Internal Audit of the Yemen Country Office

Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Yemen country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 29 April to 22 May 2013, and the audit covered the period from January 2012 to 29 April 2013.

The Yemen country office is in the capital, Sana'a, and there are five active zone offices, in Aden, Hodeida, Sa'ada, Taiz and in Sana'a itself (a sixth, in Seyoun, had been established but had not been activated, for security reasons). Conflicts within Yemen have meant that UNICEF's mobility in, and access to, parts of the country have changed constantly.

The Board-approved 2012-2015 country programme has three main components: *Equitable access to basic social services*; *Evidence for children's rights*; and *Empowerment for children's rights.* The total budget for the approved country programme had a ceiling of approximately US$ 70.5 million, of which 28.6 million was expected to be from Regular Resources (RR), while the Other Resources (OR) component was US$ 41.9 million. Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as Other Resources), up to the approved ceiling. Since the country programme was approved, the office has requested a ceiling increase of US$ 48 million.

The crisis in Yemen had led to an unexpected growth of the country programme, with budgets reaching US$ 105 million in 2012 and US$ 113 million in 2013. Total expenditure was US$ 43 million in 2012 and US$ 42 million in 2013 as of April. As of May 2013, the country office had a total of 111 approved posts, of which 28 were international professionals and 43 were national officers; 40 were general service staff.

Actions agreed following the 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 measures are being implemented as high priority. The measures are as follows:

- Establish field-monitoring standards; develop and implement plans for field monitoring; review the status and effectiveness of supplies and cash transfers provided to the partners during field visits; and systematically follow up on significant action points arising from the field visits.
- Fully implement the Harmonized Approach to Cash Transfers by conducting macro-assessment of the public financial management systems; undertaking micro-assessment of partners; and developing and implementing a plan for assurance activities in the form of financial spot checks, programmatic monitoring and scheduled audits.
- Establish control and oversight mechanisms to ensure pre-delivery inspection and timely delivery of supplies, and timely clearance of supplies from the port of entry; implement a market survey; and take steps to accelerate handing-over of responsibilities for in-country logistics of programme supplies.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office, in the areas examined by this audit, needed improvement to be adequately functioning during the period under audit.

The Yemen country office, with the collaboration of the Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) October 2013

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Objectives and scope

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

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.

Satisfactory key controls

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

The country office had established supervisory structures and governance advisory committees with adequate terms of reference and appropriate memberships. It had also established effective mediation, conflict resolution and staff support mechanisms through the staff association, peer support volunteer, and joint consultative committees. The staff members' performance assessment was carried out on time.

The roles of staff members in processing and controlling transactions had been defined and assigned through the table of authority. The staff members had been delegated authorities for performing their responsibilities within defined limits.

Staff structure and zone offices

Country offices are expected to establish an adequate staffing and management structure for the country programme.

The crisis in Yemen had led to an unexpected growth of the country programme. Funding had tripled during the last three years. The emergency response had significantly increased the workload, particularly on the five zone offices. (A sixth zone office, Seyoun, had been established in January 2012 but as of May 2013 it had not commenced operations, for security reasons.) The audit noted some areas for improvement, as noted below.

Staffing structure: The office had responded to the increased demand by adding a further 17 temporary assistance positions (12 filled and five under recruitment), and 34 individual consultants. This was in addition to the existing 111 fixed-term positions. The audit noted that the six sampled individual consultants were all performing staff functions, which was contrary to UNICEF policy. The temporary assistance staff and consultants were principally working in zone offices in programme functions and in professional categories.

In addition, the management structure did not match the cross-sectoral programme structure. That structure consisted of three pillars with corresponding programme component results (PCRs):[1] Equity, Evidence and Empowerment. Instead, the management structure that was established at the start of the country programme in 2012 consisted of section heads of various programmes, such as Health and Nutrition, Education and Child Protection. Staff interviewed by the audit said that the three-pillar programme structure significantly constrained the management of programme funds by sector (such as health, nutrition, education, and WASH, the activities for which were spread across the three programme component results). This was because VISION[2] did not provide standard reports to meet the monitoring and reporting needs under the three-pillar structure. Therefore, the office generated the reports manually—from various sources, including SAP—by maintaining manual spreadsheets.

Further, in order to manage results in this matrix structure, the office established three multi-sectoral working groups based on the PCRs, each led by a focal point. As of May 2013, the office had planned to assess the effectiveness of the three-pillar programme structure *vis-à-vis* the traditional management structure in the upcoming Mid-Term Review and accompanying programme budget review. (See also the observation *Programme Planning* in the Programme section, below).

Zone offices: Of the six zone offices, five were located outside Sana'a and had seven staff positions each; and one was in Sana'a with two staff positions. The Sana'a zone office had fewer staff because the intention was to use section staff from the country office to run it.

[1] A PCR is an output of the country programme, against which resources will be allocated. An IR (intermediate result) is description of a change in a defined period that will significantly contribute to the achievement of a PCR.
[2] VISION is UNICEF's management system, introduced in January 2012.

However, in practice the staff were not always available due to their commitments within the sections.

Reporting structure: The programme staff in zone offices reported to the Chief of Field Offices (CFO), and not to the corresponding Section Chiefs located at the country office. The CFOs reported to the Chief of Field Operations based in Sana'a. Though Section Chiefs at the country office were responsible for providing technical oversight to programme staff, they did not contribute to establishment of individual staff members' annual performance objectives or to the performance appraisals of the zone office staff. Discussion with staff at the zone offices noted that the reporting lines between the programme staff at the zone offices and the chiefs of sections at the country office were not clearly defined and enforced. This may have limited effectiveness of the technical oversight and support that country office's section chiefs provided to programme staff in the zone offices.

The office planned to review the adequacy of the structure and capacity of the zone offices during the Mid-Term Review (MTR) of the country programme, scheduled for the fourth quarter of 2013.

Agreed action 1 (medium priority): The country office, as part of the Mid-Term Review, agrees to assess the benefits and costs of the three-pillar multi-sector programme structure *vis-à-vis* traditional sector-based management structure and align the programme component results with the staffing management structure.

Target date for completion: 30 November 2013
Responsible staff members: Chief of Planning

Agreed action 2 (medium priority): The country office agrees to, through the Mid-Term Review and subsequent Programme Budget Review:

i. Review the staffing structure and human-resources capacity of zone offices to ensure staff functions are not performed by individual consultants.
ii. Review the costs and benefits of maintaining the Seyoun zone office.
iii. Clarify the reporting relationship between sector staff in the zone offices and the heads of sections in the country office.

Target date for completion: 30 November 2013 for i; 28 February 2014 for ii; and 30 November 2013 for iii
Responsible staff members: Chief of Field Operations

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes.

The office had updated its RCSA in the last quarter of 2011, with participation from the Chief of Operations, Chief of Monitoring and Evaluation (M&E) and Chief of Planning. However, the other staff at the country and zone offices, including the chiefs of zone offices and chief of field operations, did not participate in this exercise. Broader participation of staff in the update of the RCSA would improve staff and the office's awareness of emerging risks and capacity to establish sound measures to mitigate them. The RCSA had identified 12 high-level risks and six medium-high risks, and included 18 mitigation measures. However, 10 of the 18 had not been implemented at the time of the audit in May 2013.

The office stated that it was planning to carry out a new RCSA so as to reflect the country's current situation, and that it would have broader participation of staff. The emergency-related activities had delayed these actions in the past.

Agreed action 3 (medium priority): The country office agrees to involve more staff in the update of the risk and control library, and to give priority to implementing the actions planned to mitigate identified risks.

Target date for completion: 30 October 2013
Responsible staff members: Chief of Operations

Key priorities and staff responsibilities

Country offices are expected to establish key priorities in their annual management plan (AMP). The AMP should also assign staff responsibilities for those priorities.

The priorities in the office's AMP reflected the risks and opportunities the office had identified in the RCSA, such as accelerated implementation of decentralised programme management at the zone offices, strengthening of partnerships, and training of staff in the use of VISION. However, the audit noted the following with regard to the AMP.

Number of priorities: The guideline on preparation of AMPs recommends that key priorities should be limited to 10 or fewer so as to increase the office's capacity to focus on critical strategic issues. However, the 2013 AMP included 24 priorities. Also, while the AMP identified what individual staff members' contributions should be to the key priorities, this was not always reflected in their annual performance objectives as part of the performance evaluation process. This made it harder for the office to assess whether those contributions had been made.

Supervisory bodies: The AMP also included a description of the supervisory and review bodies responsible for monitoring the implementation of key priorities. These included the Country Management Team (CMT), which was to review progress on key priorities monthly. However, the agenda and minutes of the CMT suggested that it mostly reviewed routine matters rather than more strategic issues. In view of the evolving situation in Yemen, it would be increasingly important to emphasise strategic issues and topics as the principal focus of the CMT.

The audit also noted that, while the CMT reviewed certain performance indicators, they did not include those relating to the status of implementation of management priorities and key results as identified in the AMP. (However, a more comprehensive review of management priorities did take place during the annual review.)

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

i. Keep the number of priorities at a reasonable level so as to focus on critical strategic issues.

ii. Ensure that staff members' contributions to the office's annual priorities are consistently reflected in their annual performance objectives assigned in their performance evaluation reports.
iii. Ensure that the CMT focuses more on strategic issues rather than routine and administrative matters, so as to better inform management decisions. Lower-level priorities and their respective indicators may be annexed to the annual management plan but may be reviewed by the CMT much less frequently.

Target date for completion: 20 December 2013 for i; February 2014 for ii; and 30 September 2013 for iii
Responsible staff members: Chief of Operations

Governance: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the recommendation described, the controls and processes over governance, 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.

All the above areas were covered in this audit.

Satisfactory key controls

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

The country office planned and implemented effective controls to ensure that child rights issues were given due attention and priority in Yemen. This was manifested in strengthened collaboration with the government on critical issues such as addressing malnutrition and stunting of children. At the end of 2012, Yemen became the 31st country to join the Scaling Up Nutrition (SUN) initiative, a great step forward in terms of political support at the highest level.

The office demonstrated effective controls in cluster coordination roles in response to the conflict and nutrition emergency. UNICEF played leading roles in WASH, Education, and Nutrition clusters as well as a lead in the Child Protection sub-cluster. As a lead agency, UNICEF provided services to 250,000 children affected or displaced by the conflict and helped the Ministry of Health vaccinate 4 million children against communicable diseases in 2012, with very high rates achieved of over 90 percent.[3]

The office had implemented its resource mobilization strategy and had raised 74 percent of the total country programme ceiling for Other Resources (US$ 41.9 million), and 74 percent

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[3] WHO, *Report on the National Immunization Day*, 9-11 January 2012.

of the estimates for the emergency response (US$ 80 million), for the 2012-2015 country programme. UNICEF had also been asked to be the Supervising Entity for the Global Partnership for Education, which expected to receive a grant of US$ 82 million in the course of 2013. The office has, therefore, requested a ceiling increase of 48 million dollars to meet likely funding needs for the remaining years of the country programme.

Results-based programme planning

Country offices, working with implementing partners, are expected to practice results-based management (RBM), in which programme activities are aimed at specific and measurable targets. To this end, offices should establish programme component results (PCRs) and intermediate results (IRs) that are specific, measurable, achievable, realistic and time-bound. The PCRs and IRs agreed with partners are established in the country programme action plan (CPAP)[4] and are incorporated into the annual or rolling workplans (RWPs). In addition, as part of the planning process, the offices and partners are required to develop qualitative or quantitative indicators, including baselines and targets; these should be used to monitor annual progress on achievement of results.

The current country programme (2012-2015) consisted of three multi-sector pillars, or PCRs: Equity, Evidence and Empowerment (see also the observation *Staffing structure and zone offices* in the Governance section, above). These multi-sectoral PCRs were created to build synergies across the sectors. As of May 2013, there were about 30 active IRs that were linked to the three PCRs. The audit team reviewed a sample of rolling workplans and noted the following shortcomings.

Definition of PCRs: The PCRs were broadly defined, lumping together multiple programme components with possibly different results (such as health, nutrition, education, water and sanitation, and child protection) into one result. PCR 1, for example, read: “By 2015, girls and boys have sustainable and equitable access to and use quality targeted basic social services, particularly to accelerate progress towards Millennium Development Goals 1 to 7.” Broad definition and lumping together of many components to form one result made it difficult to measure progress towards achievement of the aimed-for results, since this required measuring a list of many indicators for each PCR. As such, the PCRs were more of cross-cutting programme strategies rather than the specific results that they are meant to be.

Some of the indicators sampled in RWPs reviewed by the audit had no planned activities linked to them that might have helped the office measure progress against the indicators at a given stage of implementation. For example, there was no planned activity that required establishment of parent-teacher committees in targeted schools, to link to the indicator “Percentage of targeted schools with functioning and effective Parent-teacher associations/Community education committees”. Similarly, there were no activities related to an indicator “No. of advocacy sessions to improve number of female teachers in schools” under IR 1.6 of the 2013-2014 rolling workplan.

Baselines and targets: Indicators did not always have baselines and targets, due to a lack of reliable information at the planning stage of the country programme. For example, under PCR 1 (Equity), there were no baselines for three of the seven indicators; two of those three

[4] The CPAP is a formal agreement between a UNICEF office and the host Government on the Programme of Cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments.

also lacked targets. In many cases where the baseline data was stated in the CPAP or in the RWPs, the source of data was not specified. Thus, under PCR 1 in the CPAP results matrix, no source of data was given for three of the four indicators that did have baselines. The absence of baseline data was reflected in difficulties in measuring progress towards IRs at year end 2012. To address this problem, the office had commissioned a Baseline Survey, originally intended for 2011. Due to the crisis in the country, however, it had been postponed until late 2012, in consultation with the Regional Office.

Budget: The budget for the planned activities was not supported with evidence-based unit costs. Some cases were noted where the budgets for the same activities and targets differed significantly from one year to another without evidence of changes in unit costs. The office noted that, with conditions for work varying significantly between different parts of the country because of security and logistical challenges, the unit costs of programme interventions per child for different sectoral interventions were based on estimates done within each programme sector. However, availability of unit costs for programme interventions would have increased the efficient allocation and use of financial resources.

The issues relating to planning and budgeting for programme results were partly due to inadequate application of the principles of RBM. The office had started taking action to address the above shortcomings by supporting the ongoing baseline data survey and the situation analysis. The office had planned to take further action to address the identified shortcomings during the upcoming mid-term review.

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

i. Review the programme results to ensure that they are specific, measurable, achievable and realistic; and to establish clear planned activities, indicators, targets and baselines.
ii. Ensure the planned activities in the rolling workplans are clearly linked to, and aligned with, intermediate results and indicators so as to enable cost-effective monitoring and reporting of progress.
iii. Establish standard unit costs to inform the allocation of funds to planned activities in the rolling workplans.

Target date for completion: 10 November 2013 for i; 20 December 2013 for ii; and 30 November 2013 for iii
Responsible staff members: Chief of Planning

Programme monitoring

The Yemen country office had established various programme monitoring mechanisms that included, among others, field-monitoring visits by staff and partners, monthly programme coordination meetings, CMT meetings, and mid-year and annual reviews with implementing partners. However, the audit noted the following shortcomings.

Field-monitoring visits: There was no plan and no standard established for field-monitoring visits made from either the country office or the zone offices. Some staff said they were required to carry out field-monitoring visits every six weeks, while others had quarterly field visits indicated in their performance evaluation reports. The establishment of a plan and standard for field monitoring would improve the capacity of the office and zone offices to monitor implementation and to address any constraints promptly.

Further, the eight trip reports sampled by the audit did not identify the workplan IRs. There was therefore no clear link between what was monitored and the expected results established in the rolling workplans, making it harder to confirm whether the situation found during field monitoring was in accordance with that expected. Six of the eight trip reports did not indicate the kind of programme input given to the partners, or whether the status, use and effectiveness of such inputs had been assessed. While all reports included some recommendations and follow-up actions, only two identified the staff responsible for following them up. In general, the office had no established system for following up such recommendations.

The audit visited the zone office in Hodeidah and found that staff did not prepare trip reports of field visits at all, so that the findings and action points arising from field-monitoring visits were not recorded. This included the results of spot checks on the use of cash transfers, which zone-office staff said they did during field visits to partners. There was therefore no evidence for any spot checks done (see also observation on *HACT Implementation* later in this section).

The responsibilities and accountabilities for field monitoring outside the Sana'a area were not clearly defined and were misunderstood among staff both at the country office and at the zone office. The issue of inadequate support in terms of field-monitoring visits to the zone offices was noted by the office in the annual review held in December 2012. Some of the zone offices, such as Sa'ada and Sana'a, received less than five support field visits by programme and operations staff from the country office in 2012.

Staff in the programme and operations sections of the country office made field visits to monitor programme implementation, and provided technical support to the zone offices. However, the audit noted that the field visits were only done on *ad hoc* basis; there was no plan for field visits.

Tracking of progress towards results: The programme results defined in the RWPs contained both two-year and annual targets. The office measured the achievement of IRs against indicators and targets and recorded progress status in the Results Assessment Module (RAM) in VISION. Although the office had established annual targets as milestones in the RWPs, the assessment and reporting in RAM was not done against these targets (milestones). Also, in a number of cases where there had been no progress towards the expected results, no reasons were given.

Progress against annual and two-year targets was assessed during mid-year and annual reviews in 2012. However, progress on annual targets was not reflected in RAM since the targets in the RAM indicators were longer-term, matched with the duration of IRs. To present a better picture of progress made, the office would need to measure progress and report in the RAM against the annual milestone targets established in the RWPs. It should, however, be noted that the RAM had been in place for less than a year and that learning continues throughout UNICEF on the use of this module.

Adequate field monitoring, and measurement and periodic tracking of progress against targets and baselines, would increase assurance that funds were spent effectively. The above shortcomings were due partly to lack of a field-monitoring plan, and partly to inadequate oversight of field-monitoring activities and the use of monitoring tools.

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

i. Define a standard and ensure that plans for field monitoring of programme implementation are prepared at the country office and at the zone offices.
ii. Develop a field-monitoring reporting tool and ensure that significant action points arising from field-monitoring visits clearly identify staff responsible and timelines for implementing recommended actions.
iii. Establish mechanisms for ensuring that significant recommendations from field-monitoring visits are systematically followed up for timely implementation.
iv. Clarify responsibilities for field monitoring among staff members at the country office and at the zone offices and ensure that zone offices are adequately supported through technical support and oversight visits by staff from the country office.
v. Use the annual targets (milestones) in the RWPs for the Results Assessment Module, which should be updated twice a year.

Target date for completion: 30 October 2013 for i to iv and 30 January 2014 for v
Responsible staff members: Chief of Monitoring & Evaluation

Programme evaluation

Country offices should implement evaluation plans that reflect their strategic priorities and cover all key elements of the country programme. The office had prepared a four-year Integrated Monitoring and Evaluation Plan (IMEP) for 2012-2015, and two-year rolling IMEPs in 2012 and 2013. However, while the four-year IMEP had 10 activities relating to studies and surveys, there was only one planned activity that was actually an evaluation (it was a Programme-Wide Evaluation).[5] One further evaluation activity had been planned for 2012 (although it was not in the four-year IMEP); however, it had not taken place because the office considered the activity in question hard to evaluate. Apart from a real-time evaluation of emergency response in 2010, there had not been any evaluation of programme interventions completed either in the previous or the current country programme.

The office had supported implementation of some pilot projects which were later scaled up; pilot projects should be evaluated before this is done, but no evaluations had taken place. For example, the Child Friendly School (CFS) project, which had been piloted in 110 districts as part of the previous country programme, had been scaled up to over 300 districts in the current country programme without being evaluated. However, preparations were underway for an evaluation in 2013 of Community Based Maternal and New Born Care, also not in the four-year IMEP.

The office stated that it would not conduct the programme-wide evaluation that was in the four-year IMEP, as it was too early in the implementation of the country programme. In fact, the relevant evaluations were likely to be related to the emergency response, which was expected to be scaled down from its 2011 and 2012 levels. To this end, the office had planned an evaluation of the emergency response in the South. The terms of reference (ToRs) had been discussed and shared with the regional office for review and approval.

[5] A distinction should be made between evaluations and other research-related activities such as assessments, surveys, and reviews. According to UNICEF's recently revised Evaluation Policy (E/ICEF/2013/14), evaluation asks how and why results are as they are — it seeks to understand how a given result has been achieved. An evaluation asks three key questions: Is the right thing being done? Is it being done well? Are there better ways of doing it?

Sufficient and timely evaluations would help the office assess effectiveness of interventions and incorporate lessons into future planning. The office stated that the lack of recent evaluations was due to the smaller scope of the interventions, particularly in relation to nutrition, which is the flagship programme for the country as a result of evidence emerging in 2011 and early 2012. The country office also stated that the crisis of 2011 and 2012 did not allow for evaluations of development programmes – which were on hold anyway, as the country office devoted its time, energy and resources to the emergency response. Difficulties in access at the field-office level, due to the security situation, were also a significant factor.

Agreed action 7 (medium priority): The country office agrees to, in consultation with relevant government partners, review and amend its four-year IMEP to ensure that it includes evaluation of key programme components; and give priority to the implementation of planned evaluation activities.

Target date for completion: 30 November 2013 for the revision of the IMEP and 30 January 2014 for the IMEP implementation
Responsible staff members: Chief of Monitoring & Evaluation

HACT implementation

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

For HACT compliance, besides the assessments, there should also be assurance activities. These include spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits. These promote accountability and strengthen the financial management and internal control mechanisms of the implementing partners. The risk assessments and assurance activities are supposed to be carried out in cooperation with the three other UN agencies (UNDP, UNFPA and WFP) that have also adopted HACT.

During the period from January 2012 to April 2013, the office collaborated with 116 partners (79 government partners and 37 NGOs). Of these partners, 47 received US$ 100,000 or more and 12 of them received over US$ 500,000. The total amount of cash transfers to implementing partners from January 2012 to April 2013 was US$ 27 million.

Macro-assessment: A macro-assessment of public financial management systems was carried out in early 2008. The macro-assessment report highlighted five high/significant risks relating to national budget formulation, internal control procedures, and staff qualification and skills, and made some recommendations. However, the macro-assessment report was not shared with the government because of its sensitivity. Further, it was five years old; the context in Yemen had changed, and a new country programme had started in 2012. The office and the UN Resident Coordinator felt that another macro-assessment was needed, but no definite plan had been made as of May 2013. The Resident Coordinator's office, which would normally take a lead role in the implementation of HACT, had only recently been sufficiently staffed. An updated macro-assessment would increase the UN agencies' knowledge of current risks in public financial management and of key capacity building opportunities.

Micro-assessment: Since the country team and the UN participating agencies had not moved forward with HACT implementation, none of the 116 partners had been micro-assessed and there was no micro-assessment plan. Except to a few selected NGOs, the country office continued to disburse funds through the pre-HACT system, which required partners to submit detailed receipts to support liquidation as well as monitoring of programme activities. The office had introduced the use of the FACE form[6] for a few international NGOs. These partners used the FACE form in requesting and accounting for use of funds and did not submit detailed receipts for liquidation of cash transfers. However, these partners had not been micro-assessed and there was no plan for conducting the assurance activities to verify programmatic implementation and use of funds by these partners.

Assurance activities: Since UNICEF and the other participating UN agencies had not implemented HACT, the office had not prepared a plan for carrying out assurance activities (spot checks, programmatic monitoring and scheduled audits) in 2012 and 2013. No spot checks had been done by the office in either year. Although the office had made field-monitoring trips to some project sites, the trip reports reviewed by the audit did not consistently report the use and impact of cash transfers. They also did not report areas of strengths or weaknesses regarding the use of cash transfers as a programme input (see also the observation *Programme monitoring*, above). Further, although 12 partners had received over US$ 500,000 during the period January 2012 to April 2013, no scheduled or special audits had been undertaken or planned as of May 2013 (this is required for partners expected to receive that amount during the country programme cycle).

According to the office, some staff and partners had received training on HACT (mainly on the FACE form). However, the office acknowledged that since HACT had not been implemented, more training would be needed.

The office and other agencies had made several attempts to implement HACT, but they were not given high priority – partly because of the need to respond to the situation in the country. Full implementation of HACT would help reduce transaction costs incurred in the scale-up of the country programme, and enable the office to build on tools available through HACT related to quality assurance and assessment of partners.

Agreed action 8 (high priority): The country office agrees to, working together with the other UN agencies where possible, prioritize the implementation of HACT by ensuring that:

i. A macro-assessment of the public financial management system is conducted.
ii. Micro-assessment of partners is planned and carried out.
iii. A plan for assurance activities is implemented that includes financial spot checks, programme monitoring and scheduled audits.
iv. A plan for training of staff and partners is developed and implemented.

[6] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

Target date for completion: 10 December 2013 for i; 20 February 2014 for ii; 15 November 2013 for iii; and 15 October 2013 for iv
Responsible staff members: Deputy Representative

Procurement services for government

The office helped the government procure essential life-saving medical supplies and vaccines through procurement services provided by UNICEF's Supply Division (SD) in Copenhagen.[7] The value of this procurement amounted to US$ 50 million in 2012, and was expected to increase in 2013. The country office assisted the Ministry of Health (MoH) in preparation of the forecast of vaccines and related supplies required through these procurement services. It also helped the MoH prepare procurement requests to ensure they were in line with SD's guidelines and with the agreement on procurement services signed by UNICEF and the Government.

The audit noted the following.

Receipt of pre-delivery alerts and shipping documents from SD: The standard for receipt of shipping documents by MoH, which were sent by SD through the Yemen country office, was seven days before the arrival of shipments. As this was not always met by SD, this led to significant delays in clearance of vaccines from the airport. In some cases, pre-shipment alerts were received without shipping documents obtained by the MoH. At the time of the audit, SD informed the audit team that it was aware of the delays and had taken action to address the causes.

In 2013, the MoH requested four shipments for each of the three types of vaccine, but a single shipment was received with supplies of all the three vaccines (against tuberculosis, measles and tetanus) for the whole year. As a result, the central cold stores, and those of the governorates, were overloaded and the vaccines were not stored in conditions that met the standard required. This put vaccines quality at risk. The total value of vaccines stored under these conditions amounted to approximately US$ 15 million. There was a miscommunication between the country office and SD as to whether full annual delivery of vaccines was required.

Information on quantities to be received: The MoH indicated that in cases where the quantities of vaccines to be received as established in customs clearance letters received from UNICEF were different from the actual quantities delivered at the port of arrival, the clearance of goods from the customs authorities was more complex and therefore delayed due to the need to verify and reconcile the quantities expected and received between the customs authorities, the MoH and UNICEF. Regular monitoring and reporting of these cases by the country office to SD would enable SD to take appropriate corrective action on any differences between expected and actual quantities of vaccines received by the MoH.

Broken vials of polio vaccines: In January 2013, 4,075 vials (81,500 doses) worth approximately US$ 11,600 were broken. SD received a complaint from the MoH about the broken vials in February 2013. A shipment subsequently received by the MoH from the same

[7] SD procures supplies, equipment and services not only for UNICEF, but also for governments, other UN organizations and NGOs, provided they are for purposes related to UNICEF activities and consistent with the aims and policies of UNICEF. SD recovers the direct and indirect costs of the procurement services activities by charging the actual cost of the supplies and services, plus a handling fee.

vendor in April 2013 had 3,830 vials (76,600 doses), worth approximately US$ 11,000, that were broken. SD informed the audit team that the supplier had agreed to replace all broken vials.

Staff members interviewed by the audit noted that the country office might not have adequate human-resources capacity for procurement services, especially in view of a possible increase in their volume and value both this year and in the future. The office had not assessed the level of human resources required to support this function.

Agreed action 9 (medium priority): Supply Division agrees to, with the support of the country office:

i. Monitor and report to the country office on the causes of delays in transmitting shipping documents (that are used for clearance of vaccines) to the Ministry of Health, and remedial actions taken.
ii. Ensure that all broken vials are properly replaced by the supplier and report to the country office accordingly.

Target date for completion: 31 March 2014
Responsible staff members: Director, Supply Division

Agreed action 10 (medium priority): The country office agrees to, with the support of Supply Division (SD):

i. Provide necessary support to the Ministry of Health (MoH) to prevent damage to vaccines not currently stored in standard storage conditions.
ii. Monitor, and report to SD for corrective action, any cases of differences between the quantities of vaccines to be received as established in customs clearance letters, and the actual quantities delivered at the port of arrival (and received by the MoH).
iii. Assess the human-resources capacity assigned to support procurement services, in view of possible increases in the scale of procurement services during the current and coming years.

Target date for completion: 30 October 2013
Responsible staff members: Chief of Young Child Survival and Development (Yemen country office) with assistance from Supply Division

Partnership with NGOs

The office worked with 37 non-governmental organisations (NGOs), issuing 44 Project Cooperation Agreements (PCAs) for a total amount of US$ 31 million during the period from January 2012 to May 2013. The office had established procedures for processing of PCAs that involved review of proposed partnerships with NGOs by the PCA Review Committee (PCARC). A set of documents, including a note for the record and an assessment checklist, were required to be prepared for submission to the PCARC.

Assessment of partners: The office used a checklist for evaluation of NGOs as part of the PCA process. However, the checklist lacked a number of significant elements recommended in UNICEF's guidelines for collaboration with NGOs.[8] These were elements for verifying the integrity and capacity of the partners. For example, the financial capacity aspects relating to funding flows, staffing, financial policy and procedures, segregation of duties, external audits, and capacity for financial reporting and monitoring were not assessed. The checklist also omitted the requirement to confirm that neither the organization nor any of its members was mentioned on the consolidated list of individuals and entities belonging to, or associated with, terrorist organizations, in compliance with UN resolution 1267.

A number of partners were engaged on PCAs for multiple sectors. In one case, the PCARC raised concerns about the partners' capacity to implement the programme activities across multiple sectors. A comprehensive assessment of programmatic and financial capacity of the partners would have assured the office that the partners selected had adequate capacity to implement the programme activities.

Monitoring and assurance mechanisms: All five PCAs reviewed by the audit indicated that the office would follow the monitoring and evaluation plan set out in the PCA programme document. However, two of the five programme documents lacked plans for monitoring and evaluation. Further, the audit team visited four NGOs and found that the office had not carried out spot checks during the implementation of programme activities. The absence of a monitoring plan and financial spot checks limited the office's assurance as to whether the funds given to partners had been used as agreed.

Timeliness in review and issue of PCAs: The cases reviewed suggested that the process of developing a PCA took four to six months. However, discussion with programme staff revealed that it was the technical negotiation that took several months; once the documents were presented to the PCARC, the review itself took about 10 days. Two of the four NGOs visited by the audit indicated that it took up to more than a month to get feedback from the office on proposals submitted for new PCAs or extension of existing ones. The delay in processing the PCAs led to delays in the implementation of some programme activities.

The need to respond to the emergency situation in 2011-2012 had led to an increase in the number of partnerships with NGOs; they had been formed urgently, with no time for comprehensive assessment of the partners. Also, staff in the office said delays in the PCA process might have been due in part to the weak capacities of some partners in the preparation of project proposals. However, the gaps in assessment of partners and inadequate planning for monitoring and evaluation were mainly because the office did not fully use the guidance and tools provided in the UNICEF guidelines for collaboration (see footnote).

Agreed action 11 (medium priority): The office agrees to establish adequate oversight mechanisms to ensure that the guidance and tools for assessment of partners, and monitoring and evaluation, are followed. The office also agrees to review and identify the bottlenecks leading to delays in the PCA process and take appropriate action.

Target date for completion: 15 October 2013
Responsible staff members: Deputy Representative

[8] *UNICEF Programme Cooperation Agreements and Small-Scale Funding Agreements with Civil Society Organisations (2009).*

Reporting on results and use of funds

UNICEF offices are expected to produce donor reports that meet quality standards as per organisational guidance on donor reporting, and ensure that the donor reports are submitted on time.

The country office had a good record on timeliness of donor reports as well as management of donor-related files. While some delays in donor reports was noted in 2012, this had significantly improved in 2013. In 2012, 21 of the 30 donor reports due were submitted by the deadline. In 2013, all 29 reports due (as of May) had been submitted on time. One of the donor reports submitted by the office in 2011 was recently cited as an example of good practice in an NYHQ global review of donor reporting. Nonetheless, a review of a sample of five donor reports revealed the following:

- Three of five donor reports reviewed did not provide a comparative analysis of the results achieved against results planned as outlined in the project proposals to the donors.
- In four reports, although a summary of expenditures against budget lines was presented as required, the actual expenditures were not compared with planned expenditures to show any variances. One report did not contain a description of the office's future workplan on the projects.
- Four donor reports did not have a donor feedback form attached.

The above shortcomings might have been partly due to inadequate quality assurance of the donor reports. The office had no standard tools such as checklists, as recommended by the Public Sector Alliances and Resource Mobilisation Office, for reviewing the quality of reports. More transparent reporting to the donors on achievement of results and utilisation of funds would enhance UNICEF's reputation and help future funding of programme activities.

Agreed action 12 (medium priority): The country office agrees to review its quality assurance mechanisms and ensure that:

i. Donor reports consistently include a comparative analysis of planned and achieved results.
ii. Actual financial expenditures on budget lines are compared to approved amounts and any significant variances are explained.
iii. Future work to be undertaken on the project is presented.
iv. Donor feedback forms are included in the report.

Target date for completion: 15 January 2014
Responsible staff members: Chief of Communication

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the programme management, as defined above, 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.

Satisfactory key controls

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

The financial transactions were processed and authorised/approved in accordance with the release strategy and table of authority that had been approved by the Representative. The office's 2012 year-end accounts closure reports were processed and submitted to the Division of Financial and Administrative Management (DFAM) according to the established timeline. The bank signatory panel was up to date and documents relating to financial transactions, including cheques, payment vouchers and supporting documents, were kept in secure restricted places.

Despite the emergency situation and the challenges faced by the office in getting suitable candidates, recruitment for three out of the five recruitment procedures reviewed by the audit were completed within three months, from advertisement to issue of appointment letters. In all cases reviewed, the recruitment complied with the established policy on human resources management.

The ICT unit had been successful in providing support to ensure the full functioning of the country office and zone offices, especially when the key staff had been evacuated to Amman in 2011 and early 2012.

Financial controls

Country offices are expected to establish systems and controls to ensure that payments are correctly made to appropriately selected providers of goods and services, including partners, consultants and suppliers. The audit review of financial controls noted the following.

Cash-flow forecasts: The office prepared quarterly cash forecasts and updated them monthly. However, there was significant variation between forecast and actual amounts, partly due to inadequate estimates and partly to late notification of anticipated disbursements by the different programme sections. The office had therefore requested replenishments every month in the 12 months sampled by the audit. For six of these, the replenishments requested from NYHQ were not significant; for the other six, however, they ranged from 162 percent to 423 percent of the amounts forecast. Improved cash-flow forecasts would help the office to communicate better estimates of cash needs to the Treasury office in New York, assisting efficient management of global liquidity.

Vendor master records: The review of the vendor master records noted 18 cases of duplicate records related to suppliers and programme partners in VISION. This could increase the risk of incorrect or double payments (the audit did not find such cases), and affect the country office's capacity to monitor and report payments. Responsibility for maintaining vendor master records had been assigned to designated staff members; however, either the records had not been cleaned up before migration to VISION, or new master records had been created without verification as to whether they already existed in the system.

Disbursement of cash transfers: Direct cash transfers (DCTs) to partners were not disbursed in accordance with the activity implementation timeframes stated either in the workplans or in the partners' requests. In 18 of 20 sampled cases, funds were disbursed with delays, which ranged from five to 213 days (median 64 days) after the activity start date. The delays were partly caused by late submission of requests for cash transfers by partners; in 13 of 20 cases reviewed, they had been submitted after the activity start date, ranging from one to 118 days (median 42 days). Also, although the office's standard time for processing DCT payment was 15 days from receipt of partners' request to transfer of funds, the actual time exceeded this in 14 of the 20 cases reviewed, by 16 to 172 days (median 25 days). Further analysis noted that the partners' requests took a long time within the programme section. The analysis showed that, in most cases, the processing time in finance was less than one week. Late disbursement of funds had led to delays in the implementation of related programme activities.

Liquidation of cash transfers: The total cash transfers not accounted for by partners as of 13 May 2013 was US$ 18.6 million, of which US$ 2.5 million had been outstanding for over six months; of this, US 1.1 million had been outstanding for over nine months. The office said that it had encountered a system-related problem that had led to some cases of DCTs not being liquidated in the system on time. However, not all cases of late liquidation of DCTs were system-related, as noted by the audit when it visited partners that had DCTs outstanding for over nine months. Prompt liquidation of cash transfers would give the office timely assurance on the use of funds and enable prompt recording of expenses.

Contracts for services: Five out of 16 contracts for services reviewed were signed after the start date. All five were for institutional contractors. The signing took place three to four days after the start date in three of the cases, but 50 and 67 days after start date in the other two. This meant that the contractors and the consultant had performed some work without valid contracts. The office noted that some of the delays in signing the contracts were due to the absence of staff with authority to release the related purchase requisitions.

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

Agreed action 13 (medium priority): The country office agrees to establish more rigorous oversight mechanisms and train key responsible programme and operations staff in financial policy and procedures. In particular, the office will ensure that:

i. Cash-flow forecasts are improved by preparing estimates based on trend analysis and ensuring that anticipated cash needs are provided on time by the sections.
ii. Vendor master records are cleaned up by blocking and marking for deletion the entries which are considered invalid or duplicate.
iii. Bottlenecks are identified and dealt with so that partners submit requests for cash transfers before activity start date, and that the requests are processed and funds released on time in accordance with the office's established standard.
iv. Direct cash transfers are liquidated within six months to obtain timely assurance on the use of funds.

Target date for completion: 31 October 2013 for i and iii; 15 October 2013 for ii; and 20 December 2013 for iv
Responsible staff members: Finance & Accounts Officer

Supply procurement and logistics

Country offices are required to establish effective processes so that the procurement of programme supplies is properly planned, implemented and monitored. The office's total procurement of programme supplies in 2012 amounted to US$ 27 million, of which US$ 8 million, or 30 percent, were procured locally.

The office had prepared a procurement strategy and supply plans in 2012 and 2013. It had also established long-term agreements (LTAs) for frequently procured supplies for programme and operations, such as WASH[9] supplies, education and office supplies, as well as for in-country logistics. However, the audit team noted the following.

Delivery of supplies: The procurement and delivery of supplies did not match the activity start dates established either in the workplans or on the partners' requests. In addition, the suppliers did not always deliver in accordance with the target arrival dates (TADs) indicated in the purchase orders; the audit noted delays in six of 10 cases reviewed, ranging from one to seven months after the TADs. The office did not have a practice of evaluating performance of suppliers during the year. In addition, some delays occurred in deliveries to partners because distribution plans for supplies were not provided along with the partners' requests.

Specifications of supplies: The partners' requests did not always provide adequate information on specification of supplies requested from UNICEF. The office had not provided training for partners in preparation of requests for supplies, and how to ensure provision of accurate specifications with the requests. Absence of, or weak, specification of supplies

[9] Water, Sanitation and Health.

contributed to delays in procurement and delivery; in a few cases noted by the office, they also led to poor quality of supplies.

Pre-delivery inspection: In nine of the 10 cases cases reviewed by the audit, no pre-delivery inspection had been carried out. The office explained that a sample of supplies was given at the bidding stage and this was used in verification of supplies when goods were delivered. A bidding process for hiring a pre-delivery inspection company was underway in May 2013 and the office was planning to request pre-delivery inspection in future procurements as required.

Clearance of supplies from customs: Supplies procured overseas, including relief supplies, were being held in customs for a long time. As of May 2013, supplies worth about US$ 2.6 million were held at the port of entry and some had been there for six months. The office had submitted a "letter of undertakings" requesting special clearance so that shipments were not held at the port. However, the request was rejected. The office was planning to follow up further on the issue with the relevant authority at the time of the audit in May 2013. The other UN agencies faced similar difficulties, and the issue had been discussed in the UN Country Team.

In-country logistics: According to the Basic Cooperation Agreement, the government is responsible for the clearance, receipt, warehousing, and distribution of supplies and equipment made available by UNICEF. However, the office was undertaking the clearance, warehousing and distribution of programme supplies to partners. The total cost for in-country logistics thus incurred by UNICEF during the period from January 2012 to April 2013 was approximately US$ 750,000.

Market survey: The office had not carried out a comprehensive market survey to update itself on the goods and services available in the market. Neither had it updated its assessment of in-country logistical capacity of the government partners.

The conditions discussed above were attributed to the difficulty of implementing supply and logistics controls with an emergency situation, and to lack of proper planning by requesting sections. It was also due to inadequate staff capacity in the supply section; at the peak of the emergency, the supply manager was away from the duty station for about nine months, leaving the supply section with two national staff only.

Agreed action 14 (high priority): The country office agrees to establish effective oversight mechanisms and controls to ensure that:

i. Delivery of supplies is closely monitored to identify and address possible delays, and performance of suppliers is evaluated.
ii. Partners are trained and supported so that they provide accurate specifications along with requests for supplies.
iii. Sections prepare and update supply plans in a timely manner.
iv. Distribution plans are prepared and submitted along with the partners' requests.
v. Pre-delivery inspection of supplies is carried out as required.
vi. There is follow-up with the relevant authorities to ensure timely clearance of supplies from customs.

vii. A market survey is carried out to identify a wider pool of potential suppliers of goods and services available in the local market, and there is an assessment of in-country logistical capacity.

viii. An exit strategy is prepared and negotiations pursued with the relevant authority for possible recovery of costs of in-country logistics, and handing-over of responsibility for in-country logistics to the government in accordance with the Basic Cooperation Agreement.

Target date for completion: 30 October 2013 for i and v; 30 December 2013 for ii, iii and iv; 30 November 2013 for vi; and 30 December 2013 for vii and viii
Responsible staff members: Supply Manager

Inventory and warehouse management

Country offices are responsible for establishing effective controls and procedures for warehouse and inventory management. These should include independent physical count of inventory, inventory reporting, recording of receipt of goods, and authorisation of their issue.

The office maintained three warehouses, located in Sana'a, Hodeida and Aden. As of May 2013, the total value of inventory held in the three locations as per physical inventory reports amounted to US$ 610,000.

The stock balance of programme supplies as per warehouse stock reports was US$ 610,286 at 11 May 2013. This was US$ 240,000 less than the balance of inventory recorded in VISION (US$ 850,534) at the same date. This was explained by issues arising from the migration to VISION at the end of 2011, possibly because the data included supplies that had in fact already been released to partners. The office stated that the matter had been discussed with Supply Division and was pending a decision for write-off. Untimely reconciliation of physical inventory of programme supplies with the recorded stocks may result in errors and misappropriations going unnoticed.

The Sana'a warehouse had stocks worth US$ 197,102 at 8 May 2013, with the majority being aged stocks. All of the education sector supplies had been there for 15 months. All WASH supplies, except water purification tablets, were aged between seven and 15 months. On a visit to the Hodeida warehouse, the audit noted that school bags and schools-in-a-box with a total value of US$ 3,000 had remained in the warehouse for 12 and 11 months respectively. There were no documented plans to distribute these stocks.

Further, the office did not always take into account the programme supplies in the warehouse when raising new sales orders. For example, it raised a sales order on 8 May 2013 for 10,229 basic hygiene kits and 87,405 school hygiene kits, but without noticing that 1,002 basic hygiene kits and 15,421 school hygiene kits were available in stock. The 1,002 basic hygiene kits, which were worth US$ 17,135, were about to expire (on 15 July 2013).

The stock in the warehouses was not segregated between emergency pre-positioning supplies and supplies for the regular country programme. This could have reduced the time stocks spent in the warehouse, and would also have reduced the risk of buying the same supplies again for programme purposes, instead of using the available stocks.

The office stated that issues noted above were partly due to an inadequate inventory management system (prior to VISION), and problems related to data migration. It also said that there had been insufficient staff to monitor the stock movements, especially during the period 2011/2012 when the office was focused on responding to the emergency.

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

i. The physical stock balances match the VISION records.
ii. Emergency supplies are segregated from regular programme supplies available in the warehouses, so that the latter supplies can be used in programme implementation.
iii. The stock available in the warehouse is taken into account when raising new sales orders.

Target date for completion: 30 December 2013 for i; and 30 October for ii and iii
Responsible staff members: Supply Manager

Property, plant and equipment (PPE)

Country offices are responsible for recording and safeguarding assets and periodically reconciling them with the balances in the VISION system. The country office had PPE with a purchase cost amounting to US$ 473,000 as at 31 December 2012. The audit noted the following inaccuracies in the recording of assets:

- Four office vehicles worth a total of US $181,342 were recorded in the asset account Equipment instead of Transportation Equipment. As per UNICEF's PPE policy, the Transportation equipment is fully depreciated in five years, while Furniture, Fixtures and Equipment are depreciated in 10 years. Incorrect recording of assets could lead to incorrect reporting of assets and inaccurate depreciation in the financial statements.
- Eight assets, including TVs for field offices, three generators, and ICT equipment that were together worth approximately US$ 95,000, were recorded in VISION with zero values due to migration issues at the time of recording assets in the VISION system. The office stated that the three generators were procured before migration to VISION and other items were purchased in 2012.
- One vehicle with a purchase cost of US$ 29,500, which was written off in 2011, still appeared in the assets schedule. (The vehicle had been hijacked during the emergency).
- Three assets under construction were reported to HQ during the 2012 year-end closure. However, HQ reflected only one of the items, with value of US$ 15,425 – leaving out two assets totalling US$ 190,417.95.
- The asset schedule in VISION had 66 items without asset numbers, 80 items with duplicate serial numbers and 146 items without locations assigned. A number of assets acquired in April 2013, including office and computer equipment with purchase prices totalling over US$ 70,000, were not tagged. In addition, the total value of these assets as recorded in VISION differed from the total value on the corresponding purchase orders by US$ 2,215.

The issues above were due to the initial migration of asset data from the legacy asset accounting system to the SAP VISION system. The office was in contact with DFAM on the above issues, and more steps were required to reconcile the data, make appropriate corrections and ensure an accurate and complete record of assets in VISION.

Agreed action 16 (medium priority): The country office, in consultation with the Division of Financial and Administrative Management, agrees to carry out a reconciliation of assets and ensure that the assets are correctly recorded in SAP VISION.

Target date for completion: 30 December 2013
Responsible staff members: Admin Officer

Information and communications (ICT) security

Country offices are expected to establish effective ICT security controls to ensure authenticity, confidentiality, integrity and availability of information. This is particularly applicable in emergency context.

Business continuity plan (BCP) and disaster recovery plan (DRP): Country offices are expected to develop BCPs and DRPs that include dedicated risk assessment, business impact analysis, institution of an alternative site, clear identification of crucial actors, training strategy, and incident management and recovery timelines.

The DRP is one of the critical components of the BCP; however, a comprehensive simulation exercise had yet to be conducted. These exercises usually include testing of VHF radios and staff contact numbers, testing of back-up tapes by way of restoration tests and testing of critical components. The regional ICT peer review in 2010 had recommended that the office conduct simulation tests of the DRP at least once a year, and conduct business impact analysis as part of the BCP simulation. However, this has not been done, as staff were busy with the emergency situation in the country. The office said that the emergency situation in 2011 actually resulted in a test of the ICT equipment, in that the staff evacuated to Amman was able to work remotely and use the equipment; and the DRP plan was updated at the end of 2012 based on lessons learnt. However, inadequate disaster recovery procedures may not ensure timely system availability in a major emergency.

User access security: Consultants had been given access to the office's ICT resources (such as the office area network, laptops, shared drives and mobile 3G internet) without their signing a non-disclosure agreement, or obtaining special approval from the Country Representative and the Director of the Division of IT Solutions and Services (ITSS), as required by UNICEF policy. The country office stated that these consultants were helping with staff tasks and therefore needed access to shared drives and the network. However, the audit only found evidence that the Representative had approved access in one of the eight cases reviewed, while the Director of ITSS's approval was not recorded for any of them.

User satisfaction survey: The last user satisfaction survey on ICT services was done in December 2010 by the Regional Chief of ICT. The regional peer review in 2010 recommended doing it yearly, with analysis of the survey results and agreement on a plan of action for improvement. However, this has not been done. The office stated that the survey was usually done during Regional Chief's visits, which did not take place in 2011 or 2012 due to the emergency.

ICT operations manual: Country offices are expected to develop their own ICT operations manual in accordance with ITSS ICT guidelines provided in the ICT Electronic Handbook. However, as of May 2013, this manual had not been developed. A manual would provide guidance for ICT staff working in a country like Yemen where an emergency is likely to arise, so that any ICT person who has access to the systems in an emergency can perform the required tasks.

The above observations had arisen partly from the office's need to respond to the emergency situation during 2011 and 2012.

Agreed action 17 (medium priority): The office agrees to:

i. Perform simulation testing of the Business Continuity Plan and Disaster Recovery Plan, including the business impact analysis.
ii. Implement a process for granting access to the ICT systems, aligning user access privileges with policy. Any exceptions should be documented and approved in line with the policy.
iii. Request the regional office to conduct a user satisfaction survey.
iv. Develop an ICT operations manual in consultation with the Regional Office.

Target date for completion: 30 September 2013 for i and ii; 30 October 2013 for iii; and 15 October 2013 for iv
Responsible staff members: Chief of Operations

VISION

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012. Of the 94 staff positions that were currently filled, 74 were VISION users as of May 2013.

The audit reviewed the post-implementation feedback with the use of a questionnaire. It found that, in the second year of VISION's implementation, staff members were continuing to learn more about its functionalities. The audit identified the following lessons learned; some are specific to the Yemen office, but others are common to VISION users in general and could usefully be shared.

- Users in Yemen desired more training in the area of supplies, funds management and contracts, in view of the fact that some of these functions were being decentralised to the zone offices from the country office.
- VISION does not provide standard reports for cross-sectoral Programme Component Results. For example, in the Yemen country office, it was challenging to allocate and monitor programme funds by sectors (such as health, nutrition, WASH, etc) whose activities had been spread across the three programme component results related to Equity, Evidence and Empowerment. (See also observations on *Staffing structure and zone offices* and *Results-based programme planning*.)
- It was not clear from the VISION system which staff members had seen and approved a transaction. Workflow that is easily and readily viewable in the VISION system would allow for quality assurance, whereby those approving in VISION can establish who has seen (and endorsed) the transaction. There was a delay in reflecting the resolution of the segregation of duties (SoD) conflicts in VISION (ZROLE) after they were reported to the VISION role assignment team at NYHQ.
- The bank reconciliation role was conflicting with many other roles, such as the cashier (bank accounting) function and posting (approving) of invoices.

- The offices were doing manual entry of the Bank statements into VISION for bank reconciliation purposes, as this process was not fully automated. This manual process could lead to delays and errors.
- There was no in-built dollar limit for authorising and approving officers at various levels of approval in the VISION system. As a result, these were manually tracked via the Table of Authority (ToA) – which could lead to inefficiencies and errors.

Agreed action 18 (medium priority): The office agrees to assemble its lessons learnt since VISION implementation and share them with the Division of Financial and Administrative Management and the Division of IT Solutions and Services, so as to promote a culture of knowledge sharing and continuous improvement.

Target date for completion: 31 December 2013
Responsible staff members: Chief of Operations

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over operations support, as defined above, needed improvement to be adequately established and functioning.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. 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, OIAI 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, OIAI 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.