

Internal Audit of the Uzbekistan Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2012/28



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Uzbekistan country office. The audit sought to assess the governance, programme management, and operational support over the country office's activities. The audit team visited the office from 13 to 24 August 2012. The audit covered the period from January 2011 to 10 August 2012.

The Republic of Uzbekistan has an area of 447,400 square kilometres with estimated population in 2012 of 29.5 million. Among the Commonwealth of Independent States, it is the fifth largest by area and the third largest by population. Forty percent of the people are under 18. The country's economy relies mainly on commodity production and has continued to grow, despite the global economic crisis. In mid-2010 the country was re-classified by the World Bank from a low-income country to a lower middle-income country.

The UNICEF office in the Republic of Uzbekistan is in Tashkent and has no zone offices. The country programme for 2010-2015 consists of two main programme components: improvement of basic services and strengthening national capacity-building for policy development. The country programme has a total budget of US\$ 19.7 million in regular resources with a ceiling for other resources of US\$ 22.5 million.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the office has decided to take a number of measures. Three high-priority issues require coordination with the Uzbekistan Government:

- UNICEF had supported the Government in the conduct of a multiple indicator cluster survey (MICS) to ensure quality data. Notwithstanding agreement, investment of about US\$ 500,000 and follow-up by UNICEF, the MICS process had been put on hold by the Government. The office continues to pursue alternative strategies to help fill information gaps for better evidence-based decisionmaking and programming.
- The lack of access to government records for UN agencies, weak counterpart capacities, unclear banking regulations and slow transactions processing limited the office's ability to verify that resources it had provided were used for the intended purposes. They had also led to deferment of implementation of the Harmonized Approach to Cash Transfers (HACT).
- The Government required all funds for implementing partners to be disbursed through the Grant Commission, which delayed the release of cash transfers and implementation of planned activities by up to six months.

Conclusion

The audit concluded that systems and processes were established and functioning in governance, but there were opportunities for improvement in managing systems and processes in the areas of programme management and operations support. The Uzbekistan country office and OIAI will work together to monitor implementation of these measures.

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Objectives and methodology

Objective and scope

The objective of country-office audits is to assess whether governance, risk management and control processes over the country office's programme and operational activities provide reasonable assurance that resources were acquired economically and used efficiently; assets were safeguarded; activities complied with regulations, rules, policies, procedures, directives, contracts and administrative instructions; financial, managerial, and operating information was accurate, reliable, and timely; and programmes, plans, and business objectives were achieved.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraph that begins each of these sections explains what was covered in that particular area.

Methodology

The audit uses a combination of methods, including interviews, document reviews, testing of sample transactions and, where appropriate visits to UNICEF-supported activities. The audit compares actual practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls in the way that is most practical to them. With support from the relevant regional office, the country office reviews and comments upon the 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.

The audit looks for areas where internal controls can be strengthened to reduce exposure to – among other things – fraud. It is not looking for fraud itself. This is consistent with the audit standards. However, UNICEF auditors will assess 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 Investigation section of OIAI 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. These Standards require that internal auditors obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. OIAI also followed the reporting standards of the International Organization of Supreme Audit Institutions.

Audit observations

1 Governance

Governance processes are established to support the country programme and operational activities. The scope of the audit in this area includes the following:

- **Supervisory** structures including advisory teams and statutory committees.
- **Definition** of the country office's priorities and objectives; and clear communication to staff.
- **Staffing structure** and its alignment to the needs of the country programme.
- **Performance measurement**, including establishment of standards and indicators relating to office priorities and objectives to which management and staff are held accountable by way of reporting mechanisms.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management** covering external and internal risks to the achievement of the office's objectives.
- **Ethics** including actions to promote ethical behavior and to ensure staff are aware of UNICEF's ethics and zero tolerance fraud policies, and procedures for reporting and investigating actions that violate these policies.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning over a number of areas including (but not necessarily limited to) the following:

The office had developed a comprehensive multi-year management plan which served as guide for the day-to-day management of the office. The plan defined the office's programme and management priorities. The office had reviewed its staffing structure and had identified gaps in staffing requirement for programme and operations which it planned to address during the mid-term review (MTR) of 2013. Advisory teams and statutory committees were established and overall they functioned well. Performance indicators were defined, and actual performance against these indicators were regularly monitored by the advisory teams.

The office had paid attention to enterprise risk management (ERM), although there was still room for improvement regarding the integration of systematic risk management into the office's day-to-day processes. The office had developed action plans to mitigate high- and medium-high risks, and it systematically monitored their implementation.

The office had established a structured induction programme for new staff, which included topics on ethics, and its implementation was systematically monitored. This was an important initiative given the high staff turnover.

Delegation of financial controls and segregation of duties

UNICEF Financial Regulations and Rules and the recently issued Financial and Administrative Policy 1 on Internal Controls (Supplement 2), define the types of financial controls needed in processing financial transactions, and provide guidance on what roles should be segregated. The Heads of Offices or their delegates should approve the allocation of VISION¹ user IDs and their corresponding roles. It provides an understanding by staff of the roles and the responsibilities assigned to them. Those delegated to release Purchase Orders, or to be authorizing, receiving, certifying, approving and paying officers, must formally acknowledge this understanding by signing an acceptance of delegation. The Heads of Office should review the Table of Authority (ToA) report from *Approva*² on a periodic basis to confirm its continued accuracy and appropriateness.

With the move to VISION in January 2012, the office developed the staff roles for mapping in VISION in January 2012. However, the Representative had not issued designation letters to staff to reflect the roles assigned in 2012.

According to a report from *Approva*, there were 21 violations of the rule on segregation of duties as of 6 August 2012, five of which were rated high risk and five were medium risk. This means that staff had been assigned roles/functions in VISION that were in conflict with the rules for the segregation of duties as defined in the UNICEF policy. These violations remained at the time of audit. Not only were conflicting roles assigned but there were instances wherein staff performed conflicting roles. These were highlighted by the *Approva* but the office had not established a routine to review the delegation of roles and functions as recorded in VISION against those approved by the Representative. The unclear definition and delegation of the roles in VISION resulted in inadequate understanding of financial control responsibilities by staff.

Violation of the rules on segregation of duties is an organizational issue linked to the implementation of new roles and functions in VISION. At the time of audit in August 2012, the office was told by the Division of Financial and Administrative Management (DFAM) that a one-time process to clean-up/address all conflicts related to segregation of duties would start shortly. The office planned to take this opportunity to clean up the delegation of roles for the office.

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

- i. inform staff in writing of the VISION roles and financial controls delegated to them together with the meaning and accountabilities attached to these roles and authorities, and to require them to formally accept the delegated authorities and to acknowledge their understanding of the meaning and accountabilities attached to those roles and authorities;
- ii. establish a half-yearly review, through the Country Management Team, of the ToA report, with the Representative confirming its continued accuracy and appropriateness. The office intends to pay special attention to those where the rule on segregation of duties has been violated – especially those rated high and medium risk; and,
- iii. ensure that appropriate compensating controls are established where prescribed

¹ VISION is UNICEF's new enterprise resource planning system, implemented from 1 January 2012.

² *Approva* is a tool used in managing user accounts in VISION and includes a facility for identifying violations of the rules on segregation of duties.

segregation of duties cannot be avoided, in order to minimise the risk of fraud and errors.

The target completion date for implementing the agreed action is 31 December 2012. Responsible Person is Chief of Operations.

Governance: Conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to governance, as defined above, were generally established and functioning during the period covered by the audit.

2 Programme management

The country programme is owned primarily by the host Government and UNICEF's role is to support the Government in managing the programme. The scope of the audit in this area includes the following:

- **Planning.** This includes the use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound; and forming and managing partnerships with Government and other partners.
- **Resource mobilization and contribution management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions received.
- **Support to programme implementation.** This covers planning and provision of the inputs needed to implement the programme activities such as supply, cash transfer and contracts for services. This also includes implementation of the harmonized approach to cash transfers (HACT) to implementing partners.
- **Monitoring.** This includes the periodic review of the implementation of an activity which seeks to establish the extent to which inputs, work schedules, other required actions and targeted outputs are proceeding according to plan, so that timely action can be taken to correct deficiencies detected.
- **Evaluation.** This is an exercise that attempts to determine as systematically and objectively as possible the worth or significance of an intervention, strategy or policy.
- **Reporting.** This covers the office's specific reporting obligations as well as annual and donor reporting on the use of resources and achievements against objectives or expected results.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning over a number of areas including (but not necessarily limited to) the following:

The programme workplans were prepared in coordination with the government partners and in the case of the health sector, the workplan signed with UNICEF was fully embedded in the workplan of the Ministry of Health. With regard to planning for cash transfers, there was agreement with partners on standard rates for commonly used cost items, which assisted budgeting and reporting.

While the country office had not developed a formal fundraising strategy, it had identified areas of underfunded priority programmes and developed advocacy publications such as the Country Programme Briefing Kit (in Uzbek, Russian and English) and the Panorama package on the UNICEF Global website and the websites of the National Committees. The office plans to develop a partnership concept paper that encompasses elements of fundraising, mobilising commitment for children, and political and strategic partnerships with international financial institutions, the UN family and bilateral donors.

The country office's monitoring system includes situational and intermediate results

monitoring. The guidelines, standards and checklists for field trips were designed accordingly. A multi-year integrated monitoring and evaluation plan (IMEP) 2010-2015 was developed jointly with partners and formed part of the approved Country Programme Action Plan.

Accessibility of programme data

According to the UNICEF's Programme, Policy and Procedure manual (PPPM), good assessment and sound analysis are essential to identification of key development challenges, setting specific achievable and equitable results and making the best use of limited resources. This is possible only if reliable data is available. The manual further states that the situation analysis will need to pay particular attention to inequities, and to their causes and contexts. To this end, data should be used from recent national household surveys such as the multiple indicator cluster surveys (MICS),³ demographic and health surveys (DHS), national censuses, and household budget and expenditure surveys. These are important sources of the disaggregated data that serves as the primary evidence base for the equity focus.

The availability of quality data was a challenge in Uzbekistan. Access to official data in certain areas, such as child protection and HIV, was often restricted. Many indicators and data were outdated; for example, the most recent nationally-representative indicators on key gender aspects dated back to 2002, while the last population census was conducted in 1989. The last MICS had been in 2006, and according to the office it was important to conduct a new one in preparation for the mid-term review (MTR) scheduled in January 2013.

The country office, with support from the CEE-CIS regional office, encouraged the government to undertake a new MICS. A steering committee was established and there was high-level political engagement. However, in spite of the formal agreement and UNICEF's investment of about US\$ 500,000, collaboration at the data-entry phase for the new MICS was restricted and UNICEF was able to perform quality checks only on the final database, which proved to be insufficient to guarantee full reliability. The office expressed concern on the credibility of data collected and/or data entry after review of a summary of responses to questions used in the survey. The office brought the issue to the attention of the Deputy Prime Minister in Charge of the Social Complex, and the MICS process was put on hold until further notice.

Almost one year later, despite several attempts by the country office to follow up on the issue, there was no change in the situation. In the meantime, the office tried to find alternative strategies of filling the data gaps and had discussed the matter with the CEE-CIS regional office. The office brought the issue to the attention of the UN country team (UNCT) and the Monitoring and Evaluation (M&E) inter-agency group advocating for stronger and more systematic partnership on this area. Towards this end, the country office had initiated an analysis of available data and statistics management systems in the country. The office had also managed to produce knowledge and evidence on several topics.

³ The Multiple Indicator Cluster Survey (MICS) is a household survey programme developed by UNICEF to help countries to fill in gaps in the data on the situation of children and women. Since the mid-1990s, MICSs have enabled many countries to produce statistically sound and internationally comparable estimates of a range of indicators related to health, education, child protection, and HIV and AIDS. The findings are used as a basis for policy decisions and programme interventions, but also to underpin evidence-based advocacy on behalf of children and women.

The country office believes that substantial efforts have been done so far to salvage the money invested – both in terms of investigating facts with the Government, and analysing viable solutions to make best use of the available database. Given the impossibility to have funds reimbursed and the proved unreliability of any part of the database, none of the solutions analysed can be pursued. The office intends to continue to advocate at the highest political level on the importance of availability of quality data in programming for the country's children and women. In line with the approved Multi-Year Management Plan 2012-2013, the country office is continuing its discussions with the CEE-CIS Regional Office and the Government to pursue alternative strategies to fill the information gaps and allow better evidence-based decision-making and programming. The country office continues to advocate joint strategies in the area of data access and generation, in line with the ongoing discussions with the UNCT and the M&E inter-agency group, in the framework of the UN Development Assistance Framework (UNDAF) MTR.

Conclusion (high priority): The audit supports and encourages the continuation of the actions described above, as they are important for decision-making and programming.

Agreed action 2 (medium priority): In addition to what is already being done as described above, the country office agrees to thoroughly document the process, including the risk mitigation strategies used and the lessons learnt, so that future decisions by the country office and other country offices in similar political environments can benefit from this experience.

The target completion date of implementing the agreed action is 28 February 2013. Responsible Person is M&E Specialist.

Management of donor agreement

The Public Sector Alliances and Resource Mobilization Office (PARMO), Brussels Office, signed two consecutive contracts with a donor regarding the programme *Improvement of Mother and Child Health Services in Uzbekistan*. The first contract covered the period 15 July 2008 to 14 July 2011, with a total commitment of Euro (€) 3.5 million; the second covered 26 July 2012 to 15 January 2016 with total commitment of €4.9 million. The contracts stated that the contributions would be managed in accordance with the provisions of the Financial and Administrative Framework Agreement (FAFA) signed between the donor and the UN on 29 April 2003. The provisions of the FAFA include a requirement for verification missions by the donor, and conversion of expenditure to Euro using the exchange rate at which the donor's contribution was recorded in the United Nations' account.

Financial reporting: The donor commissioned a verification report on the use of its contribution to the Uzbekistan country office in 2010/2011. The report, issued on 7 June 2011, indicated that UNICEF had overcharged the donor by €140,304 (US\$ 200,634) as of 30 June 2010, because UNICEF had used a flat exchange rate in converting the expenditures incurred rather than at the rate at which the donor's contribution was recorded in its account. DFAM disagreed; it informed the donor on 14 August 2012 that it had complied with the reporting obligations of the FAFA, and that the calculation and presentation of exchange rates was consistent with all its reports to the donor. In view of this disagreement, the donor had withheld the final payment of the contribution. At the time of audit, this issue had not been resolved.

The audit noted that the misunderstanding could have been prevented had the donor condition with respect to financial reporting been made in line with Rule 113.4 of the UNICEF Financial Regulations and Rules. This stipulates that the accounting records of UNICEF shall be maintained in United States dollars using the United Nations operational rates of exchange. The Brussels office's *Joint Guidelines on reporting obligations under the FAFA – 2011* do not appear to preclude compliance with this.

Responding to verification report: The donor verification report of 7 June 2011 contained seven observations, of which the office only agreed with one. The audit noted that the office did not respond accurately and comprehensively to the issues raised in the report. For example:

- The verification report noted that individual expenditure line items reported in the financial report to the donor could not be traced with the Project General Ledger (GL) report because such a GL was not readily available. The office stated that the reporting template was an exception to UNICEF reporting standards, was time-consuming and was not feasible given the project's overall scope. The audit believes the office should have explained how the reported expenditure was arrived at. It should not have agreed to the reporting format if it was not feasible to comply with it.
- The verification report noted that the office had not maintained a list of fixed assets by item, and had not maintained a list of consumable inventory by item and movement schedule, showing opening balance, additions, consumption and closing balance. The office disagreed with the observation, stating that ownership of the assets had been passed on to the Government partners and, because of this, no asset logs were required. However, this response did not inform the donor that although the ownership of the assets had been transferred, the country office was still accountable for ensuring the quality of the results achieved through the provision of supplies. The office did not communicate that it had conducted spot checks to assess the adequacy of the inventory records maintained by the government.

Agreed action 3 (medium priority): UNICEF Brussels Office (responsible for managing agreements with the specific donor concerned) agrees to follow up with the donor on the early resolution of the misunderstanding on the use of the exchange rate for converting the US dollar expenditure into Euro. It also agrees to renegotiate the agreement with the donor to accept the use of exchange rates that are in accordance with UNICEF Financial Regulations and Rules, and are already consistently applied by UNICEF in recording the expenditures incurred against donor contributions. (Target completion date of action: 31 December 2012. Responsible Person : Senior Advisor, UNICEF Brussels Office.)

Agreed action 4 (medium priority): The country office agrees to define responsibilities and establish procedures, including a quality-assurance process, to ensure that observations and recommendations from donor verification missions are systematically analysed; and that comprehensive and accurate responses are provided for each issue/suggestion raised. (Target completion date of action: 28 February 2012. Responsible Person: Deputy Representative.)

HACT implementation

The implementation of the Harmonized Approach to Cash Transfers (HACT) is required for UNDP, UNICEF, UNFPA and WFP in all programme countries. The HACT process includes a risk assessment and risk-management approach that involves macro-assessment of the

government's public financial management system, and micro-assessments of the financial management capacity and internal control of implementing partners.

HACT was launched in the UN in April 2005, but implementation in Uzbekistan had been deferred. This decision was approved by the Regional Directors Team (RDT) of the Europe and Central Asia UN Development Group in December 2011 on the request and advice of the UN Resident Coordinator (UNRC) for Uzbekistan. The UNRC letter to the RDT noted, among others, the following reasons for the deferment of HACT: different government procedures, weak capacities of counterpart organizations, unclear banking regulations and slow transactions processing.

The provision for access to government information is part of the Basic Cooperation Agreement signed by UNICEF with the Government of Uzbekistan on 19 December 1994. This states that: "...officials of UNICEF shall have access to the relevant accounts, records and documentation concerning distribution of supplies, equipment and other materials and disbursement of funds". This clause is normally included in the Country Programme Action Plan (CPAP), but was omitted from the CPAP 2010-2015 so that its signature would not be delayed.

However, the Government had not allowed UNICEF access to its records. Therefore, the country office was not able to assess the government partners' financial management system and internal controls, and was not able to assess, from the government records, the validity of the liquidation reports and supporting documents submitted to it. Nevertheless, UNICEF had been providing cash transfers through advances, direct payment and reimbursement methods.

The country office had undertaken various HACT-related assurance activities, including reviews of the programmatic and financial capacities of its NGO partners.

Agreed action 5 (high priority): The office agrees to pursue the Government to give UNICEF access to Government implementing partners' records. Should the Government refuse, the office agrees to consider the recommendation of the UNCT to discontinue the practice of granting cash transfers to government implementing partners, and instead either implement activities directly, or provide implementation support services to the nationally implemented projects. The office also agrees to explore opportunities for promoting HACT, through capacity building, and piloting of direct cash transfers under projects implemented by national agencies that have the necessary capacity. (The target completion date for completion of the agreed action is 31.12.2012. Responsible Person Representative.)

Management of cash transfers

Because the HACT system had not been implemented, the traditional system of cash transfers was being used. The audit made the following observations.

- The traditional system is premised on accessibility of implementing partners' financial records. UNICEF did not have access to government records and could not conduct spot checks on the use of funds (see related observation on HACT).

- The Grant Commission,⁴ a special committee of the Central Bank of Uzbekistan, is required to review and approve all funds transferred as grants, and financial and humanitarian aid to all residents of Uzbekistan. There were delays in the release of cash transfers by the Commission of up to six months from the time the funds were deposited by UNICEF to the implementing partners' accounts. This resulted in delays in the implementation of agreed activities. This was despite numerous interventions by UNICEF at the highest level of the Government, but with limited success. In the meantime, the office had developed a procedure for follow-up with government officials to try to secure timely access to funds by implementing partners.

Conclusion (high priority): The audit supports the continuation of the current procedure of the office to secure timely release of funds to the implementing partners.

Agreed action 6 (high priority): In addition to actions being taken as described above, the office agrees to request the government to exempt UNICEF cash transfers from being reviewed and approved by the Grant Commission. Should the Government refuse UNICEF's suggestion, the office agrees to consider making cash transfers to national implementing partners using direct implementation and cash-reimbursement basis only. (The target completion date for completion of the agreed action is 31.12.2012. Responsible Person Representative).

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to programme management, as defined above, were generally established and functioning during the period covered by the audit, except for issues related to management of donor agreements, HACT implementation, and the management of cash transfers, as described above.

⁴ The Grant Commission is a special committee of the Central Bank of Uzbekistan, required to review and approve all funds transferred as grants, and financial and humanitarian aid to all residents of Uzbekistan.

3 Operations support

Operational processes are established to support the country programme. The scope of the audit of this area includes the following:

- **Financial management.** This covers overall maintenance of the budget and accounts, financial closing procedures and reporting including bank reconciliation process.
- **Input procurement and contracting.** This includes bidding and selection processes, contracting, transport and delivery, warehousing and the related payment processing of programme and operations inputs (supply, cash transfer, consultants, contractors, travel, payroll, etc.)
- **Asset management.** This area covers planning, procurement, maintenance, recording and use of Plant, Property and Equipment (PP&E) such as premises and equipment and low-value but attractive items such as laptops. This also includes the identification, security, control, maintenance and disposal of these assets.
- **Human-resources management.** This covers general human-resources issues including recruitment, training, performance assessment, payroll and staff entitlement. Staffing structure is reviewed under the Governance area.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, and security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit, except for logistics and warehousing as the office did not have a warehouse. Procured supplies were delivered directly to the intended recipients.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

Overall, risk-management and control processes related to information and communication technology, financial closing procedures and recruitment processes were well managed during the audit period. Access and use to systems and data were adequately controlled and measures taken to ensure security of data and physical equipment were adequate. The office had complied with the guidelines on closing procedures, and bank reconciliation statements were prepared following prescribed procedures. There was adequate segregation of duties in preparing the bank reconciliation and there were no long-outstanding items. The audit also noted that required procedures for advertising open positions, selection and appointment of selected candidates were in accordance with prescribed procedures.

Managing supply and institutional contracts

In 2011, the office entered into 86 institutional contracts for services and issued 197 purchase orders (POs), of which 177 were for local procurement. In 2012, 21 institutional contracts for services and 13 POs had been issued so far at the time of the audit (August 2012). The audit reviewed a sample of transactions related to these contracts and POs and noted the following:

Advance payments: UNICEF Financial and Administrative Policy 5, on cash disbursement, warns that advances and progress payments expose UNICEF to risk, as the supplier/vendor may not meet their obligations. UNICEF authorizing officers should, wherever possible, avoid including advances or progress payments in a contract or agreement. If an advance to a supplier is greater than US\$ 10,000, the authorizing officer should ask for an unconditional guarantee issued by a bank on behalf of the supplier and in favour of UNICEF to guarantee either delivery according to the contract, or to refund the advance to UNICEF in case of default by the supplier. However, the office routinely allowed 30 percent advances on contracts for procurement of supplies and services and in cases where these advance payments exceeded US\$ 10,000, the office did not require the vendor to provide unconditional bank guarantees. The office explained that advance payment of at least 15 percent is a requirement for contracting in the county and is covered by a law.

Contracting process: Chapter 6 of the Supply Manual states that POs should be issued in English and the UNICEF General Terms and Conditions must be a part of, or attached to, all POs issued. The Supply Division version generated in VISION should be used by country offices, and that country offices should not modify the general terms and conditions without consulting Supply Division.

Local procurement of supplies and services undertaken by the country office were covered by two contracts, one in the UNICEF-prescribed format and the other in the contractor's/supplier's format in Russian. The provisions of the two versions were often incompatible. For example, according to the UNICEF-prescribed format, any dispute, controversy or claim between the parties arising out of the contract shall be referred for arbitration by either party in accordance with the UNCITRAL⁵ Arbitration Rules. However, the Russian format indicated that in case of disputes, the settlement shall be under the laws and regulations in the country. There were also major omissions in the Russian version of the contract in regard to the provisions of UN Privileges and Immunities, Child Labour and Anti-Personnel Mines. The office did not consult Supply Division before entering into these contracts. The office indicated that it had entered into these contracts to assist the negotiation process, but it was not aware of the requirement to get Supply Division's approval.

Agreed action 7 (medium priority): The office agrees to:

- i. Explore with DFAM if the rules can be made more flexible, given the particular legislation of the country. Until then, the office agrees to discontinue the practice of routinely making pre-payments for contracts for goods and services beyond what is required by the law of the country. If advances exceed US\$ 10,000, the office agrees to ask vendors for an unconditional guarantee issued by a bank on behalf of the supplier and in favour of UNICEF, to guarantee either delivery according to the contract, or refund of the advance to UNICEF in case of default by the supplier.
- ii. Use contracts for goods and services that conform to UNICEF's prescribed format and, where there is any edit or change to the prescribed standard contract, or the use of a duplicate contract in the local language, the country office agrees to present it in advance to Supply Division for approval.

(The target completion date for implementing the agreed action is 31 January 2013.
Responsible Person: Chief of Operations)

⁵ UNCITRAL is the United Nations Commission on International Trade Law.

Management of consultants and individual contractors

The office had contracted a total of 39 consultants and contractors in 2011, and 48 so far in 2012. Most consultants and contractors were hired locally. The audit found the following areas where improvement was possible.

Maximum duration of a contract: Chapter 6 of the Human Resources Manual states that, subject to the availability of funds budgeted for temporary services, the maximum duration of consultant's contract for the performance of a specific service will be 11 months. A further contract may be issued if there is a need to extend the period of service, but there should be a one-month break, and there should be a maximum cumulative length of service of 44 months in a 48-month consecutive period. In exceptional cases, the Deputy Executive Director for Operations may authorize the extension of the maximum duration of service set out above. The period of maximum duration on a combination of contracts (consultant or individual contractor contracts followed by a temporary appointment and vice-versa) is a cumulative period of 48 months in a 60-month consecutive period.

The office did not comply with the above requirements in extending the contract of its cleaning contractor, whose service had reached 57 months over a 60 month period between 2008 and 2012. The office did not request the Deputy Executive Director for Operations to give the office an exceptional approval for the extension of the contract beyond the recommended period. In addition, the contractor was not required to take a one-month break in service in 2009 or 2012.

The audit noted that the office is about to face similar situations with respect to its security guards and other ancillary-service providers, who were all hired through individual contracts for services. The office informed the audit that commercial contractors for these services were not available in the country.

Use of Long-Term Arrangements (LTAs): According to Chapter 6 of the Supply Manual, an LTA is an arrangement entered into with a supplier to secure the supply of a product or service over a period of time. It is used where an office knows it will have a recurring need for certain goods, services or works, although it might prefer the exact quantities, and/or timing of delivery, to be determined later. To improve efficiency, offices are advised to use LTAs as much as possible.

The audit found that at least 10 different contracts were awarded from January to July 2012 to individual contractors for translation/interpretation services. The country office needed these services very frequently and had invested a great deal of time and effort in contracting individuals for this kind of service. Use of LTAs would have been more appropriate and would have saved time and resources.

Currency of payment: Financial and Administrative Policy 5 on Cash Disbursements states that, with the exception of headquarter locations, goods and services should be paid in local currency. The Director/Head of Office may authorize payments in US dollars or Euro, but only subject to certain conditions—including legality of such payments in the host country. The office paid all local consultants and contractors in US dollars instead of local currency although required conditions, including the national legal requirements, were not met. The office explained that it resorted to this because of the complicated banking system in the country.

Agreed action 8 (medium priority): The office agrees to:

- i. ensure that consultant contracts are issued for the maximum durations allowed by UNICEF policies and procedures, and to secure exceptional approval where the contracted services will be required for periods that exceed those durations;
- ii. review the need for recurrent services and consider entering into long-term arrangements for such services in order to reduce the vetting, selection and contracting processes; and,
- iii. explore alternative solutions to the banking challenges and discontinue the practice of paying local consultants and individual contractors in US dollars.

(The target completion date for implementing the agreed action is 31 March 2013. Responsible Person: Chief of Operations.)

Travel management

The audit reviewed travel related to field monitoring, travel of implementing partners and travel in relation to staff entitlement. The following issues were noted in the review:

Travel of government officials: Supplement 4 of UNICEF Financial and Administrative Policy 5 states that UNICEF Travel Authorization (TA) is normally for travel by staff only or, if needed, individual consultants. Ordinarily, government officials must travel on their government's own travel authorization and at its expense. In cases where UNICEF funds the travel of government officials in line with the approved workplan, the cost should be paid as a cash transfer and should go to the traveller's office. In very exceptional cases, UNICEF support can be provided directly to the government official. This requires a UNICEF TA to be raised, but the insurance that covers UNICEF staff is not applicable. Government officials travelling under a UNICEF TA must therefore present a signed certificate from their office acknowledging this, stating what insurance coverage they will obtain, waiving any claim against the UN in connection with the travel, and undertaking to submit the travel claim within 30 days after conclusion of the mission, as per UNICEF rules.

The office paid government officials directly for international travel, instead of making the payments through cash transfers. Also, rather than obtaining a certificate from the responsible government office, the practice was to write to the traveller stating what UNICEF was covering under the TA and that insurance was not included. The traveller was then asked to acknowledge the letter.

Home leave travel: As an alternative to travel provided by the organization, all staff travelling by air or train may request a lump sum equivalent to 75 percent of a full economy class airfare (or any reduced fare applicable to eligible children), calculated on the same basis as when arranged by the organization. Staff travelling by car may request one half of this lump sum (i.e., 37.5 percent of the applicable full economy-class airfare). Staff members are not required to submit a travel claim when using the lump-sum option; however, they should submit a home leave certification form within 15 days of return to the duty station. This should be accompanied by satisfactory evidence of home travel (airline ticket stubs, airline boarding passes, or laissez-passer or national passport showing immigration entry/exit date stamps).

Under UNICEF policy on home leave entitlement (CF/AI/2011-009), the lump-sum option does not apply in cases where a staff member undertakes home leave travel in conjunction

with travel on official business. Despite this policy, the office allowed lump-sum payment for home leave to a staff member under such circumstances resulting in over-payment. In this case, the office paid for the round-trip ticket from the duty station to the official trip destination, but also paid a lump sum for round-trip air ticket from the duty station to the home-leave place, although the staff member had proceeded from the official trip destination to the home leave location. The case involved a senior staff member of the office.

The office did not have an adequate system for ensuring that staff submitted the home-leave certification form and documentation within 15 days of the trip. Of the eight samples reviewed, the certificate was submitted after 15 days in four cases; the required supporting document was not attached in one case while in another case, the staff member simply signed the form without completing the required information. The audit also noted a case in which the staff member had combined air travel with train and car, deviating from the itinerary used to calculate the lump-sum payment.

Agreed action 9 (medium priority): The country office has agreed to comply with the requirements of UNICEF Financial and Administrative Policy 5 on the management of travel of government partners, ensuring that wherever possible they are paid through cash transfer to the office to which the official is attached. Any exceptions are to be adequately justified and the office agrees to secure required certification from the office concerned. The country office agrees to ensure compliance with the requirements regarding prohibition in combining an official trip with lump-sum payment of home leave, and to ensure that required procedures for certification of home leave upon completion of the trip are followed. Entitlements paid to the staff members in question are to be reviewed and any over-payments to be reimbursed. The office's work flow for travel management is to be updated to reflect the above changes.

(The target completion date for the implementation of agreed action is 31 March 2013. Responsible Person: Chief of Operations.)

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to operations support, as defined above, were generally established and functioning during the period covered by the audit, except for issues related to management of consultants and individual contractors, as described above.

Annex A: Priorities and conclusions

Priorities of agreed action

- High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
- Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
- Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall under three categories:

Unqualified conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to (audit area) were generally established and functioning during the period covered by the audit.

Qualified conclusion

Based on the audit work performed, OIAI concluded that systems and processes related to (audit area) were generally established and functioning during the period covered by the audit, except for issues identified.

Adverse conclusion

Based on the audit work performed, OIAI concluded that that systems and processes related to (audit area) needed significant improvement to be adequately established and functioning.

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

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