmatic visits in the same location, this will not give the office an overall picture of how the activities are being performed.

In addition, programmatic visits were not sufficiently risk-informed. For instance, in one field office sampled, a partner that the office had assessed as low risk and received about US$ 15,000 had one programmatic visit, while another partner with moderate risk rating that received US$ 458,000 did not. In another office, a partner received no funds in 2017 and yet was visited, whilst another that was rated high risk and received US$ 625,630 also had (only) one visit.

Such practice is not an efficient or effective use of the partner's or UNICEF's resources, and undermines the country office's assurance as to how UNICEF spends its funds and achieves planned results. It also limits the office's ability to support poorly performing partners where

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

this is required.

Follow-up: Assurance activities are clearly more impactful if the findings from them are followed up, and any deficiencies corrected. In a July 2016 programme monitoring directive, the office had specified how coordination and follow-up actions would be carried out. However, this had not been consistently implemented across the country office and zone offices. The audit team was informed during one field visit that recommendations or issues raised during programme monitoring visits performed by third-party monitors (TPMs) were not addressed in a timely manner. This was corroborated by one of the TPMs, who stated that findings persisted even after several visits.

Additionally, recommendations from programmatic visits were not ranked in a manner that would help the office prioritize high-risk actions and ensure their timely implementation. The unsystematic implementation meant there was no basis by which common trends could be identified and addressed through capacity-building or other action. The audit team was unable to ascertain if there was standard mechanism in place for raising "red flags" from programme monitoring visits. This lack of a methodical follow-up applied to spot checks as well.

Third-party monitoring: The office has used the third-party monitoring mechanism for over seven years in both humanitarian and development interventions, mainly in the hard-to-reach areas of Pakistan which UNICEF staff have difficulty accessing. The purpose is to obtain regular feedback on the implementation of programme activities and validate the progress reported by implementing partners. In 2015, the office commissioned an assessment of this mechanism, for which a report was issued in April 2016 with recommendations for improvement. The office had subsequently issued a July 2016 directive on the new process. However, as of September 2017, the following key recommendations had yet to be addressed:

- The office had yet to establish a consistent procedure for cross-checking the results/reports of the TPMs to ensure accuracy and completeness.
- The office had yet to articulate linkages between the annual work plan and TPM plan. (The audit team was informed that this would be done in the last quarter of 2017.)
- The audit noted that the office had not implemented quarterly evaluation of the TPM firms against predefined indicators, which would form the basis for future awards of contract or termination of existing contracts. The office stated that it had recently established monthly checklist with performance indicators, but that an evaluation would be done after six months.

Monitoring progress towards results: This type of monitoring relates to reviewing how completed activities are contributing to the planned outputs so that appropriate course corrections can be made. Based on the office's monitoring directive, the chiefs of zone offices are responsible for programme implementation and monitoring of results in the provinces. However, the audit noted that, in the absence of provincial-level outputs and corresponding indicators for some sectors and provinces, monitoring could not be properly performed at the sub-national levels. The office affirmed that this was caused by a combination of factors including inadequate results-setting and inappropriate means of verification and indicators.

The development of a structured measurement framework for results and consequently a programme monitoring plan is a requirement for UNICEF programmes. An effective monitoring plan will also require the setting of appropriate standard indicators, baselines, means of verification, and beneficiary feedback mechanisms, with the performance of risk-informed assurance activities included in the assurance plan. The lack of a cohesive assurance and results monitoring plan will mean that the office is unlikely to obtain sufficient evidence on the proper use of funds and achievement of results.

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

i. Develop a cohesive programme assurance and monitoring plan that includes well defined and context-specific indicators, baselines, means of verification, and beneficiary feedback mechanisms.
ii. Within the results measurement framework, conduct risk-informed assurance activities in line with HACT, taking care to focus on the quality of the assurance activities and not just their quantity.
iii. Ensure there is a follow-up mechanism that enables prioritization of issues detected during programme visits, spots checks and audits, and the identification and tracking of anomalous trends.
iv. Draw up an action plan to ensure that all key recommendations from the April 2016 assessment of third-party monitoring are implemented, and that TPM provides an effective control mechanism in practice.

Responsible staff members: Chief of Operations and Chief of PMER
Target date for completion: 31 March 2018

Procurement

Total procurement for services and programme supplies for the period under review were US$ 103 million and US$ 28.4 million respectively, with 603 contracts issued for services (520 corporate contractors and 83 individual consultants). The audit noted the following.

Planning: The office had prepared service and supply plans for both 2016 and 2017. However, in some instances there was no linkage between the plans submitted by the sectors and the related workplans. This could lead to procuring supplies that are costly and/or unnecessary.

Market survey: The office had last performed a comprehensive market survey in 2012. During the period under audit, the top three contractors, accounting for 69 percent of the total value of services procured, were third-party monitors (TPMs) that had been used by the office for more than five years. Five TPMs were awarded contracts valued at US$ 76 million through long term agreements (LTAs). The process for establishing the LTAs was said to have been competitive, but as the office had not done a market survey, it had only had a limited pool of contractors to choose from.

The office said it was in the process of engaging a consultant to conduct a market survey. A wider and up-to-date contractor and supplier database would improve transparency and competition, and so result in better value for money.

Contracting: Contracts are legally binding only when signed by both parties, and implementation of the contract should not commence before signature. However, several contracts tested were not signed before implementation commenced. According to records in VISION, 90 corporate contracts awarded during the period under audit had not been signed by both parties before the start dates of the contracts. An audit sample of 12 contracts confirmed that in six cases, signature was after the start date, with the delay ranging from 22 to 130 days. This was due to inadequate supervision of contracting processes and could lead to tasks not being performed in line with the contracts, with disputes being more likely and more difficult to resolve. The office said these instances occurred mainly within one section. Although the section responsible stated that this was because they were in emergency mode, the audit team noted that they usually used the same contractors under an LTA. The office said it was now reviewing the contracting processes and that this issue would be addressed.

Contract management: A key step in contract management is contract closure, which requires offices to regularly monitor the status of contracts and promptly close all commitments which require no further activity. The office did not regularly review the status of contracts in order to close expired contracts and release any unused funds. Of the contracts raised during the period under audit that expired on or before February 2017, 70 were still open with balances as of September 2017. These contracts had about US$ 216,000 in unused balances and some of them had expired in 2016.

The office did not systematically use the end-of-contract evaluation to decide on whether or not to continue working with the contractor. For instance, the audit team reviewed four different contract evaluation reports performed in September 2016 for one of the five TPMs sampled. The reports found that the contractor had unsatisfactory ratings for quality of work, technical skills and meeting schedules. The evaluator had suggested that UNICEF should not re-engage the contractor in that or any other field, and there was no record that the office disagreed with the evaluator's recommendation. However, the office nonetheless still awarded six new contracts with total value of US$ 961,000 to that same TPM contractor.

Supplies: The office procured programme supplies worth US$ 28.4 million during the period under review. These procurements were based on a consolidated supply plan. As of September 2017, there were about US$ 2 million worth of non-prepositioned supplies yet to be distributed to implementing partners and beneficiaries. Of this, 24 percent (US$ 477,000) had been stored in the warehouse for more than nine months, including US$ 370,000-worth of supplies that had been there for over one year. This was caused by the inadequate linkages between the supply plan and the related work. The office stated that it had distribution plans for inventory valued at US$ 781,000 that would be effected before the end of the year. Poor supply planning may result in unnecessary procurement and wasted resources limiting results for children.

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

i. Conduct a comprehensive market survey and use the results of the survey to update its database of service providers and suppliers.
ii. Ensure that supply plans are linked to the workplan and distribution plan whilst regularly reviewing the aging of supplies in the warehouse.
iii. Strengthen controls over management of contracts for services to ensure that these are signed before the start date, and regularly review the status of contracts in order to ensure that unused funds are released promptly.
iv. Ensure that contractors are promptly evaluated and that the results of such evaluations are correctly used for decisions on future award or extension of contracts.

Responsible staff members: Chief of Supply and Chief of PMER
Target date for completion: 31 March 2018

Data and reporting of results

The audit team sought to verify the office's processes and quality assurance mechanisms regarding data on progress for the 2013-2017 country programme.

It is generally acknowledged that there is data availability in Pakistan, albeit with varying levels of quality and disaggregation. The office had organized several routine and periodic collection exercises, such as provincial-level MICS, household surveys, etc. There are also several management information systems in the health, water and education sectors, and the country office's workplans showed support to several of these. However, some areas still required more attention, such as analytical depth, the use of data at district levels, dissemination of data in formats understandable to users, and increased disaggregation where possible.

The audit also noted the following.

Variety of data-collection exercises: The multiplicity of data-collection exercises posed a risk that the office's support may be fragmented and thus result in an inefficient and ineffective approach in support of data generation and management.

For example, the audit noted that in one province a child labour survey was being considered without consideration of possible linkages to information on Out-of-School Children, for whom no survey had as yet been performed. In another instance, it was noted that Education Management Information Systems did not include data generated by the Basic Literacy unit. The data focus of the 2018- 2022 country programme is to provide some rationalization in the approach, within the office's Planning & Monitoring Unit.

The office stated that a consultant had been commissioned to map and assess all major data-generation exercises, and to make recommendations on those that the office could collaborate on. This could also improve linkages between the office's various programmatic support initiatives in these areas.

Validating results: The audit asked a zone office to show how cumulative results in the 2015/2016 multi-year workplans, reported in the Results Assessment Module (RAM), were aggregated. The findings confirmed that the office's processes to determine and subsequently report on progress were not always sufficiently rigorous. Their veracity was undermined by the poor quality of the means of verification and weaknesses in indicator-based monitoring.

The office mid-term review (MTR), was a light exercise, which had not holistically assessed progress against planned outputs. The MTR had made changes aimed at improving the results matrix; however, the audit team noted that the accountabilities related to the programme spend during this period was not clarified. The office did note in its 2018-2022 CPMP that it had faced challenges in clearly determining progress against intended results, due to the quality of the results chains, alignment to country programme results and weak programme field monitoring. The country office is moving towards the implementation of more systematic programmatic monitoring with the rollout of UNICEF's global results-based management strategy.

Reporting results: The office had a mechanism to check the timeliness of reports and their quality. To assess the mechanism used by the office for the collection and validation of data used in various reports such as the donor reports and Country Office Annual Report, the audit obtained a sample of results statements selected from three donor reports submitted to major donors during the audit period and the 2016 Annual Report.

The audit noted that the main sources of information were Government databases and implementing partners' progress reports or final reports. In some instances, the office had provided programme visits reports as evidence of the achievements reported. Given the weaknesses noted in the office's current programme monitoring framework (see observation on *Programme assurance and monitoring*, above), the office's ability to provide a reasonable level of assurance over results reported requires strengthening to ensure that the planned results for children are actually achieved and to avoid any potential reputational risk from inaccurate reporting.

Agreed action 11 (medium priority): The country office agrees to:

i. Set out a more integrated approach to data generation and management information systems in the annual management plan or multi-year workplans, as appropriate.
ii. Strengthen its quality assurance mechanisms for assessing and validating data and reporting on achievement of planned results.

Responsible staff members: Deputy Representative and Chief of PMER
Target date for completion: 30 April 2018

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. The audit team 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 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 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 the 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 this final report.)

Conclusions

The conclusions presented in the Summary fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded that the country office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the country office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the country office's governance, risk management and internal controls needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the country office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.