

Internal Audit of the Republic of Chile Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Republic of Chile Country Office. The audit assessed the office's governance, programme management and operations support. The audit was conducted between 29 May 2014 and 11 August 2014, and covered the period from January 2013 to 31 July 2014.

According to the 2014 World Bank Development Report, the Republic of Chile is a high-income country, with a Gross National Income per capita of US\$ 14,310. The UNICEF's programme of cooperation for 2012-2016 includes two programme components: *Equity and inclusion*; and *Child protection*.

The total budget approved by the Executive Board for the 2012-2016 country programme is US\$ 11.75 million, of which US\$ 3.75 million is expected to be funded by Regular Resources (RR), with the Other Resources (OR) component of US\$ 8 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. They include income from voluntary annual contributions from governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. OR are contributions that 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 OR.

In the case of the Chile office, the OR component of US\$ 8 million was expected to be raised in private-sector fundraising by the country office. The office has with success developed a fundraising strategy focused mainly on pledge donors, which has allowed it to finance its programme work with locally generated funds. The contributions received from the private sector as the result of fundraising activities amounted to US\$ 1.7 million in 2013, and US\$ 1.1 million in 2014 as of August.

The country office premises are located in Santiago de Chile. There is a workforce of 10 staff members including the representative, deputy representative, communications specialist and fundraising officer, five assistants and a messenger. Since 2001, UNICEF's Southern Cone Processing Centre in Buenos Aires, Argentina has provided operations support to the office in human resources management and processing of financial transactions.

Action 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 of them are being implemented as a high priority – that is to say, they relate to matters requiring immediate management attention. The high-priority measures are as follows:

- Expedite the hiring of staff to fill the approved new posts, and limit the use of consultants, ensuring that they do not perform regular staff tasks.
- Identify and/or establish systematic monitoring mechanisms, including the use of national systems for information collection and use; develop suitable tools for monitoring progress against planned results; assign responsibilities to relevant staff; and monitor them to ensure adherence.

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- Implement appropriate controls to strengthen the management of contracts. Contracts were issued without appropriate reviews by the contracts review committee, and contracts amounts were increased without recording the reasons for the changes.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over Republic of Chile country office, as defined above, needed improvement to be adequately established and functioning.

The Republic of Chile country office, with support from the Latin America and the Caribbean Regional Office (LACRO), and OIAI will work jointly to monitor the implementation of these measures.

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Objectives

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.

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 included 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 of the above areas were covered in this audit.

Office structure

The office had a small number of established posts. At the time of the audit, there were 10; besides the representative and deputy representative, there was an executive assistant, programme assistant, communications specialist, fundraising officer, operations assistant, licensing assistant, marketing assistant and messenger.

The office did not have a large operations staff, as since 2001 finance and human resources functions had been performed by UNICEF's Southern Cone Processing Centre in Buenos Aires. However, the office also had only two staff that were related to the programme management area. It had identified this as a risk in its risk and control self-assessment (see also *Risk management*, p7 below).

With only two staff in the programme section, and in order to ensure continuity in some medium-term tasks, the office's practice was to hire consultants to perform the technical functions related to legal and institutional reform, early child development, child protection, education, adolescent participation, innovation, indigenous children and communication. The office had opted to keep 12 consultants without re-advertising for similar services. Since 2013 the office had issued 136 consultancy contracts for a total amount of US\$ 1.5 million, of which 34 were single-sourced. The office could not objectively monitor the effectiveness of the work performed by the consultants who carried out staff members' duties.

This structure has contributed to an especially high workload for three staff members, two of whom worked in both programme and operations sections; the audit was informed that this also caused inability to take scheduled leave. The limited number of staff also affected compliance with segregation of duties, especially with staff on sick leave or absent from the office.

Following a submission in July 2014, the PBR¹ approved changes to the current structure, with changes including four posts in programme, two in operations, one in communications and one in private sector fund raising (PSFR), bringing the total number of staff to 15. However, the hiring of new staff takes a long time, and filling the posts could take as long as six months. The country office will therefore still need to mitigate the risk of managing those of the consultants who were performing staff functions for a prolonged period.

Agreed action 1 (high priority): The office agrees to ensure a process to expedite the hiring of staff to fill the approved new posts and limit the use of consultants. The office will also ensure that consultants do not perform regular staff tasks.

Staff responsible for taking action: Representative, Operations Assistant

Date by which action will be taken: June 2015

Office management

Country offices are required to have a country management team (CMT), which should advise the Representative on the management of the country programme and on strategic programme and operations matters, and should also review progress against the key performance indicators (KPIs) in the office's annual management plan. During 2013 and the first quarter of 2014, however, the office was unable to undertake regular CMT meetings.

The Deputy Representative explained that this was mostly due to workload and limited availability of staff. At the time of the audit, the CMT and the programme management team (PMT) did not have Terms of References (ToRs), and the minutes of the few meetings that had taken place showed no evidence of discussion of management and programme priorities. In 2014, the CMT had held three meetings in January and two in April. The review of the minutes issued showed that they had discussed neither the key performance indicators (KPIs) nor the status of implementation of programmatic activities.

¹ The programme budget review (PBR) is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

Agreed action 2 (medium priority): The office agrees to develop terms of reference for the country management team and the programme management team meetings, and to minute the discussions held in these meetings, including consideration of progress against priorities and indicators.

Staff responsible for taking action: Representative, CMT and Operations Assistant

Date by which action will be taken: June 2015

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 risks and their mitigation measures are recorded in a risk and control library. They should also be reflected in the office priorities as set out in the annual management plan (AMP).

The office stated that in May 2013, the CMT had prepared and revised the latest RCSA, which identified 11 risks. One risk was rated as high, three as medium and seven as very low. The RCSA included neither sufficient analysis (root causes, potential impacts) nor actions to mitigate the risks areas identified in it under the headings *Funding and External Stakeholders Relations* and *Governance and accountability*. Moreover, a review of the alignment of the medium and high risks with the annual management plan (AMP) for 2013 showed that these risks were not reflected as a management priority.

It was not possible to determine the extent to which the office assessed its own assumptions about the context within which it operated – for example, the risks pertaining to support for programme activities—and corresponding mitigating actions.

Agreed action 3 (medium priority): The country office agrees to:

- i. With the involvement of all staff members, update the risk and control library – ensuring that root causes and potential impacts are identified, assigning responsibilities, and drawing up action plans with target dates for all risks.
- ii. Ensure that medium to high risks identified through the Risk and Control Self-Assessment (RCSA) are reflected in the annual management plan (AMP), in order to incorporate the results of the RCSAs in management decisions and priorities.

Staff responsible for taking action: Representative and CMT members

Date by which action will be taken: June 2015

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the audit recommendations 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 time-bound (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 areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had a communication strategy that set out specific activities to assist fundraising, country programme external relations and advocacy. The office's fundraising strategy covered activities for both the country programme and for UNICEF as a whole. However, the audit also noted the following.

Results-based planning

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. It consists of a change in the situation of children and women. 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. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

The CPAP² outlined PCRs (programme outcomes), IRs (outputs), performance indicators (with attendant baselines, where available), and means of verification. The audit reviewed the

² 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.

office's 2014 annual workplans and *convenios* (the latter are agreements that are entered into with Government and civil society partners). The CPAP 2012-2016 results matrix outlined PCRs (outcomes) with a timeframe of 2016, but the IRs (outputs) had the same timeframe – although they are meant to represent milestones in progress towards achievement of the PCRs. Also, the 2013 and 2014 results were pretty much similar.

The audit also noted a lack of logic amongst results, indicators, targets etc. within the 2014 annual workplans, since results read like activities. Means of verification were not outlined, and indicators were not always identified.

Agreed action 4 (medium priority): The office agrees to, with assistance from the regional office, review the results matrix of the country programme and ensure coherence, achievability, and relevant/appropriate means of verification for each of the indicators where this is lacking to enable realistic assessment of progress towards planned results.

Staff responsible for taking action: Representative

Date by which action will be taken: May 2015

Planning with government partners

The audit reviewed a total of six *convenios*, three of which were with Government departments. The agreements are a framework for cooperation in which the purpose of the activity, and the responsibilities of all parties, are outlined. The audit noted the following.

With one exception, all the agreements stated that a further agreement would be signed between parties to establish specific accountabilities, objectives and timelines. The audit was not provided with any such additional documentation. The office did attach some internal workplans for 2014, but these were not adequately aligned to the agreements reviewed. So none of the elements meant to be covered by the further agreements were included in these documents. The one exception did not stipulate a further agreement with specific accountabilities; it did include details on objectives, target group, accountabilities and expected products and also outlined a phased work schedule which included activities, but without timelines. The expected outputs were vague.

The audit noted that the current procedures of documenting agreed schedules was not consistent, the agreements were mostly activity driven, and the absence of details in some made it difficult to track progress. Also, in some agreements, the technical responsibility for the entire agreement was given to a consultant, which was attributed to the limited number of staff in the programme area. There was no mention of monitoring progress (see also *Monitoring for progress*, below).

Agreed action 5 (medium priority): The office agrees to ensure that workplans or *convenios* are signed with all partners that specify activities, monitoring arrangements, accountabilities, objectives, and timelines.

Staff responsible for taking action: Representative, Programme Assistant and all programme staff

Date by which action will be taken: February 2015

Monitoring of results

Country offices are required to monitor and report on progress against planned results. Currently, this is done in the results assessment module (RAM) of VISION twice a year. The expectation is that a country office would assess and report if implementation is on track to achieve an agreed milestone or output. The audit noted the following in this area.

Reporting on progress: The office's reporting was on an activity basis, without indication as to whether completion of those activities assured progress towards the desired results for children and women. It was not possible to determine progress towards results, as the office did not have a systematic mechanism to monitor it. The office stated that monitoring of progress was undertaken on an activity basis based on the preferences of implementing partners, who have limited time to attend formal review sessions.

Indicators for reform and policy: The office supported systemic activities related to legal review/reform, development and/or refinement of policies etc. However, the absence of systematic monitoring mechanisms made it difficult to determine the impact of the office's support for medium- to longer-term systemic changes, and there was a need to define realistic indicators. The Regional Director had requested information on progress in implementing the equity agenda since 2010; the audit reviewed the evidence that the office provided in response, and noted that it could not be sufficiently validated when compared with the baselines provided in the previous and present country programmes, which were stated in percentages.

Data and baselines: The audit also could not determine the extent to which the office used national data and information collection systems. Although the baselines and indicators in the CPAP results matrix were appropriate, the reporting on progress was not consistent with these baselines. In addition, the regional office commented in the office's 2013 annual report that: "Despite the high statistical capacity of the country, Chile still has significant data shortfalls in many standardized and internationally comparable children and adolescents indicators in areas such as child discipline, early childhood development, HIV prevention and attitudes towards domestic violence."

Integrated monitoring and evaluation plans (IMEPs): The office's annual IMEPs outlined pretty much similar activities in both 2013 and 2014. The office had not assessed the extent to which the IMEPs had been completed, so it was not possible for the audit to determine whether planned activities such as studies were continuing or had been postponed.

A "light" mid-term review had been undertaken in 2014, in which areas for which the office would continue providing support were outlined and agreed with Government. However, there had been no review of progress towards the achievement of planned results. The office informed the audit that systematic monitoring was hampered mostly by lack of staff (there were only two programme staff), but although the office hired several consultants for specific technical expertise, they were not asked to undertake duties related to programme monitoring. In the absence of systematic monitoring and evaluations it was not possible to objectively determine whether the CPAP results were realistic and achievable.

The office had not yet completed its mid-year reporting on progress toward planned results in the VISION RAM.

Agreed action 6 (high priority): The office agrees to, with assistance from the regional office:

- i. Identify and/or establish systematic monitoring mechanisms, including the use of national systems for information collection and use; develop suitable tools for monitoring progress against planned results; assign responsibilities to relevant staff; and monitor these responsibilities to ensure adherence.
- ii. Review responsibilities for documentation in the Results Assessment Module of VISION, ensuring appropriate controls.

Staff responsible for taking action: Representative, programme assistant and the M&E Officer
Date by which action will be taken: May 2015

Partnerships with civil society organizations

The 2012-2016 CPAP included several strategies for strategic partnerships in close coordination with UN agencies, think tanks, media, civil society organizations and the private sector and faith groups. The strategies included building partnerships for the Convention on the Rights of the Child as a commitment to corporate social responsibility. The office entered into 11 partnerships in 2013 and 2014. Of the 11 partnerships, three were non-monetary; the remaining eight accounted for US\$ 216,096 in funding in 2013 and US\$ 76,302 in 2014 as of July.

The audit reviewed 10 programme cooperation agreements (PCAs) and noted the following.

Assessment of civil society: Although partnerships with academic institutions and NGOs had been seen by the office as a key strategy, it had not explored an overall strategic approach to working with civil society organizations. Neither had there been any systematic capacity assessment of potential partners in civil society (including NGOs and academic institutions). Instead, the office based its selection on prior collaboration, quality of outputs and reputation. There was no in-house database, so it was not possible to assess whether the partners were the most suitable for the activities for which they were selected.

Programme cooperation agreements (PCAs): The audit noted that PCAs were activity based—there was no indication of the result(s) to which those activities were contributing. Also, review of PCAs signed with implementing partners showed that in five out of 10 cases reviewed, there were no joint workplans that gave the timeline of major activities with the expected results and the budget lines. The office stated that the standard document format for PCAs and Small Scale Funding Agreements (SSFA) were used for agreements signed with CSOs. However, in seven out of 10 cases reviewed, this was not the case. This contributed to delays in the disbursements of funds and also in the liquidation of cash transfers.

PCA Review Committee (PCARC): All offices are required to establish a PCARC to review proposed/draft PCAs. The PCARC considers, among other things, whether the proposed partner has been adequately assessed; whether it is the right partner for this particular collaboration; the assessed level of risk; the programmatic justification and design of the PCA; its cost/cost-effectiveness implications; the mutual accountability provisions; the budget proposal; and the proposed PCA document and supporting documents themselves.

The audit did not find any terms of reference for the PCARC—and, specifically, there was no mechanism to ensure that recommendations and comments made by the PCARC were addressed before the PCAs were signed. Only four out of the 10 PCAs had been reviewed by the PCARC in order to justify the selection of the partner for the particular collaboration, the programmatic justification for the PCA and the cost-effectiveness implications.

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

- i. Map potential partners in the country, assess their relevance to the UNICEF-supported programme in the country and their capacities, and use the results of these assessments as the basis for strategic partnerships. See UNICEF's *Guidance for Collaboration with NGOs and CBOs in Country Programmes of Cooperation*.
- ii. Ensure that programme cooperation agreements (PCAs) are results-based, and include relevant details (timeframe, detailed activity description, budgets) to enable monitoring of progress toward the achievement of planned results.
- iii. Streamline collaboration through the use of the regular PCA format, or review its current PCA format and consider enhancing it with relevant text from the agreed PCA format.
- iv. Establish Terms of Reference for the PCA Review Committee (PCARC), as well as a detailed workflow to clarify the PCA review process, including a mechanism to ensure that recommendations and comments made by the PCARC have been addressed before the PCAs were signed.

Staff responsible for taking action: Representative, programme assistant and the CMT

Date by which action will be taken: June 2015

Evaluation

The office had drawn up integrated monitoring and evaluation plans (IMEPs) for 2013 and 2014. These outlined major activities related to studies, research, support for national systems and publications. However, the audit noted that the office had commissioned only one evaluation of a project during the period of three country programmes (2005-2009, 2010-2012, and 2012-2014). A review of the previous and current CPAPs (2008-2016) showed that the office's support during these periods had been mostly related to inequity reduction (for the most marginalized populations), education access and reform, and most recently, early child development. However, in the absence of any thematic evaluations, it was not possible to objectively determine the extent of UNICEF's contributions.

The audit review did not find any established criteria to enable strategic selection of evaluations, as recommended by UNICEF's evaluation policy. There was no evidence that the office participated in and/or supported external evaluation activities that would benefit the interventions supported by the country programme.

Regarding activities related to research, studies and publications, there were no established mechanisms to undertake quality assurance of terms of reference. The audit noted that the office's major contribution included supporting the generation of evidence with reputable institutions. Although the office had not yet encountered weaknesses in the quality of publications, it is nevertheless important to establish mechanisms to assure consistency and quality. The Deputy Representative explained that the quality assurance of the publications is covered by the Communication Specialist, in consultation with themselves, and that they read each draft thoroughly before starting the editing process.

Insufficient evaluation of UNICEF-supported interventions reduces the office's ability to determine the appropriateness and relevance of its strategies and to learn from past experience so as to strengthen programme performance.

The Representative explained to the audit that these weaknesses were in most part due to the lack of a specialist staff member specialized in this area. However, the approved new structure includes the post of a monitoring and evaluation specialist.

Agreed action 8 (medium priority): The office agrees to, with support from the regional office:

- i. Establish criteria to ensure the strategic selection of evaluations.
- ii. Consider commissioning relevant evaluation activities to determine the effectiveness of UNICEF-supported thematic areas and overall performance, and establish mechanisms to monitor and ensure compliance with evaluation criteria as set out in the relevant UNICEF guidance.³

Staff responsible for taking action: Representative and Social Policy Specialist

Date by which action will be taken: June 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over programme management, as defined above, needed improvement to be adequately established and functioning.

³ See UNICEF's *Programme Policy and Procedure Manual*, chapter 5, section 5.4.5.

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.
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **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).
- **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 areas above were covered in this audit, except inventory management (the Chile country office does not carry any significant inventory of programme supplies).

Contract Review Committee (CRC)

The office had an established contract review committee (CRC), with defined membership, to review procurement cases over a certain threshold in value (the Chile office has set this at US\$ 50,000). In 2013, the CRC reviewed 10 submissions, of which three were individual contracts and seven were local corporate contracts.

The audit reviewed the contracts submitted to the Contract Review Committee (CRC) for proposed contract award recommendation. It noted the following.

Non-review of amended contract: The CRC reviewed a proposed award to a vendor on 14 March 2013; the CRC minutes were signed by all members on 14 March 2013 but did not include the amount recommended for the contracts to be awarded nor the signature of the Representative. During the period April-October 2013 five contracts were actually signed with the vendor for a total amount of US\$ 319,284, which was higher by US\$ 100,578 from the US\$ 218,706 that had been presented to the CRC for the year. No amendment was presented to the CRC and it was not clear to the audit why the amounts had been revised upwards. In June 2014, the office signed a new contract with the same vendor for a total amount of US\$ 280,915.02, which was US\$ 18,142 higher than the amount initially submitted to the CRC. Again, no justification was provided to the audit.

In another case, on 17 December 2013, the office awarded a contract of US\$ 8,335 to a vendor for an amount that did not exceed the threshold established by the office CRC review. The

contract was not processed in VISION. On 28 January 2014, the contract was released in VISION and the amount was increased to US\$ 87,480 to hire two extra security guards. The contract amount now met the CRC threshold. However, the contract was issued before the review by the CRC—it was eventually submitted to the committee on 11 February 2014. The contract amendment was thus in effect issued prior to the review by the CRC and approval by the authorized UNICEF official.

Non-implementation of CRC recommendation: On 8 March 2013 the CRC reviewed a contract to be recommended for its award. The name of the supplier in the submitted document did not allow to identify the contractor, and the audit was informed that the contractor operated under a different name. The document did not include a contract amount but instead included estimates as follows: April-December 2013 US\$ 47,568.71, January-December 2014 US\$ 63,424.65, and January-March 2015 US\$ 15,856.24.

The CRC recommended that the contract should have a clause that could cover the office in case of breach of contract by the service provider, as well as establish a monitoring function to be carried out by the Operations Assistant in order to ensure timely finalization of the requested work. However, the contract recommendation was not reviewed by an authorized official before the contract was issued. No adequate information was provided to the audit as to why the contract was signed without inclusion of a clause to safeguard UNICEF in case of a breach of the contract terms. In addition, a monitoring process was not established as per the CRC recommendation.

The audit also noted the following.

- In two out of 10 CRC minutes prepared in 2013, no staff member signed the submission as submitting officer. In a further two out of the 10, the recommendation was signed by a staff member not included in the list of CRC voting members.
- In all the 10 CRC minutes prepared in 2013, it was indicated that the selection was not single-source. However, there was no supporting documentation to verify a competitive selection process.
- In five instances during the period under audit, the country office had had contracts that exceeded the US\$ 50,000 threshold but were not submitted to the CRC contract for review.
- In nine out of 11 cases of CRC minutes reviewed for the period 2013-2014, the submissions for CRC recommendations were carried out after the contract release in VISION.

Agreed action 9 (high priority): The office agrees to:

- i. Ensure that all contracts meeting the established threshold are reviewed by the contracts review committee (CRC), including those that result from contract amendments.
- ii. Ensure all justifications for revisions to contracts are documented and that there is approval of such revisions before the contracts are issued to the vendors.
- iii. Review the basis (justification, approval and appropriateness) for the payment of US\$ 18,142 more than the amount initially submitted to the CRC under contracts Nos 43137696, 43137698, 43137691 and 43137699; and ensure appropriate corrective action is taken.

- iv. Review the basis (justification, approval and appropriateness) for the increase of US\$ 79,145 (from the initial contract of US\$ 8,335 to US\$ 87,480) under contract 43153744 and ensure appropriate corrective action is taken.
- v. Review the contract related to 8 March 2013 CRC documents and ensure that the contract amounts are clearly stated, and that it includes a clause to cover UNICEF in case of a breach of contract terms; and ensure there is an established monitoring function as recommended by the CRC.

Staff responsible for taking action: Representative, Operations Assistant, Senior Budget Assistant and SCPC Operations Manager

Date by which action will be taken: March 2015

Contract management

The vast majority of the contracts issued by the office related to services and consultancy. Because of the upstream nature of the programme in Chile, there was no supply assistance, and the only other procurement activities during the period under audit was for new IT equipment for office use. However, in the period 2013-2014, the office issued 136 contracts for individual consultants and contractors amounting to US\$ 1,500,567 and 43 corporate contracts for a total amount of US\$ 1,569,869. Contracts for professional and other services amounted to 52 percent of total expenses in 2013; in 2014 up to the date of the audit, they were 59 percent of the total expenditures.

The audit noted that 37 out of 136 contracts for individual consultants (27 percent) amounting to about US\$ 688,000, and 18 out of 43 contracts for institutional contractors (28 percent), amounting to about US\$ 390,000, were single-sourced. The audit noted that in all instances sampled by the audit, the candidates were single-sourced and no competitive selection processes were established.

A sample review of 10 single-source cases showed that in six cases the office provided supporting documentation related to competitive selection processes that had taken place during 2000 and 2012 as part of the initial contracts for these consultants. After the termination of these initial appointments, the office signed new contracts with the consultants without carrying out new selection processes. The audit noted that in one of the cases reviewed, the rationale for hiring the consultant was that the work with UNICEF had started in 1995.

The audit reviewed a sample of 47 contracts (28 local corporate contracts and 19 consultant contracts) and noted the following.

- Ten of the consultant contracts were extended or renewed after the maximum duration of 11 months followed by the required break-in-service period of one month. However, there is also a maximum cumulative duration of 44 months in any 48-month period, after which there should be a 12-month break period. In nine out of the 10 cases, when the 48 months were up, the office issued local corporate and consultant contracts to firms that sub-contracted the same consultants' services. This meant that, in practice, the 12-month break policy was not observed.
- The terms of reference included in the contracts described generic functions to be performed by the consultants. They were not sufficiently specific and also included duties and functions similar to those of a staff member.

- The contracts lacked specific deliverables, delivery dates and details such as identification of milestones, indicators for evaluation of outputs, timeliness, and ways to achieve goals or quality standards.
- In four contracts, the fees of the consultant were quoted inclusive of taxes and an extra lump-sum to cover office expenditures; a gross fee should have been quoted, with the contractor assuming responsibility for their own operating expenses, and for determining and meeting their tax liabilities, in accordance with local laws.
- The contractor's travel costs were set out in only three of 47 contracts; in the remaining 44, the office did not clearly state that the travel costs would be covered by the office. The audit noted that on six occasions consultants submitted documentation for reimbursement of travel expenditures that were subsequently liquidated by the office. Each contract should state clearly whether or not travel costs are covered.

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

- i. Adhere to UNICEF policy on the management of contracts for consultants and individual contractors.
- ii. Establish appropriate mechanisms for award of contracts for services requested on a recurring basis, such as the creation of a roster or talent pool for consultants and the establishment of Long-Term Arrangements (LTAs) for corporate contractors.
- iii. Ensure all contracts are issued on a competitive basis and that any exceptions are in accordance with established policy.

Staff responsible for taking action: Representative, SCPC Operations Manager, Communications specialist and programme assistant

Date by which action will be taken: March 2015

Property, plant and equipment (PP&E)

The PP&E report retrieved from VISION as of 2 April 2014 showed that the office had recorded a total of 86 items with a value of origin of US\$ 3,056,923.36 (though this included the value of the real estate, which was approximately US\$ 2.8 million). The audit noted the following.

- Of the 86 items, 63, with a total acquisition value of over US\$ 200,000, lacked an inventory number and information related to the location.
- For 78 items with an acquisition value of just over US\$ 442,000, there was no serial number, making their identification laborious.
- A reconciliation of the physical count and the information retrieved from VISION showed that only 18 out of 86 items included in the VISION report were included in the Asset Count Report issued on 29 August 2013.

Physical count: No physical count had been carried out as part of the year-end closure procedure during 2013. The last physical count carried out by the office was dated on 29 August 2013. The audit noted the following.

- The Asset Count Report did not include the items' validation initials confirming the asset tag number, location, quantity and condition of the asset. Neither did it include the inventory number nor asset master record number used for recording and tracking of assets purchased or obtained by UNICEF.

- The Asset Count Report was not signed off by the Representative to certify the results of the annual physical count.
- The Asset Count Report did not include discrepancies between the physical count and the accounting records. However, it included 113 items, of which only 18 could be reconciled with the information retrieved from VISION. The missing 95 asset items were not included in VISION records.
- The audit noted that no documentation had been submitted to the Property Survey Board (PSB) with reference to the physical count and discrepancies identified.

Recovery of costs for private use: Expenditures related to the use of telephones in the office amounted to US\$ 47,051.35 in 2013 and US\$ 18,378.78 for the first half of 2014. The relatively high expenditure arose in part from fundraising activities performed by the call centre. However, the audit also noted that the office did not follow a procedure for the recovery of costs associated with the private use of office equipment that includes the verification of billing for accuracy regarding the type of calls (personal or official). The office confirmed this.

Agreed action 11 (medium priority): The office agrees to strengthen the management of plant property and equipment (PP&E), and to:

- i. Assign responsibilities for management of PPE to staff members.
- ii. Strengthen controls related to maintenance of the asset master data in VISION, physical count, reconciliation, and tagging of PP&E, and property survey board (PSB) processes, taking into consideration the issues noted in the assessment above.
- iii. Reinforce control over PP&E by undertaking an independent physical count.
- iv. Minute all PSB meetings, reporting any discrepancy detected during the aforementioned physical count.
- v. Update the database based on the approved PSB recommendations.
- vi. Establish a mechanism for control for the private use of UNICEF property, enabling the verification of personal calls and the effective collection of funds on a timely manner from staff members.

Staff responsible for taking action: Representative, Operations Assistant, Administrative Assistant and SCPC Operations Manager

Date by which action will be taken: February 2015

Management of cash transfers

During 2013-2014 (as of July 2014), the office's total direct cash transfers (DCTs) to implementing partners amounted to US\$ 121,043, representing 2 percent of the total expenditures during the period.

A review of the cash transfer transactions recorded during 2013 and 2014 showed that in seven out of 21 DCT payments, there were delays in the disbursements of funds; these ranged from 28 to 47 days from the date of payment request from partners. In five out of 21 transactions the liquidation of expenses took over nine months. In four out of 21 transactions there were delays in the recording in VISION of the liquidations of expenditures. At the time of the audit there was an amount pending liquidation of US\$ 10,125 that had been outstanding for between six and nine months.

Agreed action 12 (medium priority): The office agrees to ensure monitoring and timely disbursements and accounting for cash transfers to implementing partners.

Staff responsible for taking action: Representative, programme assistant and the country management team (CMT)

Date by which action will be taken: June 2015

Vendor master records

According to information retrieved from VISION, 1,229 vendor records had been created for the office. A review of the vendor master data showed that at least 59 vendor records were duplicated. A review of the expenditures posted by the office during the audited period showed that among those duplicated vendors, there were at least six vendors for which more than one account had been used for payments.

Some duplicate master records had been created during the migration of data from the previous management system, ProMS, to VISION when the latter was rolled out in 2012. Also, the staff members assigned to maintenance of the vendor master records had not ascertained whether a vendor master record had previously been created in the system as part of the vendor master record creation process. The vendors with duplicate master records had not been identified, blocked from posting and marked for deletion.

Duplication of vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of incorrect payments. It could also allow implementing partners to receive cash disbursements despite having outstanding advances for more than six months.

Agreed action 13 (medium priority): The office agrees to:

- i. Identify vendors with multiple master records and ascertain their validity, blocking and marking for deletion any considered invalid or duplicate.
- ii. Incorporate checking for an existing vendor master record in VISION into the procedure for the creation of a new vendor master record.
- iii. Implement a periodic review of the vendor master records in order to identify duplicates.

Staff responsible for taking action: Representative, Operations Assistant, Vendor Master focal point and SCPC Operations Manager

Date by which action will be taken: February 2015

Financial controls

Insufficient oversight on financial transactions could lead to inappropriate and/or untimely transactions processing, as well as inaccurate recording and reporting. The audit reviewed a sample of 50 transactions and noted the following.

- There were four cases of inappropriate segregation of duties, as the functions of authorization, certification and even approving were undertaken by the same staff member. The office informed the audit that these violations were mainly due to lack of staff, in particular with staff members on leave. (See also *Assignment of authorities*, p7)

above).

- In 10 local corporate contracts, the payments were not made to the accounts of the contractors. Instead, the funds were disbursed to the account of the consultant that was hired through the contractor, as these entities had been created only to hire those consultants once their maximum cumulative duration of 44 months in any 48-month period was reached. (See also *Contract management*, p19 above.)
- In 15 instances, a fund commitment (FC) was used to disburse funds exceeding US\$ 2,500, which is the threshold above which funds should not be disbursed without creating a purchase order or contract.
- The office posted US\$ 5,622 as direct payment for the purchase of 600 pen drives. The office provided as supporting documentation a request for assistance for the preparation of a conference issued by a former implementing partner for whom there was no current signed programme cooperation agreement (PCA) or small-scale funding agreement (SSFA). No linkage to a programmatic activity could be established.
- In one case, a payment amounting US\$ 5,332.76 was processed without the required invoice, as the office made the payment against a vendor statement.
- At the time of the audit the office did not prepare a travel plan for all staff members that could better allocate funds and help coordinate the process of creation and approval of travel authorizations. In four cases, the office had authorized the payment of travel costs without relevant supporting documentation.
- The audit checked a sample of 185 contracts issued since 1 January 2013 and found that 54, amounting to US\$ 108,785, remained opened in VISION after their validity date had expired. These funds would remain allocated to the budget and this would prevent their re-programming, as the system would not release them until the contracts were closed in VISION.

Agreed action 14 (medium priority): The office agrees to:

- i. Strengthen financial controls related to invoice certification, payments and budget monitoring.
- ii. Prepare a travel plan for better coordination of travel authorizations.
- iii. Establish a control mechanism for the closure in VISION of contracts when their validity date has expired.

Staff responsible for taking action: Operations Assistant, Senior Budget Assistant and SCPC Operations Manager

Date by which action will be taken: February 2015

Bank accounts management

The office had four bank accounts, three in local currency and one in US dollars. The audit reviewed their management and made the following observations.

Bank optimization: In order to provide UNICEF worldwide with an optimal cash flow, balances in local bank accounts should not exceed the equivalent of one to two weeks' disbursements (one week in larger offices with large weekly disbursements). Offices should upload monthly cashflow forecasts to the Bank Optimization site run by the Division of Financial and Administrative Management (DFAM).

Analysis of actual expenditures against the amounts held in the office's bank accounts showed

that in the first three months of 2014, the balance of funds exceeded the established limit of two weeks' disbursement. The audit also noted that the office did not provide any bank optimization information through the Bank Optimization site.

Bank reconciliations: The office's bank reconciliation process is managed by UNICEF's Southern Cone Processing Centre in Argentina. The audit reviewed a sample of bank reconciliations from the period under audit, and found that there had been delays of up to eight days in completing the sampled bank reconciliation statements, electronic approval and uploading of the attachments. Audit noted also that the documentation attached to the bank reconciliation module related to one month did not match the bank account to be reconciled, preventing verification of the monthly reconciliation.

Agreed action 15 (medium priority): The office agrees to strengthen its bank account management by:

- i. Establishing a monitoring and follow-up mechanism for the process of bank optimization.
- ii. Strengthening the mechanisms for timely completion of the bank reconciliation process.
- iii. Periodically reviewing availability of relevant supporting documentation in the bank reconciliations module of VISION.

Staff responsible for taking action: Operations Assistant, PFP Officer, SCPC Operations Manager and the CMT

Date by which action will be taken: December 2014

Operations support: Conclusion

Based on the audit work performed, OIA concluded at the end of the audit 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, and questionnaires. The audit compared the documented controls, governance and risk management practices provided by 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. The Representative and their staff then work with the audit team on action plans to address the observations. These action 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 audit recommendations

- 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 audit recommendations 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 audit recommendations. 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.