Internal Audit of the Somalia Country Office

Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Somalia country office. The audit team visited the office from 1-30 October 2012. The audit focused on governance and operations support, and some aspects of programme management, during the period 1 January 2011 to 31 August 2012.

Somalia is divided into three areas, each with its own distinctive political arrangements. The Central Southern Zone (CSZ), which contains about 70 percent of the population, is the seat of the internationally recognized Transitional Federal Government (TFG). The self-declared Somaliland or Northwest Zone (NWZ) has a functional but internationally unrecognized government, and the semi-autonomous Puntland or Northeast Zone (NEZ) has a semi-functional administration.

The Horn of Africa experienced the most severe food crisis in the world in 2011; this led to one of the largest emergency operations UNICEF has ever undertaken. Over 12 million people in Djibouti, Ethiopia, Kenya and Somalia were severely affected and in urgent need of humanitarian aid. In response to the crisis, the Executive Director declared a Level 3 corporate emergency for the Horn of Africa countries on 21 July 2011. Level 3 indicates that the scale is such that an organization-wide mobilization is called for. This lasted a year before it was downgraded to a Level 2 emergency (meaning that the scale is such as that a country office needs additional support from other parts of UNICEF to respond). The Somalia country office throughput rose from US$ 50 million to over US$ 300 million.

From the onset of the crisis the office reported multiple challenges: immense logistical difficulties (which remain), with poor transport infrastructure, lack of direct commercial operators, high transport costs, and port congestion and customs formalities in Kenya. There was also limited access to road corridors due to the volatile security situation and impassable roads during rainy seasons. Also, the technical capacity of most partners inside Somalia was limited, and access constraints in all areas of Central-South Somalia meant that UNICEF had to hire contractors to provide on-site technical quality assurance.

The Somalia Country Office is in the UN compound in Nairobi and has a total of seven sub-offices located in three zones inside Somalia. As of October 2012 the Somalia Country Office had a total of 311 approved posts of which 83 were international professional, 94 were national officers, and 134 were general service. The current country programme runs from 2011 to 2015, and total expenditure was US$ 231 million in 2011 and US$ 138 million in 2012 as of 29 October.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. Three of them are being implemented as a high priority. They are as follows:

- Review and strengthen management of project cooperation agreements (PCAs), including capacity assessment of partners and timely review and signing of PCAs.
- Carry out a physical count of inventory of programme supplies and record the results in VISION.
- Continue to give priority to safety and security related controls and ensure that, in consultation with UNDSS, the security plan is updated, Minimum Operating Security

Standards (MOSS) compliance is assessed and certified and necessary security-related equipment is in place.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the country office, in the areas examined by this audit (as explained in the text), were generally established and functioning during the period under audit.

The Somalia country office and OIAI will work together to monitor implementation of the measures that have been agreed.

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Objectives and scope

The objective of the country-office audit was to assess whether control processes provided reasonable assurance that resources were acquired economically and used efficiently; assets were safeguarded; there was compliance with standard operating procedures for Level 3 Emergencies and other relevant UNICEF policies and procedures; and financial, managerial, and operating information was accurate and reliable.

The audit covers three areas: governance, management of programme input and operations support. These are defined in more detail at the beginning of each section.

In addition to the above assurance services, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other offices.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following*:*

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit except the areas related to identification of the country office's priorities and expected results and clear communication thereof to staff and the host country; and performance measurement. These were excluded based on a preliminary risk assessment.

Noteworthy practices

The following is an example of a practice in this area that merits sharing with other country offices:

In response to the Level 3 emergency, which involves an organization-wide mobilization effort, the country office took the initiative to make an assessment and determined a surge capacity required to support the emergency response. The duration of stay at Somalia country office of surge staff ranged from a few weeks to six months. Overall, according to the independent evaluation of the Level 3 emergency in the Horn of Africa, the surge capacity was timely and contributed to effective delivery of life saving interventions in Somalia.

Satisfactory key controls

The office had established an Audit Risk Management Working Group that coordinated identification and assessment of risks in the office. The working group also acted as a liaison with the UN Risk Management Unit for Somalia. In addition, the office had commissioned various third-party monitoring systems (verification of programme inputs; market monitoring; technical review) and independent evaluations. With the support of the UN Risk Management Unit and in line with the Enterprise Risk Management policy, the office had developed the country office's risk profile and started implementing actions including development of standard operating procedures to streamline business processes.

The office had established governance structures, including advisory committees such as the country management team, the joint consultative committee, the property survey board and the contracts review committee. Each of the committees had clearly defined terms of reference, and responsible staff members had been fully briefed on their responsibilities.

The office had conducted workshops on ethics and fraud awareness in 2011. The office had also revised the management indicators, and these indicators were submitted for review by the CMT.

Delegation and segregation of duties

The audit reviewed the adequacy of delegation and segregation of duties to ensure that no one person was responsible for an entire transaction cycle (such as requisition to procurement to payment) without any internal checks by someone else.

Segregation of duties in country offices was affected during 2012 by the introduction of UNICEF's new management system, VISION. Since its implementation in January 2012, the Somalia Country Office had prepared a detailed table of authority (ToA), plus specific matrices containing signing authorities, release strategies and amount threshold authorizations. However, there were a number of conflicting functional roles between them – 13 of the conflicts being classified as high risk, according to the segregation-of-duties rules. High-risk examples included staff members who were responsible for the receipt of goods and services in VISION, and should therefore not have been involved in the cash-disbursement process. Also, the staff member who creates a requisition should be different from the person authorising it, to minimise the risk of individuals purchasing goods or services. There were mitigating measures in place in only one case.

One hundred and ninety-nine VISION users were assigned at least one functional role; on average they had 12, amounting to 2,414 assignments. About 57 percent of the roles assigned in VISION were not in line with the ToA.

A software tool, APPROVA, is now available to highlight conflicts, but the system will not report the conflicts when temporary access rights are granted to staff to enable them to be officers-in-charge (OIC) in place of others. This is because VISION's OIC facility, VISA, is then used instead of APPROVA. Nearly a fifth of the office's VISION users (43 people) had been temporarily assigned system permissions in this way – generating four high risks.

The areas for improvement noted above were mainly attributed to insufficient training and guidance on mechanisms to monitor consistency between the ToA and the permissions granted in VISION. The guidance on management of segregation of duties was only issued by the Division of Financial and Administrative Management (DFAM) in May 2012. In addition, there was no specific guidance given to country offices on the preparation of the ToA.

Agreed action 1 (medium priority): The country office agrees to strengthen the monitoring system to identify and address conflicts in the segregation of duties in VISION with support from DFAM, ITSS and the Regional Office. In particular, the office agrees to:

i. Align staff member's roles and responsibilities in VISION with those in the ToA. The office also agrees to limit the number of VISION access rights that violate segregation-of duties rules, implement robust mitigating controls where they cannot be avoided and document those controls in APPROVA. (To be completed by 31 January 2013; responsible staff, Admin/Finance Specialist and ICT Manager.)
ii. Actively monitor and report on the effectiveness of the mitigating controls (ongoing, Admin/Finance Specialist).
iii. Ensure that the VISA's OIC functionality is used with due consideration for segregation of duties (ongoing, ICT Manager).

Human-resources management

The audit reviewed controls in place to ensure that financial and human resources, and office structures, met the needs of the country programme. The audit noted opportunities for improvement in relation to vacancies, recruitment and office structure.

Staffing structure: The staff complements for the 2011-2015 country programme included 311 established posts, of which 83 were international professional, 94 were national officers, and 134 were general service. (The office had also deployed over 100 surge staff during the period July 2011 to July 2012.) While the office's budget submission was reviewed during the programme budget review process, there had been no recent comprehensive capacity-gap analysis to establish whether the staff size and profile met the needs of the country programme. A capacity-gap analysis would be useful, especially if the office relocated from Nairobi to Somalia – a move that, like other agencies, UNICEF was considering in view of the improving security situation.

Staff recruitment: About 81 posts, or 26 percent of all the established posts, were vacant as of October 2012. The difficult environment in which the office had been operating (under Level 3 emergency from July 2011 to July 2012) made it hard to recruit staff. The recruitment process took a long time; in seven of the 11 cases reviewed it was over six months (and up to 18 months) from vacancy date to the time the posts were filled (the target was three months). This time included delays in advertising posts and in interviewing shortlisted candidates after the closing date.

Performance evaluations: As of October 2012, 82 percent of all staff members had had their performance evaluations for 2011 completed by their supervisors. However, as of 31 March 2012, only 35 percent of all staff had agreed their annual objectives for 2012 with their respective supervisors. In addition, only 31 percent of mid-year performance assessments had been done as of October 2012. It was noted that management indicators only included monitoring of completion of prior year performance evaluations of staff, not annual performance objectives and mid-year performance assessment.

Agreed action 2 (medium priority): The office agrees to take the following action:

i. Analyse implications and potential challenges of, and develop a strategy for, the possible move of the country office back to Somalia. During the Mid-Term Review, the office intends, with the active support and contribution of the Regional Office, to implement a capacity-gap analysis and review the office staffing structure in view of a gradual move. The outcomes of ongoing discussions with other Somalia-based agencies will be taken into account during the review. The responsible staff members are the HR Manager, Regional Chief of HR and the CMT, and the office intends to complete these actions by July 2013.
ii. The Human Resources (HR) Manager and the Country Management Team (CMT) intend to review recruitment and performance-management processes and their monitoring tools by March 2013, and monitor completion status and office performance quarterly.
iii. The CMT agree to take steps to ensure that staff members' annual performance objectives are established in the first quarter, and that mid- and end-year assessments of staff performance are carried out as required.

Staff welfare

The audit reviewed the offices' mechanisms to promote better understanding between management and staff, including mediation, counselling and conflict-resolution bodies such as the staff association, joint consultative committee (JCC), and peer-support structures. The office, in collaboration with the DHR Emergency Section, had prepared a concept paper on staff burn-out and some of its recommendations were being implemented. Nonetheless, there were opportunities for improvement.

Global Staff Survey 2011: This was completed by about 20 percent of the staff. The results indicated some areas of concern, such as harassment and inappropriate behaviour. As of October 2012, the office had not prepared an action plan to address these concerns.

Salaries: The current salary scale of local staff members was from 2009 and was not established following a formal salary survey (there had not been one for many years). Rather, a bonus percentage was incorporated in order to build a new salary scale. Food basket surveys had since been conducted every six months and some allowances given to staff. However, according to the office, this was not enough for the unstable hardship conditions inside Somalia.

Joint consultative committee: The JCC had not met in 2011 and had met only once in 2012 (its ToR specify quarterly meetings). The office explained that the JCC meetings were deliberately suspended during the Level 3 emergency, and that staff concerns were addressed through alternative mechanisms.

Caring For Us (CFU) and Peer Support volunteers (PSV): The office had established these as informal mechanisms for providing counselling and moral support. However, the CFU focal points had received no training, while the PSV Committee had not met in 2012 and had no workplan (its ToR required both). The CFU Committee also lacked a workplan, and had not met in 2011 or 2012.

Win-Win Management: In preparation of its two-year Management Plan (2011-2012) the office undertook an exercise called “win-win management” to establish which management issues staff members felt were urgent. However, these had not been fully followed up. Key pending issues included: office communication and consultative processes; work planning; team building; staff orientation; transparency in work processes; performance management; and recognition and rewards.

The office’s need to respond to many competing priorities, especially during the Level 3 emergency in 2011 and 2012 (which coincided with VISION implementation), caused delay on some of the staff-related issues above. Taking a number of actions on these issues would help improve staff morale and performance.

Agreed action 3 (medium priority): The country office has agreed to take the following actions:

i. To follow-up with UNDP Somalia, the regional office and DHR, in order to come up with a long-term and sustainable solution to the salary issues in Somalia, taking into account the disparities between the different regions in Somalia, including the different currencies in the country. Deadline: to be determined in consultation with all stakeholders. The responsible staff will be the Representative, and the HR Manager in consultation with the Regional Chief of HR.
ii. To review the results of the 2011 Global Staff survey and the recommendations and action points of the Win-Win exercise, and prepare an action plan for 2013 by March 2013. Responsible staff: Representative/UNICEF Somalia Staff Association Chairperson/HR Manager.
iii. To conduct JCC meetings as per the ToR of the Committee and minutes prepared and shared with all staff, starting immediately. Responsible staff: Representative/UNICEF Somalia Staff Association Chairperson.
iv. To ensure that the PSV and CFU Committees prepare annual workplans for 2013 by 31 March 2013. These will be incorporated into the office’s annual management plan.
v. To provide specialized training on Conflict Prevention and Management in 2013. A pilot for the staff association was held in November 2012 and the country office participated in the training.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over governance, related to supervisory structures, staffing structures, delegation of authorities, risk management and ethics as defined above, were generally established and functioning during the period under audit.

2 Programme management

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

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

The audit of the Somalia office did not review all the topics above. This area is scheduled to be audited in 2013 during the joint audit of the Somalia Common Humanitarian Fund with other internal audit services of UN organisations. The audit therefore decided to make best use of its available resources by focusing on the provision of technical, material and financial inputs to implementing partners as part of the support to programme implementation. The remaining areas of programme management will be subject to review at a later date.

Supply procurement and logistics

The audit reviewed the provision of materials inputs to implementing partners to support programmes. The total procurement of programme supplies in 2011 and 2012 (as of October) amounted to US$ 112 million and US$ 28 million respectively. (The lower figure for 2012 reflected the end of the Level 3 emergency.) Most frequently procured items included supplementary feeding supplies, drugs and vaccines, water and sanitation supplies, school furniture and printing.

The audit team noted the following issues.

Requests for supplies by partners: In all 10 procurements from 2012 reviewed by the audit, there was no written request from the partner. Neither were the distribution plans available. The country context, characterized by lack of or poor communication systems and the Level 3 emergency situations, contributed to these shortcomings. Lack of written request from partners and distribution plans increased the risk of late procurement and of supplies staying too long in the warehouse pending distribution. However, the audit team was informed that there were compensating controls such as field monitoring on the use of supplies by partners and informal communications with them.

Pre-delivery inspection: In 20 of the local procurement cases reviewed by the audit, a pre-delivery inspection was required by policy and procedures but in eight of these cases there was no evidence it had been done. The office explained that all eight cases concerned transactions inside Somalia, where no third-party inspection agency existed. In a separate instance involving off-shore procurement done by the country office through Supply Division, pre-delivery inspection was done on a sampling basis and therefore did not cover the total procurement. In this particular case the shipment was infested with weevils and unfit for human consumption. At the time of the audit, the office had taken steps to establish the causes of the incident and to recover the losses from the suppliers or insurance underwriters. OIAI will follow up on the progress made by the office.

Delivery of supplies: In 14 of 24 significant dollar value transactions reviewed, suppliers delivered goods to UNICEF after the target arrival dates. Typical delays were one to three weeks, but there were two cases noted where delivery was three to four months late. The two cases related to procurement of water filters and materials for re-bagging corn soya blend. Partners visited by the audit reported that implementation of some programme activities was delayed due to late delivery of supplies. Close monitoring and follow-up of deliveries by the office would improve timely delivery.

Market survey: The country office had conducted a market survey inside Somalia in 2010. The office acknowledged that the survey lacked key information such as types of suppliers available in each region, the physical addresses of suppliers and information on their ability to deliver supplies on time and of good quality. The office informed the audit team that a market survey in Somalia and Dubai would be conducted in 2013.

The audit also noted that the office did not have standard specifications for frequently procured items and had not carried out a comprehensive assessment of the supply chain and the partners' logistical capacity.

Acknowledgement of receipt: A significant number of partners had not acknowledged receipt of supplies. The office lacked receipts for an estimated US$ 21 million-worth delivered to partners. These supplies had not been expensed because they had not been acknowledged as received by partners, and therefore remained on the books as inventory. The office stated that it was reviewing various options for recovering the missing receipts. It did have a process for obtaining signed waybills from the transport contractors. (See also observation on *Warehouse and inventory management*, below). The testing also demonstrated that a number of receipts were not accurate.

The office indicated that compensating controls such as field visits provided some level of assurance on whether the supplies had been received by partners. The office noted that the nutrition and health programmes had established a call centre during the famine response, so as to be in direct contact with all partners on supply and technical issues. According to the office, this had improved acknowledgement of supplies considerably.

The areas for improvement noted above were due partly to the conditions on the ground inside Somalia and the Level 3 emergency.

Agreed action 4 (medium priority): The country office agrees to strengthen controls and take action to ensure that:

i. Partners submit requests for supplies, together with distribution plans.
ii. The delivery of supplies are monitored to identify and address possible delays from suppliers and Supply Division against agreed target arrival dates. These steps will be taken immediately by UNICEF Somalia Support Centre (USSC),[1] Supply Section.
iii. Pre-delivery inspection of supplies are done. For those procured inside Somalia, the office intends to draft standard operating procedures for this purpose. USSC Supply Section intends to take these steps by 31 March 2013.
iv. The office obtains all outstanding acknowledgement receipts and establishes mechanisms to ensure that partners acknowledge receipt of supplies promptly. The office will also ask the Division of Policy and Strategy and the Legal Department to provide a related clause in legal text for PCAs, requiring such acknowledgement. The office also plans to explore the option of expanding the call-centre strategy (provided funds are available). The USSC Logistics/USSC programme agrees to complete these actions by 31 January 2013.
v. A market survey (including Dubai) is carried out and standard specifications developed for frequently procured supplies. USSC Supply will complete these actions during the second quarter of 2013. During 2013 the office will also review options for a more thorough market survey in Somalia.
vi. USSC Supply and Logistics carries out a comprehensive supply-chain assessment during the first quarter of 2013, including logistical capacity of UNICEF and partners. The logistics capacity of partners should be assessed as part of the standard review when drawing up a PCA. The office intends that a Supply Chain review of the supply and logistical capacity of partners inside Somalia will be completed as part of the Supply Chain Strategy. Action: by USSC Supply and Logistics during the 1st quarter of 2013.

Management of Global Funds

The audit reviewed whether there were effective controls to ensure that funds received from the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) were used as intended and as agreed with the Global Fund.

Due to the lack of alternatives, Somalia is one of only two countries worldwide in which UNICEF is the Global Fund's Principal Recipient (PR) for programmes on malaria and HIV/AIDS. Under the agreement, the PR implements activities either directly or through Sub-Recipients (SRs). The Somalia office had signed agreements with approximately 30 SRs for HIV/AIDS and 14 SRs for malaria activities. Total expenditure from the two grants combined was US$ 20.6 million in 2011 and US$ 4.8 million in 2012 (to June).

The Global Fund system appoints an accounting firm designated as a Local Fund Agent (LFA) to act as the in-country 'presence' and verify reported performance in financial utilization, supply-chain management and programme implementation every six months. The LFA also conducts onsite data (end-user) verification once every year. UNICEF reports progress to the Global Fund every six months, and the LFA then reviews it and reports directly to the Global Fund. The latter then issues management letters to UNICEF Somalia providing feedback on

[1] The Somalia country office, as referred to in this report, means both the Nairobi office and the seven sub-offices inside Somalia itself. Where reference is made to the USSC, this refers to the Nairobi part of the office only.

performance and recommendations.

The office received a good performance rating in most of the management letters issued by the Global Fund in 2011 and 2012. Moreover, the office had implemented most of the recommendations in the management letters.

However, there had been some delays in the receipt of funds for implementation of activities in the workplans agreed between GFATM and UNICEF. For example, US$ 6 million covering HIV activities for the period from March to December 2012 was received in September 2012, delaying implementation. The reasons for the delay in funding were unknown by the country office.

The Global Fund has changed reporting and risk-management requirements that affected cash flow with little or no notice to the PR; this has caused challenges in grant management. For example, in 2011 the Global Fund introduced a new reporting tool that required the PR to report actual expenditures on the basis of amounts accounted for/liquidated by partners. Any unaccounted cash transfers were to be treated as cash balances, even if the funds had been spent but not fully liquidated by the cut-off reporting date. (The previous reporting tool only tracked disbursed funds and not 'liquidated' funds.) UNICEF allows SRs three months for liquidation and reports as expenditure in the interim. Therefore funds disbursed by UNICEF to SRs but not yet liquidated were being deducted from subsequent releases of funds.

UN Agencies were expected to provide detailed expenditure reports for Global Fund grants; failure to do so resulted in deduction of utilized funds from the PR disbursement. This was done without prior notification to the PR. Reduction of outstanding cash transfers from subsequent funding meant that some planned activities could not be implemented – yet the PR was still expected to report as per the grant 'Performance Framework'. The sums deducted from installments paid by Global Fund to the UNICEF country office in 2011-2012 amounted to approximately US$ 5 million as of September 2012.

Agreed action 5 (medium priority): The country office agrees that, in consultation with PARMO:

i. To follow up with the Global Fund within six months to ensure that funds are received as scheduled, and.
ii. To establish a mechanism (such as use of SSAs as they fully commit funds) that will ensure that cash transfers disbursed to SRs are fully liquidated before reporting is due to the Global Fund.

Those responsible for these actions will be the respective Programme Managers (HIV and Malaria), and the timeframes are end of the first quarter and every three months thereafter.

Cash and Voucher Programme

The office implemented a cash and voucher programme to support the most disadvantaged and vulnerable communities during the famine. The programme started in August 2011 and was implemented in partnership with eight NGOs; it had a total budget of US$ 61 million, of which US$ 37 million had been disbursed as of October 2012. The programme was implemented in areas to which UNICEF did not have access due to security reasons, but it received the funds from donors and channelled them through eight NGO partners on the ground.

The office had commissioned an evaluation of the first phase of the cash programme. The interim report highlighted the positive impact that the programme has had on beneficiaries' livelihoods. However, it also identified significant areas for improvement, making 56 recommendations to strengthen the monitoring of the programme and coordination with other stakeholders. The report was received by the office during the time of the audit and the office had not yet prepared a management response and action plan.

According to the Humanitarian Outcomes evaluation report of the first phase of the cash programme, there was significant diversion in the use of funds including collusion between staff of the village-level implementing partners (local NGOs and the money vendor) that had been sub-contracted by UNICEF's partners. Funds had been withheld or directed to people other than the intended beneficiaries. Further assessment commissioned by the office indicated possible serious misrepresentation by the partner that included reporting of some activities as completed as agreed when they were not.

The total funds misused had not been established, but a verification exercise in some of the villages covered by the programme let to an estimate of US$ 423,000. At the time of the audit, discussions on the amount involved and its possible recovery were ongoing between the office and parties involved in consultation with UNICEF Legal Office HQs, PARMO,[2] local donors and the Regional Office.

The inappropriate use of funds was due to several reasons. The partners' capacity to implement cash programmes had not been fully assessed. Only two of the eight NGOs had been micro-assessed to establish their financial management capacity due to the urgent need to respond to humanitarian needs during the Level 3 emergency. Moreover, for security reasons, the office did not directly monitor implementation. Instead, a third-party monitoring agent collected and analysed information on implementation received from the eight NGOs and reported to UNICEF and the other partners in the programme. However, it did not carry out sufficient spot checks/verification to obtain assurance that the funds were used for the intended purposes and reached the intended beneficiaries.

The audit review itself also identified areas for improvement in the management of the cash and voucher programme. The release of cash transfers to the NGOs did not follow the requirement to disburse funds to cover three months' implementation at a time. This had created a risk of giving funds that could not be spent within three months, and in some cases resulted in late accounting for their use. As of October 2012, the accounting and reporting of expenditures for a total of US$ 500,000 of funds given to partners under the cash programme had been outstanding for over nine months; the cash transfers were therefore not recorded as expenses. These difficulties arose because the financial-management capacity of partners had not been assessed beforehand, and there were insufficient staff for managing the cash and voucher programme.

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

i. by the end of March 2013, prepare a management response to the evaluation report and develop an action plan to implement acceptable recommendations (cash programme specialist, with review by the Committee on Studies, Surveys and

[2] Public Alliances and Resource Mobilisation Office.

Evaluations and Audit and Risk Management Working Group);

ii. review the cash-transfer disbursement mechanisms to ensure that installments are released quarterly and that each cash transfer is based on accounting and verification of previously disbursed funds. The cash programme specialist intends to ensure that this is done by end March 2013; and,
iii. assess the financial management capacity of all partners in the cash and voucher programme by March 2013 and take appropriate action on the results. The responsible staff member will be the administrative and finance specialist. The cash programme specialist will work with the Planning, Monitoring and Evaluation section to identify ways to improve capacity of partners by March 2013.

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

i. assess the remaining six NGOs used by UNICEF through the micro-assessment system by end of the second quarter of 2013;
ii. by February 2013, strengthen assurance mechanisms to effectively monitor coverage, accountability and implementation of activities and promptly address any shortfalls. Responsible staff: Deputy Representative plus Cash Programme specialist;
iii. undertake additional spot checks/verification exercises through third-party monitoring to obtain assurance on whether funds disbursed to all partners were used for intended purposes and were reaching intended beneficiaries (Deputy Representative, Cash Programme specialist and Evaluation team; by end of January 2013); and,
iv. in consultation with the regional office and relevant HQ divisions such as the legal office and PARMO, follow up on recovery or re-programming of the misused funds (Chief of Operations and Deputy Representative with guidance from Legal Department, NYHQ and PARMO; ongoing. The Legal Department is also providing an additional clause for PCAs to cover requests for reimbursement following misuse of funds).

Project cooperation agreements (PCAs)

The audit verified the mechanisms for reviewing proposed partnerships with NGOs, and whether offices managed collaborations with NGOs to ensure prompt implementation of programme activities and achievements of results.

The office recognised the need to streamline the process for PCAs, which are the contracts that formalise the agreement with NGOs and kept the PCA guidelines updated. The office was taking steps to identify the potential risks in the PCA process along with corresponding mitigation measures. Starting mid-August 2011, the newly established Partnerships Unit started issuing a monthly PCA tracking report.

Planning and funding for partnerships with NGOs: The office issued a total of about 600 PCAs, worth over US$ 330 million, to about 200 partners between January 2011 and October 2012. The office had not assessed the optimal number and type of NGOs required to support the programme. The office was aware of this, and was preparing a partner database expected to be in use by January 2013.

A number of partners had been issued PCAs without assured funding and a number had been terminated because the funds were not there (for example, 20 in the education section).

Capacity Assessment of Partners: The office procedures included NGO capacity assessments for all partners, which were developed specifically for the Somalia context where the UNCT had not adopted HACT. However, as acknowledged by the country office, the existing NGO capacity assessments were weak; they lacked risk assessments and ratings of partners and did not identify specific areas for capacity-building of partners. From 2011, the office had initiated micro-assessments of key partners. As of October 2012, 14 international NGOs, three Ministries in Somaliland and six NGOs in Puntland and Somaliland had been micro-assessed; further assessments were ongoing at the time of the audit.

Processing of PCAs: PCAs were not always concluded promptly, although the CO had established thresholds for turnaround times and was actively tracking this. Some of the partners visited by the auditors cited times of three to six months from submission of project proposals to signing of the PCAs. Some partners, faced with delays in signature of over six months, implemented activities with their own resources.

***Direct project support costs*:** The office had not established a standard negotiating range for unit direct project support costs to be applied on projects. As a result, the unit costs (such as those applied on project staff salaries) varied significantly for reasons that were not documented.

Contributions by partners to the PCAs: A number of PCAs reviewed were entirely funded by UNICEF and did not provide description of implementing partners' contributions to the projects as required by UNICEF procedure. This could reduce the effectiveness of a partnership. (The contributions may of course have been non-financial, but this was not stated in the PCA.)

Third-party verification of PCA Implementation: The office hires third-party monitors to verify PCA implementation in reduced staff access and high-density aid delivery areas because of security reasons. Third-party monitors informed the office of three cases where activities had not been implemented, and funds potentially not used, as agreed. The office had taken action by commissioning independent audits and evaluations, but these had not yet been completed at the time of the audit in October 2012, The office had therefore not identified the causes of these weaknesses at the time of the audit.

Agreed action 8 (high priority): The country office agrees to review the management of project cooperation agreements and to take the following specific measures.

i. Review the profiles of NGOs and the project cooperation agreements required to support programme implementation. This will include mapping, options for streamlined umbrella agreements, regional hubs, etc. The Partnerships Officer of the UNICEF Somalia Support Centre (USSC) and Monitoring and Evaluation Specialist USSC will be responsible for these measures in coordination with Chiefs of Section and Chiefs of Field Offices. Chiefs of Section will have the role of incorporating cluster inputs. The initial NGO partner mapping will be done by March 2013 and initial assessment of partners will take place alongside the 2013 planning cycle and feed into the 2013 mid-term review.
ii. Give priority to micro-assessment of selected NGOs to identify risks and opportunities for capacity building. The Admin and Finance Specialist, USSC will take the lead on completion of micro-assessments, with support from Partnerships Officer USSC and Audit and Risk Management Working Group on

prioritisation. By end January 2013, a clear prioritisation schedule will be consolidated.

iii. Streamline the review process to ensure that PCAs are signed promptly and that partners do not start implementing activities before they are signed.

iv. Clarify and harmonise application of project support costs and consider establishing a negotiation range of unit costs for PCAs (Partnerships Officer, USSC to lead with inputs from Operations and Programmes. A draft is expected to be ready by February 2013).

v. Clearly state partners' contributions in PCAs as required by the standard operating procedures and the PCA submission format. The Partnerships Officer is responsible for adherence to this.

vi. Following commissioned audits and evaluations, the office intends to implement corrective measures so as to ensure programme activities are duly implemented and obtain refunds in cases where funds had not been used as agreed. The Committee on Studies, Surveys and Evaluations and Audit and Risk Management Working Group intend to follow up the implementation of recommendations stemming from the commissioned audits and evaluations.

Programme management: Conclusion

Based on the audit work performed and in light of the scope of this section, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the provision of technical, material and financial inputs to partners needed improvement to be adequately established and functioning.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following*:*

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the above areas were covered in this audit. The audit raised an observation on recruitment and performance evaluation of staff in the section on governance.

Noteworthy practices

The following is an example of a practice in this area that merits sharing with other country offices.

The country office had developed a good business-continuity and disaster-recovery framework, including dedicated risk assessment, business impact analysis, institution of an alternate site, clear identification of crucial actors, training strategy and incident management and recovery timelines. The plan was formally tested and successfully completed on 23-24 September 2012 in Hargeisa zone office. This exercise generated a series of lessons learned and recommendations, which are being used as valuable input by the CO in the ICT management and planning processes related to the entire ICT framework.

Satisfactory key controls

The office's 2011 year-end accounts closure reports were processed and submitted to DFAM according to the established timeline. The operations section prepared workplans that presented key objectives and tasks for each of the unit in 2012. The workplans were reviewed and status updated on a quarterly basis. The office received electronic confirmation regarding cash transfers to partners made through the money-transfer agency based in Somalia.

User training and helpdesk areas had encouraging levels of user satisfaction for ICT services.

Processing of financial transactions

Audits of country offices review the systems and controls over processing and recording of payments, receipts and deposits and reporting of financial activities. The audit reviewed a sample of financial transactions covering the period from 1 January 2011 to August 2012, and noted the following.

Contracts for services: Contracts with institutional contractors were signed after the start date in 11 out of 25 cases sampled (37 days after, in one case). This meant that the contractors performed work without valid contracts (and might also be uninsured). Also, in 12 cases, interim payments were made to contractors without service certificates or supervisors' written evaluations of the work performed. In one case, the office paid 50 percent of US$ 162,000 contractual fees as advance before the service was rendered by the contractor, and without the documented justification and approval required for advances exceeding US$ 10,000.

Disbursement of cash transfers: There were significant delays in the disbursement of funds to the implementing partners, caused by late submission of partners' requests for cash transfers and late processing of payments. In 10 of 14 cases reviewed, the partners' requests were submitted after the activity start date specified in the requests or workplans. Also, in nine of the 14 cases reviewed, funds were transferred to partners late – up to 11 weeks from the date of the partners' requests. This led to delays in the implementation of programme activities. One partner informed the audit that payment for a four-month PCA signed in July and expiring in November 2012 had not been made to the partner despite several reminders.

Direct payment and reimbursement cash transfers: Three of the seven direct payments reviewed had no partners' requests and UNICEF's prior authorisation was not attached. Also, four of the five reimbursement payments reviewed lacked evidence of prior approval for the implementation of the project.

Liquidation of cash transfers: The outstanding cash transfers (funds given to partners whose utilisation had not been accounted for) as of 19 October 2012 amounted to US$ 28 million (amounting to US$ 4.7 million and US$ 3.7 million over six months and over nine months respectively). Prompt liquidation of cash transfers would give the office timely assurance on the use of funds.

The processing of transactions would be improved by strengthening oversight and staff understanding of policies and procedures.

Agreed action 9 (medium priority): The country office agrees to strengthen oversight mechanisms and to train key responsible programme and operations staff in financial policy and procedures. In particular, the office agrees to ensure that:

i. contracts for services are signed before the start date and interim payments on contracts are supported with service certificates; and that advance payments exceeding 30 percent are approved as required (responsible staff members: Supply Manager and Chief of Operations);
ii. partners submit cash-transfer requests on time and receive funds before the start date of the programme activities (Deputy Representative and Chief of Operations);
iii. direct payment and reimbursement cash transfers are processed on the basis of

partners' requests and UNICEF authorisation given prior to the implementation of activities (Chief of Operations to follow up with programme sections); and,

iv. mechanisms are established for monitoring status of direct cash transfers to ensure that they are liquidated within six months as required. This has already been a priority issue of programme meetings and CMT meetings in 2012 and will continue to be an office priority as part of the COs' management indicators.

The office intends to implement these actions immediately, with the exception of (iv) which will be ongoing.

Warehouse and inventory management

The audit reviewed controls for warehouse and inventory management, including recording of receipt of goods, independent physical count of inventory, inventory reporting and authorisation of issue of goods from the warehouse.

The office maintained inventory of programme supplies in nine locations, one in Dubai, three in Kenya and five inside Somalia. As of October 2012, the total value of inventory as per office records maintained in UNICEF's warehouse management system, UNITRACK, amounted to approximately US$ 18 million. However, the value of inventory in VISION was US$ 53 million as of October 2012. The office explained that the supplies in VISION included goods in transit and goods that had been dispatched but for which an acknowledgment receipt had either not been received, or had not yet been entered into VISION (see previous observation on *Supply Procurement and Logistics*).

The office was maintaining parallel systems because of purchase orders that had not been migrated into VISION at the beginning of 2012. This had caused a number of problems, including outstanding deliveries/proof of delivery and issue orders recorded in UNITRACK but not captured in VISION. The learning curve and technical bugs arising from VISION's introduction may also have contributed to the backlog of unrecorded transactions (the office has pointed out that it was dealing with a Level 3 emergency at the time of VISION implementation).

The audit visited a total of four warehouses, in Nairobi, Mombasa, Mogadishu and Hargeisa. Only the last one was directly managed by UNICEF. There were a number of other opportunities for improvement.

- The warehouse service providers in Nairobi, Mombasa and Mogadishu lacked a list of UNICEF staff who were authorised to sign release orders for supplies.
- The communication channel between UNICEF and the warehouse staff was not clearly defined and this created confusion, as sections could obtain inventory records both from the logistics section and directly from the warehouse service provider. The two records did not always agree.
- During the visit to the outsourced warehouses the audit noted cases where supplies were stored without stock cards being displayed. Some supplies in warehouses located in Nairobi and Mogadishu did not have stock cards and it was not possible to identify the purchase requisition, purchase order and quantities.
- Section chiefs and programme officers rarely visited the warehouse to monitor status of programme supplies in line with the movement of supplies, release orders and modes of transportation.

The office was aware of the inventory issues and some measures were planned, including a physical inventory count on which to base final migration to Vision.

Agreed action 10 (high priority): The country office agrees to carry out an inventory physical count to establish the actual quantity and value of programme supplies under the control of UNICEF, enter the results of the count in VISION, and deal with differences by writing off items or adjusting the record. This exercise is already underway with support from the Division of Financial and Administrative Management and the Supply Division, and will be completed in accordance with their procedures, by 31 January 2013. The responsible section is UNICEF Somalia Support Center (USSC) Logistics.

Agreed action 11 (medium priority): The country office agrees to strengthen controls over warehouse management, including streamlining communications with warehouse service providers and providing them with lists and specimen signatures of staff authorised to sign release orders. The office agrees that USSC Logistics will take these steps by 31 January 2013 and will ensure that release orders are duly signed. The office also agrees that section heads and programme officers visit the warehouse periodically to establish the status of programme supplies. The USSC Deputy Representative, Chiefs of Field Offices and Programme Section Chiefs agree to ensure that these visits take place.

ICT security

The audit checked that ICT security controls ensured authenticity, confidentiality, integrity and availability of corporate information. The office had 228 VISION users and more than 300 network user accounts, making ICT security especially relevant.

***Vulnerability assessment*:** On the basis of network diagrams and documentation provided by the office, the audit searched for software vulnerabilities affecting computers hosted on the office's network. Such vulnerabilities included non-updated applications, weak configurations, and any security flaw that could be exploited to limit the availability of ICT services in the office. The high and critical vulnerabilities were shared with the office to enable them to strengthen their controls.

***Password sharing*:** The audit noted that 22 VISION users logged into the system from the office network while the corresponding staff members were not present in the office. This suggested possible sharing of passwords. Engaging in password sharing weakened accountability over activities carried out inside the ICT infrastructure. It could also lead to unauthorised disclosure of corporate or personal information.

Virus protection: The audit found that 81 computers had never been scanned for viruses. Twenty-five had outdated virus definitions, and in five cases they were more than three months old.

Physical security: The room dedicated to reception and distribution of phone and network connectivity had poor physical security. There were exposed holes in the external wall to allow the passage of cables; there was no physical access control to the room and no fire detection controls; and the temperature control devices were rendered largely useless as the windows were open. A disruption of services and connectivity through shortcomings in this facility could significantly disrupt the office's business. The room and related equipment were under the responsibility of the United Nations Office in Nairobi (UNON).

The issues noted above were partly due to limited training and guidance on implementation of ICT security controls. This included monitoring mechanisms to identify and address software vulnerabilities, virus protection and physical security of ICT. There was also a general lack of staff awareness on ICT security – which had led to practices such as password sharing.

Agreed action 12 (medium priority): The country office agrees to take the following measures.

i. In consultation with the regional ICT office and Information Technology Solutions and Services (ITSS) Division, remedy the critical, high and medium-risk software vulnerabilities. To assist this exercise, the audit has provided suggestions based on widely recognized industry standards and best practices. (Responsible staff members: Chief ICT, Regional Chief ICT, ITSS. To be implemented by 31 October 2013.)
ii. Amend the office network design so as to logically or physically segregate critical server machines from the regular network devices in use by the staff in the zone offices. (Chief ICT, 31 October 2013.)
iii. Strengthen ICT security training and staff awareness of ICT security issues. (Chief ICT, Regional Chief ICT, 31 October 2013.)
iv. Periodically review the antivirus software to ensure complete and effective protection. (Chief ICT, ICT Officer; 31 December 2012 with ongoing quarterly review.)
v. Liaise with UNON management in order to establish adequate physical and security controls over the room dedicated to phone and network connectivity to the office. (Chief ICT, Regional Chief ICT, ICT UNON; 31 March 2013.)

Safety and security of staff and assets

The audit reviewed the office's controls to mitigate security risks and implement measures to ensure safety and security of staff, premises and assets. These should be commensurate with the security level and in accordance with the Minimum Operating Security Standards (MOSS) applicable to the duty station.

The office in Nairobi was located inside the UNON compound. All the zone offices inside Somalia were housed in rented commercial premises. The country office had a warden system that covered all staff members in Nairobi (UNON Department of Safety and Security) and at each of the zone offices inside Somalia. The audit review of safety and security controls identified the following opportunities for improvement:

- The security plan for the United Nations inside Somalia was meant to be updated every six months, but the latest update given to the audit team was dated April 2009. Outdated information in the security plan related to the total number of staff per agency and operating areas inside Somalia, concentration points, evacuation plan and contact numbers.
- Although the office in Mogadishu stated that the MOSS compliance assessment had been performed, there was no evidence of formal certification by the UN Department of Safety and Security (UNDSS).
- The office premises in Mogadishu had no fire insurance, and there was no fire evacuation plan. Neither was there a contract for maintenance of fire extinguishers in the office (the audit noted non-functioning fire extinguishers that had not been

serviced).
- The office premises in Mogadishu did not have a public address system to alert staff in case of emergency. During previous incidents the security staff had had to go around the office alerting the staff members.
- The server room in Mogadishu did not have any physical authentication mechanism, risking the security of essential hardware including VSAT equipment.
- The field security officer in Mogadishu had made recommendations in February 2012, but not all had been implemented as of October 2012. The pending recommendations included: establishment of a permanent radio room with constant communication with UNDSS; strengthening the office roof in order to take more sandbags for overhead protection; and staff training in detection of hostile reconnaissance and surveillance, response to bomb threats, fire safety and prevention, and reporting procedures for suspicious activities.

The gaps identified in relation to safety and security were due to a combination of reduced capacity in terms of security staff and competing priorities in a high-risk work environment during the Level 3 emergency; and to limited monitoring and guidance provided to the security personnel on the ground. The office informed the audit team that the workplan for 2012-13 focused on the proper supervision, management and development of security advisors on the ground, to ensure the provision of effective advice and support to staff operating in the field.

Agreed action 13 (high priority): The country office agrees to give priority to safety and security-related controls and ensure that, in consultation with UNDSS, the security plan is updated, and the following measures are taken in the Mogadishu office:

i. Update and test the fire evacuation plan.
ii. Replace and maintain fire extinguishers.
iii. Assessment and certification of MOSS compliance by UNDSS.
iv. Installation of the public address system.
v. Strengthen the physical security of the server room as part of the office expansion plans. (The staff member responsible for these measures will be the Chief of ICT, and they will be implemented by 30 June 2013).

In addition to the above, the office agrees to implement all feasible pending recommendations for strengthening security made in the security assessment. The outdated security plan will be discussed with the Chief Security Advisor at the Somalia security cell before the end of January 2013.

Formal security assessments with submission to UNDSS are to be formulated and submitted by the zonal security professionals by the end of 2012. The fire evacuation plan is to be implemented and tested by the zonal security professionals by 31 January 2013. Security-related recommendations, including training and guidance, are to be provided by the onsite UNICEF security professionals by January 2013. (The responsible staff member will be the Senior Security Advisor.)

Property, plant and equipment

The audit checked the office's administration of its property, plant and equipment (PPE), reviewing whether it was adequately maintained, identified and recorded, and used for authorised purposes.

As of 31 December 2011 the closing balance of the country office's PPE was US$ 4.4 million. When the audit ran the VISION PPE report, there was no distinction between the entries belonging to the Somalia country office from those of the Kenya country office and the Eastern and Southern Africa Region (ESARO) offices, because the data migration had not consistently captured the correct business area for Somalia. Though the country office had carried out a number of data-cleanup sessions with support from HQ, the clean-up exercise had not been completed at the time of the audit.

The audit sampled 10 items in the office to see if they were recorded in VISION; seven were not. In addition, there were items in VISION that had in fact been disposed of, including desktops, laptops and printers. The audit also could not confirm the physical existence of some items amounting to about US$ 6,500. These items were recorded in VISION as being in Nairobi. As part of the same verification the audit found two items with no property tags and one where the serial number in VISION did not match the one on the item.

Agreed action 14 (medium priority): The country office agrees to strengthen supervision of PPE to ensure that a complete and accurate record is maintained. Specifically, the office, under the guidance of DFAM, intends to perform a reconciliation of PPE to identify and distinguish items that belong to the country office; correct all entries of PPE items recorded in VISION with incorrect business area codes; ensure that the location of PPE is recorded; and ensure prompt removal of all items that have been disposed of. (Action: Admin/Finance Specialist, by 31 December 2012.)

Vendor master record maintenance

The audit checked the creation of vendor master records, which in country offices is done centrally by the designated staff. They should be complete and only accredited vendors should be in the system.

The vendor master records in country offices were migrated to VISION at the time of its roll-out in January 2012. The programme partner master records were migrated in December 2011, while those for suppliers and consultants followed later that month and in early January 2012. Thereafter, the designated staff created additional vendors manually in VISION. At the time of the audit, the vendor master records had 938 active entries.

The vendor master records had not been cleaned up before migration to VISION at the beginning of the year. In addition, new master records were created without checking whether they already existed in VISION. Though there were two vendor names that were repeated three times and 21 were repeated twice, the audit did not find duplicate payments for the same goods or services received. Also, five users had applied updates to the vendor master data although not assigned to perform this function in the table of authority (ToA).

Agreed action 15 (medium priority): The country office agrees to:

i. clean up the vendor master records by blocking and marking for deletion the entries which are considered invalid or duplicate (this was expected to have been done by 31 December 2012, by staff designated for Vendor Master Record Maintenance as per ToA); and,
ii. restrict the capability of updating the vendor master record to designated staff members as per ToA by 31 January 2013.

Operations support: Conclusion

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

Annex A: Methodology, priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over the country office *[or audit area]* were generally established and functioning during the

period under audit.

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

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

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

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

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

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