Internal Audit of the Belarus Country Office

December 2014

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Office of Internal Audit
and Investigations (OIAI)
Report 2014/35

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Belarus Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities, and covered the period from January 2013 to 10 July 2014. The audit team visited the office from 7 to 10 July 2014.

The 2011-2015 country programme was designed to support national efforts in ensuring that all children and young people enjoy their rights to health, development and well-being. There are two main programme outputs, *Social policy for children*, and *System strengthening for child wellbeing*, plus a small component for cross-sectoral costs. The country programme has a total budget of US$ 7.95 million, of which US$ 4.2 million is other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR 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 donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country office is based in Minsk; there are no zone offices. There is a workforce of 14 – one international professional, eight national officers and five general service staff.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Three are being implemented as high priority—that is, they concern issues that require immediate management attention. These issues were as follows:

- The office did not have a documented process for identifying strategic partners in the country. Potential partners were not mapped and their capacity to work with UNICEF was not assessed. In some cases, partners were selected based on proposals by the partners. The office has agreed to address the issue.
- The office did not have a programme monitoring plan and there were inadequacies in fully documenting, and following up, results of programme monitoring visits. The office has agreed to establish systems to ensure these are done.
- The office issued over 50 percent of contracts without competition. The threshold for review of contracts by the contracts review committee was also high, with only two of 97 meeting the threshold for such a review. The office will ensure all contracts are issued on a competitive basis and that the threshold for review is lowered.

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 Belarus country office were generally established and functioning during the period under audit. The Belarus country office has prepared action plans to address the issues raised. The country office, with support from the Regional Office, and OIAI will work together to monitor implementation of these measures.

Contents

Objectives

The objective of the regional 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 areas above were covered in this audit except Ethics, which was assessed as low risk.

All staff members had completed the online ethics training available under the UN Integrity Awareness Initiative. Following a UNICEF Ethics Department initiative, the office had nominated an ethics focal point in the office in consultation with the local Staff Association.

However, the audit noted the following.

Statutory and advisory committees
UNICEF country offices are expected to have certain committees in place to advise management and ensure good governance. The audit reviewed the functioning and membership of these committees and noted the following.

Programme Cooperation Agreement Review Committee (PCARC): The office lacked a PCARC

to review proposed programme cooperation agreements (PCAs) signed with its partners. UNICEF policy is that country offices should have such a committee. Its role is to consider, among other things, whether the proposed NGO partner has been adequately assessed, and whether it is suitable for its proposed role. The PCARC should also review: the programmatic justification and design of the PCA; the risks involved; its cost and cost-effectiveness implications; the mutual accountability provisions; the budget proposal; and the proposed PCA document and supporting documents themselves.

Country Management Team (CMT): It was found that the membership of the CMT was too wide. It included the Representative, the Deputy Representative, the Operations Manager, the Programme officers and specialists, the Monitoring and Evaluation (M&E) officer and the Communications officer as members, and the executive assistant as secretary. The membership of the Programme Group was almost the same (minus the Operations Manager). The consequence was that operational issues which should be discussed during the Programme Group meetings were sometimes discussed during CMT meetings, although it should have been dealing with more strategic issues. Moreover, the same topics were sometimes discussed twice, once during CMT meetings and once during Programme Group meetings.

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

   i.   Establish a programme cooperation agreement (PCA) review committee, with appropriate terms of reference, to review and endorse the PCAs signed with its partners.
   ii. Review the membership of the Country Management Team (CMT) to include mainly staff members with management responsibilities. The review should be informed by which strategic issues the CMT should be discussing.

Staff responsible for taking action: Representative, Deputy Representative and Operations manager
Date by which action will be taken: December 2014

Management priorities and performance measurement

UNICEF's Programme Planning and Policy Manual states that there should be a set of key programme management indicators, to be regularly monitored by the Representative, senior staff and the Country Management Team. These indicators should be the basis for the assignment of staff duties in the Performance Evaluation Reports (PERs).

The country office had prepared a two-year office management plan (OMP) covering the period 2014 and 2015, which included the priorities for these two years. The OMP included 30 programme results and six management priorities, all of which had at least one indicator. The management priorities were as follows: strategic framework for cooperation with the government; international treaties; communications; representation, external relations and partnerships; M&E; and audit.

The audit found that none of these priorities were derived from the risk assessment. During the 2014 Enterprise Risk Management exercise (see following observation, *Risk management*), one high risk and two low risks were identified. The high risk related to an unfavourable fundraising environment. However, it was not reflected in the 2014 OMP as a management priority.

Moreover, for the period under audit, no evidence was found in the CMT or Programme Group meetings of any discussion to monitor the achievement of these results and priorities or to measure performance against the corresponding indicators.

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

  i.   Ensure that priorities defined in the office management plan, and high risks identified through the Enterprise Risk Management exercise, are aligned so that management focuses on the most appropriate priorities.
  ii.   Strengthen procedures and accountabilities for monitoring the set office priorities and results by ensuring regular reporting to the Country Management Team (CMT) on their status and recording it in the CMT minutes.

Staff responsible for taking action: Representative, Deputy Representative and Operations manager
Date by which action will be taken: December 2014

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 processes. The risks and their mitigation measures are recorded in a risk and control library and reflected in the inSight module of VISION.[1]

To this end, the Belarus country office prepared a risk assessment identifying for 2014 the following three risks:

  1.   Creation of UNICEF's new Global Shared Service Centre[2] (low risk).
  2.   Aid environment and predictability of funding (high risk).
  3.   Unsigned Country Programme Action Plan (CPAP)[3] for 2011-2015 (low risk).

However, the audit noted the risk assessment exercise was incomplete in certain respects. No mitigation action was defined for risk 1, while risk 2, which was rated high, was not reflected as a management priority in the 2014 OMP. Also, the office had not completely analysed the implications of risk 3 for the functioning of the office – which was signing PCAs with all Government partners as well as NGOs, as it was the only way to agree with them on HACT[4]

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[1] InSight is the performance component in UNICEF's management system, VISION (Virtual Integrated System of Information). It streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.
[2] The GSSC will handle a wide range of financial and administrative transactions for UNICEF offices worldwide. It is expected to become fully operational in 2016.
[3] 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 during the period of the current country programme.
[4] HACT is the Harmonized Approach to Cash Transfers. This is explained and covered in the observation on p13 below.

provisions (this would normally be formally agreed to in the CPAP).

Other risks specific to the Belarussian context were not considered, even if they had an impact on the functioning of the office (for example, the complex project registration system, or the relative instability of national currency, which was devalued by 56 percent in May 2011).

Agreed action 3 (medium priority): The country office agrees to ensure that all the risks of operating in Belarus are included in the country's risk assessment, that there are clear risk mitigation/management processes for each risk, and that key risks are linked to the management priorities included in the Office Management Plan.

Staff responsible for taking action: Representative, Deputy Representative and Operations manager
Date by which action will be taken: December 2014

Segregation of duties

Offices should adhere to UNICEF rules on delegation of authorities and segregation of duties in order to minimize the risk of inappropriate transactions, by ensuring that, where possible, a staff member cannot carry out an entire process without checks and balances. This can sometimes be challenging for small offices.

The audit reviewed the VISION role-mapping table and checked compliance with segregation-of-duties principles. It found that in five instances, conflicting roles had been assigned. Two were high-risk and three low-risk, according to the risk-level definition in DFAM's *Segregation of Duty Guidance*.[5] There was no evidence of any mitigation measures.

The internal control policy provides that the creation (parking) and approval (posting) of an invoice must be done by different staff members in order to minimize the risk of inappropriate payments. In general, programme, administrative and budget assistants will create an invoice (parking) and those delegated the finance function will approve the transactions (posting). However, it was found that a programme officer had been assigned the approving officer role and was therefore posting transactions.

Issues were also found related to bank reconciliations. The operations manager was bank reconciliation approver in VISION while also being involved in the payments. In order to mitigate the conflict, the country office had established a mechanism whereby the Representative was the one signing the bank reconciliations on paper. However, this was not addressing the conflict, since the main tasks linked to this approver role (matching and clearing and upload of bank reconciliations documents in VISION) were still performed by the operations manager. Moreover, there was unclear accountability, since two different people were signing in the process – one in VISION and the other on paper.

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

    i.   Appropriate compensating controls are established where segregation-of-duties conflicts cannot be avoided.

    ii.   The roles for approving transactions (posting) are assigned to the staff that are

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[5] Annex 1 to *User Access Management in VISION Transaction Management System* (18 May 2012).

              delegated finance functions.

iii.   The bank reconciliation role is performed by a staff member delegated this role in VISION and who does not have any other conflicting role.

Staff responsible for taking action: Operations manager
Date by which action will be taken: December 2014

Governance: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that 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 - 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 program design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART), planning resources 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 areas above were covered in this audit except for annual and donor reporting, as it was assessed as low risk.

The audit noted several initiatives taken by Belarus UN agencies to develop common tools, including development of a common external communication strategy for 2011-2015 and a proposal made to the Government to simplify the project registration system.

However, the audit made the following observations.

Resource mobilization[6]

For the 2011-2015 country programme cycle, the office has a planned other resources (OR) budget of US$ 4.2 million, and had raised US$ 1.36 million at the time of the audit. This represents 57 percent of the total OR planned for the first three years (US$ 2.4 million) and 32 percent of the total planned OR for the entire five-year programme cycle, of which 70 percent had elapsed. The office had not reviewed the planned OR ceiling to establish whether the amount planned at the beginning of the country programme was still appropriate and necessary to achieve the planned results.

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[6] While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

Important funding gaps existed for the country programme's two outputs (PCRs).[7] The OR shortfall for the first output (*Social policy for children*) was US$ 798,989 (i.e. 96 percent of the planned budget of US$ 837,000, leaving it just 4 percent funded). For the second output (*System strengthening for child wellbeing*) it was US$ 1,743,792 (i.e. 57 percent of the US$ 3.1 million budget, leaving it 43 percent funded).

Resources mobilization had been identified as a high risk in the 2014 risk assessment, and reported as a main challenge in the office annual report for the same year. A strategic fundraising plan covering 2012-2014 had been drawn up in 2011, identifying the office strengths and challenges and proposing a fundraising action plan. A resource-mobilization task force had been set up consisting of the Representative, the Deputy Representative and the Communications Officer; its role was to review and monitor the resource mobilization strategy at twice-yearly meetings.

Since the number of donors was limited in Belarus, it was considered that it could be more effective to develop joint United Nations proposals. This was done in the field of health, where a joint proposal was sent to the European Union.

The audit noted that the resource mobilization strategy was not complete. It did not specify the amounts to be raised by year, and the action plan had no deadline. Moreover the twice-yearly meetings of the task force were not frequent enough, given the importance of the funding gaps. Finally, the approach towards the development of joint UN proposals was *ad hoc*, with no attempt to define in which fields joint proposals might be more/less effective.

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

i.   Review its planning levels for other resources (OR) and, as necessary, request approval to revise the OR ceiling to an appropriate/realistic level.
ii. Update its resource mobilization strategy by:
     a. Including amounts to be raised by year, and deadlines for the action plan.
     b. Reviewing and revising the number of meetings of the Resource Mobilization Task Force to closely monitor the implementation of the resource-mobilization strategy.
     c. Discussing with the other UN agencies the development of a common fundraising strategy.

Staff responsible for taking action: Representative, Deputy Representative and Communication officer
Date by which action will be taken: February 2015

Situation analysis

UNICEF programmes are meant to be evidence-based – that is to say, the programme design should take into account the best available data and information on the situation of children and women. To this end, country offices are expected to prepare a situation analysis (SitAn)

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[7] UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome.

describing their situation during each programme cycle, and this SitAn should inform the design of the programme that follows. A SitAn should be omitted only where sufficient other studies and sources of information are available.

At the beginning of 2014, the Belarus office had launched preparation of a SitAn (the previous one had been in 2009). The terms of reference were prepared and shared with the Regional Office, which reviewed them and recommended the following:

- Involvement of an international consultant in the process in order to ensure some independence.
- Reaching agreement with stakeholders on how the SitAn would be used to inform strategic planning, budgeting and implementation.

The country office had sought an international consultant by posting an advertisement for two weeks on the UNICEF and UN websites in Belarus. It had not been able to identify a suitable candidate, and had therefore asked the Regional Office to select an international consultant with the appropriate skills from the Regional Offices' roster. However, the Regional Office did not respond quickly, and the country office went ahead with national partners in accordance with the second recommendation. However, the country office indicated that it would use an international expert for quality review purposes in September. It had also estimated an additional US$ 18,000 would be required for its financing; this will be requested from the Regional Office.

It was planned that the Country Programme Document (CPD)[8] would be shared with the Regional Office in May 2015 so that it could be submitted to UNICEF Executive Board for approval at the September 2015 session. In order for the SitAn to be used for the preparation of the new CPD, it needs to be available by October 2014 to allow time for a consultation process with national authorities – which means that the country office has got very little time to finalize it.

Agreed action 6 (medium priority): The country office agrees to ensure that the situation analysis is informed by the input of the Government and the international expert for quality review and that it is finalized in time to inform the development of the new country programme.

Staff responsible for taking action: Monitoring and evaluation officer
Date by which action will be taken: December 2014

Partnerships
During the period under audit, the office had made cash transfers to 13 different partners, of which three were non-governmental organizations (NGOs). The office also had capacity-building and advocacy projects with about 20 other NGOs for which no cash transfer was involved. Partnerships were not always strategic; they were often identified on an *ad hoc* basis, based on activity-level proposals submitted by the organizations. The country office had not done a survey of potential partners, analyzing their purpose, the opportunities they might bring, and their capabilities and limitations, in relation to the country programme objectives.

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[8] The CPD is the document in which a country office sets out what it will do in the next five-year country programme cycle, and with what resources it will do it. It is submitted for approval to UNICEF's Executive Board.

The audit found no documented evidence of the justification of the partners' selection, so it was not possible to determine whether the projects financed were the best in the context of the country programme. Also, contrary to what is prescribed in UNICEF Programme Policy and Procedure Manual, there was no monitoring and evaluation of the partnerships in order to maintain a database with relevant information on their past performance and lessons learned.

Agreed action 7 (high priority): The country office agrees to establish a process for entering into strategic partnerships that is informed by a mapping of partners' capacities, purpose, limitations and challenges, as defined in UNICEF guidelines for strategic partnerships.

Staff responsible for taking action: February 2015
Date by which action will be taken: Deputy Representative and Programme officers.

Harmonized Approach to Cash Transfers (HACT)

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT) policy. Under HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes it possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and adjust their method of funding and assurance practices accordingly. This assessment includes a macro-assessment of the country's financial management system, and micro-assessments of individual implementing partners. There should also be audits of implementing partners expected to receive more than US$ 500,000 during a programme cycle.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

During the period under review, the office transferred cash totalling US$ 819,537 (about 35 percent of total expenditures) to 13 implementing partners (10 government and three NGOs).

Micro-assessment: All partners were micro-assessed between 2009 and 2012. They were all rated as low risk except for two which were rated as moderate risk.

Assurance activities: Up to the first half of 2013, no spot checks of partners (whether government or not) had been performed because the UNICEF office relied on the controls performed by the Ministry of Economy. However, since these controls were not performed by the Supreme Audit Institution,[9] their efficacy was not reviewed in the macro-assessment, so there was no assurance on them. The office did not have access to the results of assurance activities undertaken by the Government. During that period, therefore, the office was mainly relying on visits made by programme officers for other reasons – the primary objective of which was not to give assurance that funds were used for the intended purposes.

During the second half of 2013, the office had prepared an assurance plan, including spot

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[9] The Supreme Audit Institution in a country is typically the Comptroller General, Auditor General or National Audit Office.

checks of six partners. At the time of the field audit phase, three had been performed and two were planned to take place between July and August 2014. The audit noted that partners were not selected for spot checks on the basis of their risk profile according to the findings of the micro-assessments, as is specified in the HACT framework. These findings should form the basis for determining the appropriate procedures for the provision of cash transfers, and the scale of assurance activities, for a given partner.

Conversely, two partners had been rated as moderate risk following micro-assessments, and at the time of the audit neither had been submitted to any spot check. The first was not included in the spot check plan at all. The second was spot-checked in August 2014, after the audit field phase; the results showed serious weaknesses, such as an absence of segregation of duties for bank reconciliations, and a significant delay in implementation that led to half of the last tranche of funding being unspent.

Finally, the audit found that the assurance plan was not covering all types of assurance controls as foreseen in HACT framework (such as programmatic reviews or capacity building), although they would have been useful in this context. (Assurance activities may also include programmatic monitoring; see following observation.)

Agreed action 8 (medium priority): The country office agrees to strengthen the cash-transfer assurance process by ensuring that:

   i.   An assurance plan is drawn up, including all useful types of controls foreseen in the Harmonized Approach to Cash Transfers (HACT) framework (spot checks, programmatic reviews, capacity building), and based on the risk profile of partners as determined by the micro-assessments.
   ii. Weaknesses detected during the spot check of the moderate risk partner are addressed and reflected in its risk profile.

Staff responsible for taking action: Deputy Representative, Operations manager and Programme officer
Date by which action will be taken: February 2015

Monitoring

Country offices are expected to monitor the progress of supported activities in the field. UNICEF's Programme Policy and Procedure Manual specifies several elements as necessary for an effective monitoring framework. They include detailed plans and schedules, field visits, analysis of information, progress reporting and monitoring of action taken.

The audit found that no monitoring plan had been prepared either in 2013 or 2014, and field visits were organized on an *ad hoc* basis. Programme officers mentioned visiting their partners about once a month, but the monitoring visits were not always documented, as trip reports were prepared only for visits requiring a travel authorization. The audit could not therefore systematically determine the objectives and the results of the visits.

The trip reports that were prepared were reviewed by the Deputy Representative. They described the issues arising from these visits and actions to be taken to deal with them, but there was not always a deadline for those actions, and there was no system to record them in one place or follow up on them.

The audit also noted that field visits undertaken by programme officers were not linked to the controls to be implemented under the Harmonized Approach to Cash Transfers, although they can constitute an important assurance activity (see previous observation).

Agreed action 9 (high priority): The country office agrees to strengthen its monitoring mechanisms by putting in place an annual monitoring plan, and system to report on all monitoring visits and to consolidate and follow up on key issues detected during the field visits.

Staff responsible for taking action: Deputy Representative and Programme officers
Date by which action will be taken: February 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over 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 of the above areas were covered in this audit, excluding inventory and asset management, which had been assessed as low risk.

The audit found that controls were functioning well over a number of areas. Bank reconciliations were timely and had no outstanding items. Transactions were well documented with supporting documents attached in VISION.

However, the audit made the following observations.

Travel management
The audit selected and tested six cases of travel undertaken during the period under review, representing 12 percent of the total travel costs during that period (US$ 0.1 million), and 3 percent of the total number of trips (189).

The country office had been working for seven years with the same travel agency; the agency knew the UNICEF rules and therefore knew it was supposed to always select the most economic and direct option for out-of-country travel. However, it did not provide any evidence that it had reviewed alternatives.

Moreover, at the time of the audit it was found that six of the 13 staff members in the office had not had any medical examination for the last two years, and five of them had travelled during that period to countries for which a medical clearance was necessary. This showed that there was no internal mechanism for medical clearance.

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

i.   Request that the travel agency provide evidence of its selection of the most direct and economic option for out-of-country travel.
ii.   Establish a process for staff to obtain required medical clearances before travel.
iii.   Request that staff undergo medical examinations, and share the results of the examinations with the UN medical services in Headquarters.

Staff responsible for taking action: Operations manager
Date by which action will be taken: December 2014

Processing of direct cash transfers (DCTs)

The auditors tested a sample of eight of the 62 DCTs that had been either paid or liquidated during the period under review. The selected DCTs were those paid to the four partners visited by the audit (DCTs had been paid partners 13 in total). The total amount represented by these DCTs was 1,816 million Belarussian rubbles (BYR), out of a total amount of BYR 8,919 million paid or liquidated during the period under review. The sampled DCTs therefore represented 20 percent of the whole by value.

Documentation: The audit noted that all supporting documents were systematically attached in VISION.

Fund receipt acknowledgement: In three instances out of eight, there was no evidence of the implementing partner having acknowledged receipt of the cash transfers.

Currency: It was found that the currency used throughout the process was not always the one defined in the PCAs, and sometimes changed from one document to another (PCA, fund commitment and FACE form[10]). In general, budgets in the PCAs were in US dollars, but the PCAs did not specify that payments would be made in the local currency. Thus, while all cash payments were made in Belarussian roubles, in six cases out of eight the funds requests were in US dollars. This does not respect the PCA as a legal commitment. Also, differences in exchange rates make the monitoring of funds more difficult.

Liquidation: The audit noted that the frequency of reporting by partners as defined in the PCA did not correspond to the number of instalments. The practice was that partners provided narrative reports twice a year, rather than report on the use of each instalment. The risk was that cash transfers could be liquidated without adequate supporting documents and the reporting would not necessarily be based on completed activities.

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

i.   Implementing partners systematically acknowledge receipt of funds.
ii.   The currency used throughout the process of direct cash transfers corresponds to the one defined in the programme cooperation agreement.

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[10] 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.

iii.   Implementing partners report on project implementation after the use of each instalment paid.

Staff responsible for taking action: Deputy Representative, Operations manager and Programme officers and assistants
Date by which action will be taken: February 2015

Contracting

The audit selected and tested five contracts, representing 12 percent of the total number of contracts and 36 percent of their total value. The audit noted the following:

Single source: It was found that 50 percent of all the contracts for consulting services signed by the office over the period under review were single-sourced. The audit noted that four of the tested sample that were single-sourced had been signed after the issue of UNICEF Administrative Instruction AI2013-001 on *Consultants and Individual contractors*, which specifies that the competitive selection can only be waived in countries declared as in emergency situation – which was not the case for Belarus.

Determination of consulting fees: In three out of the five cases, no evidence was found of how the consulting fees had been determined. The three contracts in question were worth US$ 16,137.53, US$ 8,137.53 and US$ 7,000.

Contracts Review Committee (CRC): As per UNCEF rules, the office had a CRC whose role was to 'render written contracting advice for proposed contracts award recommendations'. Due to the relatively low value of contracts signed by the office during the period under review, the CRC met only four times in 2012 and twice in 2013 and had no meetings in 2014. However, the audit noted that the threshold for CRC review was too high. Out of the 97 contracts totalling US$ 300,836 issued during the period under review, only two exceeded the US$ 20,000 threshold established by the country office for CRC reviews.

Moreover, from the minutes of the CRC, there was no evidence the its reviews had been done according to the rules as prescribed in UNICEF Financial and Administrative Policy 5 (*Cash disbursement*), Supplement 6 on the CRC. The committee is supposed to:

- Require certification from the relevant Authorizing Officer that authority has been granted for the commitment of funds.
- Ensure that the interests of UNICEF are protected by providing a competent, independent and unbiased review of proposed contract award recommendations and making a recommendation in this respect to the authorized staff members.
- Focus its review on the process that led to the proposed contract award recommendation and its adherence to applicable UNICEF policy and procedure, and not on whether the contract will meet the programmatic and/or operational objectives of the submitting office, division, or section, as appropriate.

The CRC minutes did not indicate that these requirements had been met. As far as the contracts signed in 2013 were concerned, the CRC had not questioned how the price were determined. Moreover, for one of the contracts for which there was only one applicant, the CRC did not question how the contract had been advertised and for how long.

Agreed action 12 (high priority): The country office agrees to:

i.   Ensure that all non-emergency contracts are issued on a competitive selection basis and document how the consulting fees are determined.
ii.   Review the threshold of the Contracts Review Committee (CRC), with a view of ensuring more contracts are subject to CRC review before issue.
iii.   Ensure that the CRC performs all the tasks assigned to the committee in UNICEF rules, and records details of their performance in the minutes.

Staff responsible for taking action: Representative, Operations manager and assistant
Date by which action will be taken: February 2015

Vendor database

The office had a vendor database with 393 entries. The audit identified 22 cases of duplicates. It was explained that these had been migrated from the previous accounting system to UNICEF's current management system, VISION, which was introduced in January 2012. The entries had not subsequently been blocked or deleted.

It was also noted that, contrary to the recommendations in 'Good Practice for Vendor Registration' (UNICEF Supply Manual, Section 3: *Vendor Master Management with Regards to the Supply Function*, Annex 4), the vendor database had not been regularly monitored to detect duplicates, errors and vendors with multiple bank accounts.

Agreed action 13 (medium priority): The country office agrees to ensure a process for periodic monitoring of its vendor database to identify duplicate accounts and errors, and confirm bank details.

Staff responsible for taking action: Operations manager and Monitoring and Evaluation officer (as manager of the vendor database)
Date by which action will be taken: December 2014

Operations support: Conclusion

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

Annex A: Methodology, 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 summary of audit observations 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 regional-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 at the end of the audit that the control processes over the regional 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 at the end of the audit 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 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 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.