

Internal Audit of the Republic of Albania Country Office

January 2018



Office of Internal Audit
and Investigations (OIAI)
Report 2017/24

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an internal audit of the Albania Country Office. The objective of the audit was to assess the office's governance, risk management and internal control processes, with a focus on key risks to delivering UNICEF's objectives. The audit team visited the office from 23 October to 1 November 2017. The audit covered the period from January 2016 to October 2017.

The UNICEF Executive Board-approved 2017-2021 Country Programme for Albania consists of two programme components: *Strengthened governance for equity and social inclusion*, and *Protection and justice for children*. It has a Regular Resources (RR) budget of US\$ 4.3 million and a ceiling for Other Resources (OR) of US\$ 12 million. RR are core resources that are not earmarked for a specific purpose; OR are contributions that may not always be used for other activities without donor agreement.

As of October 2017, the country office had 22 approved posts including three for international professionals, nine for national officers and 10 for general service staff. The country office is in the capital, Tirana, and at the time of the audit was headed by an interim Representative.

Albania is a "Delivering as One" (DaO) country for the United Nations. The DaO initiative aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs within the UN effort. DaO was originally launched in eight pilot countries in 2007, of which Albania was one. The 16 UN agencies, funds and programmes operating in Albania have now entered into their third cooperation agreement with the Government for the period 2017-2021.

The audit noted a number of areas which were functioning well. The UNICEF country office had a well-prepared Country Programme Document (CPD) that had received one of the highest scores from the quality review of CPDs commissioned by UNICEF's Field Results Group in 2016. The office had also taken a proactive approach to research, evaluations and other studies. Financial management was generally satisfactory on the basis of the audit testing. The office had established a strong working relationship with the UN Resident Coordinator, and the Representative was an active member of the United Nations Country Team.

Action agreed following the audit

The audit identified a number of areas where further action was needed to better manage risks to UNICEF's activities. In discussion with the audit team, the country office has agreed to take a number of measures to address these risks and issues.

One action is being implemented as a high priority; that is, to address a risk that requires immediate management attention. This relates to reviewing and strengthening the office's fundraising approaches given current shortfalls in resources.

Conclusion

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

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

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Objectives

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

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

Audit observations

Country programme strategy note

UNICEF's latest approach to country programme planning, introduced in 2016, requires country offices to prepare strategy notes when planning a new programme. The strategy notes should set out how results would be achieved, and how UNICEF will contribute to their achievement. They should also present the rationale for selecting specific issues from the Situation Analysis (SitAn) that will need to be addressed by the country programme (and possibly beyond), based among other things on their criticality, scale, UNICEF's comparative advantage, availability of resources and expertise.

The audit team noted that the office had started preparing a single strategy note covering all components, rather than a strategy note for each component. However, this note had not yet been finalized at the time of the audit visit, even though the implementation of the new five-year programme had started at the beginning of 2017. Also, while the strategy note outlined nine priority issues to be addressed by the country programme, it did not set out the rationale for prioritizing these particular issues. There was thus a risk that the office might not be focusing on the most relevant issues for women and children in Albania. The office said that the prioritization exercise had been conducted during a five-day workshop organized in November 2015 with support from the regional office and with the participation of Government and civil society partners. However, this information was not captured in the minutes of the workshop or within the strategy note itself, and was therefore at risk of being lost with the passage of time and with changes in staff.

The office explained to the audit team that it had been one of the first country offices in UNICEF to prepare a strategy note but had not been given sufficient time to finalize the note before commencing the preparation of the Country Programme Document (CPD). The strategy note remains the key programme document for the 2017-2021 cycle.

Agreed action 1 (medium priority): The office agrees to include the rationale for the prioritization of individual issues within its strategy note; it will then finalize the note in consultation with the regional office.

Responsible staff member: Deputy Representative

Date by which action will be taken: April 2018

Work planning

A country programme is operationalized through workplans that contain details of activities to be implemented, set out what will be accomplished, and indicate how the activities will be funded. UNICEF offices should agree these workplans with their partners.

As Albania is a Delivering as One (DaO) country, the UN Country Team (UNCT) decided to prepare joint workplans (JWPs) at the United Nations Development Assistance Framework (UNDAF) outcome level, with strategic deliverables. The JWP for each of the four outcomes was signed by the Government line ministries and the relevant UN agencies, programmes and funds. Because these JWPs were established at the UNDAF outcome level, they were formulated in broad terms, and could not be used on their own to guide the implementation of UNICEF's own country programme. Therefore, the country office had in addition developed detailed internal workplans with specific outcomes, outputs, indicators, activities, implementing partners (IPs) and budgets.

The audit noted that the office had not established a UNICEF-specific structured work process to guide the preparation of its internal workplans and to ensure, for instance, the appropriate involvement of IPs and alignment with the signed JWPs. The audit team noted a number of discrepancies in the workplans: for example, four of the five internal workplans had not been signed-off by the Representative, whilst one included activities with unfunded Regular Resources.

For the UNICEF country office, the unfunded portion of the 2017 JWPs was significant – that is, there was a considerable gap between the activities planned and the resources available to deliver them. The aggregate gap was 37%, but the funding gaps were much greater than that for two outcomes: 70% for outcome 1 (Governance and rule of law), and 90% for outcome 4 (Environment and climate change). As of 4 September 2017, three of six outputs had an Other Resources funding gap of more than 85%: Social Protection (93%), Family Support to Prevent Institutionalization (90%), and Justice for Children (86%). The country office had not yet articulated measures it would take to deliver those activities with significant funding gaps.

There was therefore a risk both that: IPs other stakeholders were not systematically consulted during work planning; and the individual workplans were not properly aligned with the signed JWPs, and that UNICEF would not have the funding required to deliver the activities for which it was planning. During discussions with the audit team, one of the IPs had highlighted the need for a more structured work-planning process.

Agreed action 2 (medium priority): The office agrees to implement a structured process for the preparation of its workplans, including the appropriate involvement of implementing partners in UNICEF's future work-planning.

Responsible staff member: Deputy Representative

Date by which action will be taken: March 2018

Agreed action 3 (medium priority): The office agrees to identify the measures it will take to deliver the expected results for children where significant funding gaps remain in its programme.

Responsible staff member: Deputy Representative, in collaboration with programme specialists

Date by which action will be taken: July 2018

Fundraising

UNICEF standard operating procedures (SOPs) for DaO countries stipulate that the country office will seek joint funding for those joint programmes for which it has the lead, pursuing additional funding bilaterally as needed. The SOPs also stipulate that joint resource mobilization should not deter but complement agency-specific fundraising. The fundraising strategy should set specific targets for the programme period and outline how, where, when and with whom fundraising activities would be undertaken.

Out of the Other Resources (OR) budget of US\$ 27 million approved by the Executive Board for the 2012-2016 country programme, the office had raised only US\$ 11.1 million (41 percent), resulting in an OR funding gap of US\$ 15.9 million (51 percent of the office's programme budget).

The office attributed the shortfall to its disproportionate focus on raising funds through the UN Coherence Fund. The office had been an active contributor to the UNCT fundraising effort led by the Resident Coordinator. As of October 2017, the office had received approximately US\$ 300,000 through the UN Coherence Fund, being the first tranche of a multi-year US\$ 1.4 million grant. Contributions to the UN Coherence Fund reached their peak in 2009, but declined sharply from 2013 and then remained steady at about US\$ 2 million per year. As an upper-middle income country with improved social indicators, Albania has become less attractive to donors: out of 38 potential donors identified by the office, only two contributed to the UN Coherence Fund mechanism. This trend in the level of contribution to the UN Coherence Fund also highlights the impact of the increasing earmarking of donor resources, and reinforces the need for a UNICEF-specific resource mobilization strategy in Albania.

Despite the difficulties it had experienced mobilizing the required resources through the UN Coherence Fund, the office had not yet started preparing a fundraising strategy with clearly-assigned responsibilities and timelines. The audit team noted that the regional office had requested the country office to submit a fundraising strategy by June 2017; however, the office advised that it had only very limited in-house skills to develop such a strategy.

Agreed action 4 (high priority): The office agrees to:

- i. Prioritize finalizing a fundraising strategy that sets fundraising targets and includes specific time-bound actions to address the funding gaps.
- ii. Assign responsibility for fundraising, including tracking and reporting on the status of the implementation of the fundraising strategy once this is in place.

Responsible staff member: Deputy Representative

Date by which action will be taken: April 2018

Advocacy

The guidance on UNICEF's Approach in Middle Income Countries¹ lists six core strategic roles for country offices including: advocating pro-child and gender policies, laws and/or budgets; drawing attention to major issues of disparities, exclusion and discrimination at national and subnational levels, including failures to protect children; and advocating national strategies and measures to eradicate them.

¹ Issued by Division of Policy and Strategy in May 2010.

The regional Programme Budget Review (PBR) had identified the key roles of UNICEF in Albania as knowledge generation, policy dialogue, capacity building and advocacy, and both the draft strategy note and the approved CPD stipulated that the core roles of UNICEF to achieve programme results would include emphasis on high-level advocacy (an independent voice for children), informed by solid evidence and supported by global, regional and in-country technical advice.

In discussion with the audit team, the UN Resident Coordinator highlighted that UNICEF had been instrumental in supporting the Government's adoption of the law on Child Rights and Protection (February 2017) and the Criminal Justice for Children Code (March 2017). The country office had also advocated with the new Prime Minister to consider maintaining the child rights portfolio within the new governmental architecture.

The office indicated that the UN communication team, part of the UN Country Team, had prepared a common communication and advocacy strategy ("Communicating as One") which included inputs from UNICEF. However, the advocacy part of this document consisted mainly of generic statements with no specific plan where UNICEF's contribution could be identified. The audit team noted that the office did not itself have an advocacy strategy and plan; preparing a strategy and plan could help UNICEF in identifying future opportunities for successful advocacy.

Agreed action 5 (medium priority): The office agrees to prepare an advocacy strategy and plan, with assigned responsibilities and monitoring mechanisms to ensure that the advocacy commitments in the planning documents are fulfilled.

Responsible staff member: Deputy Representative

Date by which action will be taken: April 2018

Reviewing and reporting on results

Programme review. Country offices are expected to conduct at least one annual programme review jointly with their respective key counterparts to assess progress towards the achievement of planned results, identify constraints, challenges and opportunities, and set related corrective measures. In the case of DaO countries, UNICEF's Field Results Group (FRG) recommends that country offices should conduct UNICEF-specific annual reviews of their work plans with their respective partners as well as participating in UNDAF reviews.

The office advised that, in accordance with its own previous practice, no UNICEF-specific annual programme review was conducted on top of the UNICEF programmatic reviews of its agreements with IPs. Instead, the office had relied on the programme review conducted by the UN in Albania. However, the audit team noted that this review was very broad and did not highlight the results achieved by each individual agency. In addition, the evaluation conducted by a consultant of the Government of Albania and United Nations Programme of Cooperation (PoC) for the period 2012-2016 had concluded that lessons identified through the annual and mid-term reviews had not always been fully incorporated into the results and indicators of the updated PoC results framework.

Results reporting. The audit reviewed the latest update of the office's Results Assessment Module (RAM), dated January 2017, that provided the status of planned results at the end 2016 (the end of the 2012-2016 country programme). The following issues were noted:

- The results reported for some indicators did not relate to the indicators being used.
- The results associated with some indicators could not be used to measure achievement of those indicators.
- One indicator was assessed as fully achieved even though the target for this indicator was not defined.
- An output with three indicators (output 0090/A0/04/001/003) was rated as “Met” even though only one of the indicators was fully achieved, one was partially achieved and the other was not achieved.
- One indicator was assessed as fully achieved even though the actual value of the indicator was less than the target.

These discrepancies indicated that the RAM was inaccurate and could not be relied upon for decision-making or to aggregate evidence of results achieved at country, regional or corporate level.

The office advised that some of the discrepancies were due to oversights and that some indicators were modified during the mid-term review; however, the audit team observed that the RAM had not been updated to reflect any such changes.

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

- i. Strengthen its quality assurance over results reporting in the RAM.
- ii. Ensure that UNICEF-specific annual programme reviews are systematically conducted with Government counterparts and other implementing partners to inform subsequent workplans.

Responsible staff member: Deputy Representative

Date by which action will be taken: July 2018

Harmonized Approach to Cash Transfers

UNICEF country offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on its implementing partners (IPs) to manage and report on use of funds provided them for agreed activities. HACT requires offices to systematically assess (through a micro-assessment) the level of risk associated with each IP to determine the amount of cash to transfer to them and the frequency of assurance activities to conduct including spot checks (or periodic on-site financial reviews), programme monitoring, scheduled audits and (where required) special audits to assess the proper use of cash transfers. The office had implemented HACT since 2013.

Over the period of the previous programme cycle (2012-2016), 10 IPs had each received more than US\$ 100,000 in a year, while two partners each received more than US\$ 500,000, of which one had been rated high risk and the other low risk. The country office had transferred US\$ 2.2 million to 32 IPs in 2016, approximately 47 percent of total expenditure for the country programme. The office reported in its 2016 annual report that it had conducted 50 programmatic visits, 21 spot checks and two scheduled audits, using a combination of consultants and staff. The audit team’s review of two FACE forms indicated that these forms were correctly filled out and included the required supporting documents such as itemized cost estimate and narrative reports. However, the audit identified the following areas for improvement.

Frequency of assurance activities. The audit team noted that the office had determined the frequency of assurance activities based on the amounts in each programme document signed with an IP, rather than on the total amounts of cash transferred to that IP each year. As a result, there was a higher frequency of assurance activities than would be suggested under the HACT guideline; this may be both inefficient and an unnecessary distraction for both the office and the partner. For example, one NGO had six programmatic visits and two spot-checks compared to the standard HACT requirement for one programmatic visit and one spot-check. Whilst there may be a good reason for an increased volume of assurance activities, this had not been evidenced by the office.

Follow-up on assurance activities: The office had not established a system to monitor the implementation of recommendations from micro-assessments, spot checks and audits. During discussions with the audit team, staff members and an NGO partner highlighted the need for more clarity on the monitoring of recommendations. The lack of an adequate monitoring system increased the risk that recommendations would not be implemented on a timely basis to enhance the effective and efficient delivery of planned results and efficient use of resources. For example, the May 2016 report from an audit of a major IP had revealed significant issues, but at the time of OIAI's internal audit visit over a year later no remedial action had been taken and yet the office had still entered into a new agreement with the IP.

Partnerships. The HACT guidance allows offices to partner with entities regardless of their assessed risk levels, provided that more frequent assurance activities are conducted with higher-risk entities or else other compensating controls are in place (for example, payment by reimbursement). The audit team noted that the office had decided in practice not to partner with any entity that had been assessed as high risk. This may indeed be a valid response to the risks identified, although interviews with programme staff and documentation review suggested that this may be limiting UNICEF's ability to fill capacity gaps through partnerships.

Agreed action 7 (medium priority): The office agrees to strengthen and streamline assurance under HACT, including:

- i. Establishing the extent of assurance activities required based on the aggregate total amounts of cash transferred to each partner in year rather than on the amounts of individual projects.
- ii. Developing and implementing a system to monitor the effective implementation of recommendations from micro-assessments, spot checks and audits under HACT.

Responsible staff member: Deputy Representative and Operations Manager

Date by which action will be taken: May 2018

Quality of trip reports

The audit team reviewed a sample of six reports from field-monitoring trips related to the Health and Nutrition, Child Protection and Education programmes. It noted the following:

- None of the six trip reports had been signed, and there was no evidence that they were reviewed by the relevant supervisor.
- For all six reports, the monitoring objectives were either not specified or not formulated in terms of expected results.
- In all six, the achievement of expected results of the monitoring visits was not addressed.
- In all six, the recommendations were only formulated in broad terms as the root causes

of identified issues had not been identified.

- The issues identified in two of the six reports did not have follow-up actions specified.

The office explained that these shortfalls were due to competing priorities such as emergency preparedness, research, studies and evaluations which had left little time for the relatively few managers to adequately supervise field visits. However, rather than inadequate monitoring increasing the risk of poor programme performance, a more appropriate response would be to review the supervisory activities to be conducted to ensure these will fit within available resources, reprioritizing the managers' workloads as necessary.

Agreed action 8 (medium priority): The office agrees to ensure that there is appropriate quality assurance for field visits. The expected results of the visits will be clearly identified in advance, reports will reflect the achievement or otherwise of the expected results, and recommendations will be specific with clear responsibilities for their implementation.

Responsible staff member: Deputy Representative

Date by which action will be taken: February 2018

Delivering as One

Albania has been one of the pilot countries for the UN's Delivering as One (DaO) initiative since 2007. UNICEF actively strives to uphold the UN coherence principles, and encourages offices to implement its DaO standard operating procedures (SOPs), taking into consideration their unique contexts and potential value-added.

According to programme staff interviewed by the audit team, UNICEF's approach to DaO in Albania had generated an increased administrative burden as it resulted in the need to implement two parallel systems: participating in inter-agency Output Working Groups and Outcome Groups to develop JWPs, whilst in parallel developing UNICEF-specific operational workplans with specific outcomes, outputs, activities and budgets. Each of these systems has its own distinct planning, monitoring and reporting requirements, and the office had noted in its own 2016 annual report that "as in previous years, UNICEF staff of the Albania country office were requested to devote considerable time to management coordination meetings and exchanges with other UN agencies". The Evaluation of the Government of Albania and United Nations Programme of Cooperation 2012-2016 also concluded that the expected simplification of procedures for DaO had not occurred and that there was an increased burden related to work planning, monitoring and reporting.

In discussions with the audit team, the Resident Coordinator indicated that he was open to exploring options for smoother and more efficient inter-action between the inter-agency work and the individual agencies' specific requirements.

Agreed action 9 (medium priority): The UNICEF Representative agrees to advocate with the Resident Coordinator and other members of the United Nations Country Team the need for more streamlined and efficient mechanisms for programme planning, implementation and reporting and the avoidance of duplication wherever possible. In parallel, and with support from the UNICEF regional office, the country office will review its own internal processes to see whether these can be simplified within the framework of DaO cooperation.

Responsible staff member: Representative

Date by which action will be taken: September 2018

Annex A: Methodology, and definitions of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

Conclusions

The conclusions presented in the Summary fall into one of four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

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

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over the office needed **significant** improvement to be adequately established and functioning.