Internal Audit of the Malawi Country Office

October 2014

Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Malawi country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 16 June to 11 July 2014. The audit covered the period from January 2013 to July 2014.

The 2012-2016 country programme has four main programme components: *Survival*, *Development*, *Protection* and *Participation*. The total approved budget for the country programme is US$ 262 million, of which US$ 47 million is regular resources (RR) and US$ 215 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 the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling.

The country office is located in the capital, Lilongwe; there are no zone offices. As of June 2014, the country office had a total of 114 approved posts, of which 32 were international professionals, 38 were national officers and 44 were general service staff. The total budgets were US$ 51 million in 2013 and US$ 82 million in 2014. Total expenditure was US$ 51 million in 2013 and US$ 22.3 million as of June 2014.

Action agreed following the audit

In discussion with the audit team, the country office has agreed to take a number of measures. Two are being implemented by the country office as high priority – that is, to address issues that require immediate management attention. These are as follows.

- The office agrees to strengthen grant management. In particular, it will ensure that: 1) funds are not borrowed from other grants, in accordance with UNICEF procedures and to seek approval and document any exception; 2) grant-extension requests are submitted to the donors well in advance before expiry dates, and the approval of extension of grants is properly documented and kept on file; 3) commitments are raised on time before expiry of grants, and expenditures are recorded timely against open commitments before financial closure of expired grants; 4) timely completion of activities under the Keeping Girls in School (KGIS) grant; and 5) incorrectly coded transactions in the Child Friendly Schools (CFS) grant are reversed.
- The office agrees to strengthen cash transfer management. In particular, it will: 1) review processes to ensure timely, accurate and well justified liquidation of cash transfers to prevent significant delays and irregularities; 2) establish monitoring mechanisms to ensure timely disbursements of cash transfers to partners; 3) follow up with relevant partner Ministries the status of cash transfers and seek refunds as appropriate; and 4) provide guidance and support to the Ministries on accounting for use of cash transfers, and conduct spot checks to detect irregularities and ensure proper verification and approval by designated officers at the Ministries.

The audit also agreed the following high-priority action with the Division of Financial and Administrative Management (DFAM):

- DFAM agrees to: 1) revise its procedures to define the quality assurance process to ensure accuracy and completeness of financial information disclosed in certified financial reports submitted to donors; 2) review UNICEF donor reporting guidance, and ensure that the basis for the preparation of financial information (i.e. modified, accrual or budgetary basis) to be disclosed in donor reports is adequate and clearly explained; and 3) prepare a revised expenditure report that fully accounts for the use of funds for the Child-Friendly Schools grant and issue a final certified financial report on the use of funds to the donor.

Conclusion

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

The Malawi country office, DFAM and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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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 includes the following:

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The country office had established supervisory structures and governance advisory committees with adequate terms of reference (ToRs) and appropriate memberships. The office had also established effective mediation, conflict resolution and staff support mechanisms through the Staff Association and the Joint Consultative Committee (JCC).

The office had conducted compulsory ethics training for staff in 2013 and 2014. The office had also implemented a practice of new staff members taking an oath of office in the presence of all staff during all-staff monthly meetings. The Regional Office, in its feedback on the review of 2013 learning and training plan/reports, had commended the Malawi country office's worthwhile initiative on induction and orientation of new staff members through the engagement of human-resources staff and supervisors.

The office conducted an extensive Risk Control Self-Assessment (RCSA)[1] during the period from September 2013 to February 2014 that identified key risks and recommendations for addressing the risks. The RCSA led to the development of Standard Operating Procedures (SOPs) for all major processes, such as procurement of programme supplies and contracts for services, and the streamlining of VISION-related processes.

However, the audit also noted the following.

Delegation of authorities

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012.

Access to VISION is given through the provisioning of a user identification (ID) that has "roles" assigned to it. Heads of Offices, and their delegates, approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls and its supplements*. Each office is also required to maintain a manual Table of Authority (ToA); the Head of the Office should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments.

The audit reviewed the VISION role mapping, ToA, and delegation of financial signing authority. The representative had delegated authorities to staff through the ToA. Staff had been formally notified of the roles/authorities they had been assigned, and had acknowledged their awareness of the responsibilities and accountabilities associated with them. The office updated the ToA quarterly to reflect changes in the staffing. However, the audit also noted the following.

Segregation of duties: In order to prevent error and fraud, roles are segregated so that no one individual can have complete control of any transaction. However, some roles were not adequately segregated. For example, the HIV/AIDs specialist, HIV/AIDs officer and partnership officer had all been assigned both programme L1 and programme L2 roles. These roles should be separated to reduce the risk of approving inappropriate transactions. Likewise, the finance officer had the roles of both paying and approving officers, in addition to her role as the verifier of liquidation of direct cash transfers that she would also have originally paid. The office had noted that the HIV/AIDs specialist roles were assigned to the staff in the capacity of officer-in-charge.

In addition to the above, the senior finance assistant who was in charge of bank reconciliation was also assigned the roles of general ledger L1 and general ledger L2, which would effectively have allowed her to adjust any reconciling differences without anyone's knowledge. Also, the chief of operations had the roles of authorizing, approving and paying officers which would permit her to authorize expenditures, post invoices and effect payments. The office stated that these conflicts had not been noted partly because the system controls (consistency checks, plus use of Approva, UNICEF's software for identifying such conflicts) could not detect them. However, inadequate segregation of these roles increased the risk of inappropriate

[1] Offices carry out an RCSA as part of UNICEF's Enterprise Risk Management (ERM) policy. It 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.

transactions.

Consistency between ToA and VISION: There were several inconsistencies between the responsibilities delegated in the latest ToA updated in March 2014 and the roles assigned in VISION. For instance, the roles of certifying officer and programme L2 were delegated to senior budget assistant and chief of operations respectively in the ToA, but were not registered in VISION. There were some other inconsistencies. These increased the risk of inadequate authorization or approval of transactions. The office stated that they had arisen due to new changes of assignment of roles since the last quarterly update, and would be addressed in the next update, in June 2014.

The office later confirmed that, during the update of the ToA on 30 June 2014, it had addressed the inconsistencies and the conflicts in the segregation of duties by removing the conflicts by revoking some roles, and documenting actions taken to mitigate the risk from other conflicting roles where necessary. (However, the audit notes that segregation-of-duties conflicts should be addressed as soon as they arise or are detected, rather than waiting for a scheduled update of the ToA.)

Agreed action 1 (medium priority): The office agrees to establish a system to ensure that significant inconsistencies between the Table of Authority and the registration of functional roles in VISION are identified promptly and resolved immediately. It also agrees to address any segregation-of-duties conflicts as soon as they arise or are detected.

Staff responsible for taking action: Chief of Operations/Programme Specialist (Internal Control)
Date by which action will be taken: Immediate

Staff welfare and ethics

The audit assessed whether the country office had mechanisms to enhance understanding between management and staff, and whether sufficient action had been taken to ensure that ethical standards were systematically promoted, including awareness of UNICEF's ethical policies, and procedures for reporting and investigating violations of those policies by staff, consultants and implementing partners. The audit noted the following.

Staff Association: The Malawi country office had an established Staff Association with membership representing all staff categories. The Association had a constitution with a clearly defined objective. A Joint Consultative Committee (JCC) had been established to serve as a two-way channel between staff members and management. The office also had three trained peer support volunteers.

However, even though the term of the current executive committee of the Staff Association ended in May 2013, there had not been an election. The audit also noted that some managers had opted out from the Staff Association membership and participation, and staff were not willing to be nominated for membership in the Staff Association executive committee. The office explained that issues pertaining to Staff Association were linked to a series of events involving all UN agencies in Malawi and that as of July 2014, other UN agencies in Malawi lacked an active Staff Association for the same reasons. Key events regarding the Association and relationships with management included disagreements regarding national staff salaries that led to an all-UN local-staff strike in 2013.

The management and the Staff Association had agreed to conduct a staff morale survey in August 2014 so as to establish the underlying causes of staff's unwillingness to participate in the Association and find concrete ways to address them. However, the survey had not been carried out as of July 2014. The audit was also informed that the Representative had proposed a 10-point staff welfare action plan since his arrival in 2012. This plan had not been fully implemented, and needed to be updated after the staff morale survey.

The office has since informed OIAI that on 21 August 2014 it launched a survey to identify underlying causes for staff members' unwillingness to serve on the Staff Association executive committee, and other concerns that could affect staff-management relationships. The office also stated that results of the survey would be used to inform the staff welfare improvement plan, and that Staff Association elections would be held after the results of the survey had been analyzed and reviewed by all staff.

Staff ethics: Discussion with Staff Association, peer support volunteers and selected staff members established that no major complaints had been raised through these channels relating to abuse of authority, harassment or unethical behaviour in the last two years. With support from the Ethics Office, the office had provided training on ethics and fraud awareness to staff in 2013 and 2014.

Promoting ethics with third parties: The office had included some sessions on ethics during a suppliers' and service providers' workshop in 2012. However, when establishing new partnerships or contractual arrangements, the office had not systematically verified whether the partners and contractors had adopted anti-fraud and whistleblower protection policies. Also, it had not taken steps to share UNICEF's anti-fraud and ethics-related policies with partners. More sessions on ethics in training activities with partners and sharing of key policy documents on ethics would help raise awareness of UNICEF's anti-fraud and whistleblower protection policies and of procedures for reporting fraud allegations.

Agreed action 2 (medium priority): The country office agrees to ensure that the results of the staff morale survey are reviewed and corrective measures are identified and followed up for implementation so as to ensure effective functioning of the Staff Association and Joint Consultative Committee.

Staff responsible for taking action: Staff Association chairperson and Representative
Date by which action will be taken: Fourth quarter 2014

Agreed action 3 (medium priority): The office agrees to include sessions for raising awareness on ethics in future training of partners; and, during processing of new partnerships, verify partners' adoption of anti-fraud and whistleblower policies, and as appropriate share copies of UNICEF's anti-fraud policy and whistleblower protection policies with partners, consultants and contractors.

Staff responsible for taking action: Deputy Representative and Section Chiefs
Date by which action will be taken: 30 September 2014 and ongoing

Governance area: Conclusion

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

2 Programme management

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

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

All the areas above were covered in this audit.

The audit found that controls were functioning well in some areas. For instance, the country office had a resource-mobilization strategy with action plan and assigned staff responsibilities. Although still in the third year of the five-year country programme, the office had been successful in identifying 75 percent of the OR required.

However, the audit also noted the following.

Results-based programme planning

Country offices are expected to, in collaboration with partners, apply results-based management (RBM) principles in establishing and implementing country programmes.[2] This requires, among other things, planning for results, at outcome and output levels, that are specific, measurable, achievable, realistic and time-bound.

The programme results incorporated into annual or rolling workplans[3] are expected to be in

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[2] The *Results-Based Management Handbook* of the UN Development Group defines RBM as follows: "A management strategy by which all actors, contributing directly or indirectly to achieving a set of results, ensure that their processes, products and services contribute to the achievement of desired results (outputs, outcomes and higher level goals or impact). The actors in turn use information and evidence on actual results to inform decision making on the design, resourcing and delivery of programmes and activities as well as for accountability and reporting."

[3] Rolling workplans, unlike annual workplans, cover a period of two years – but are designed to be updated and modified for the second year if necessary.

alignment with the United Nations Development Assistance Framework (UNDAF)[4] and national priorities. In addition, the offices and partners are required to develop performance indicators, including baselines and targets to be used to monitor annual progress. The audit review of programme planning noted the following.

Programme structure*:* The country programme structure was aligned with the UNDAF Action Plan at the outcome and output levels. However, with a total number of 15 active PCRs (now known as outcomes) and 57 IRs (now outputs),[5] the structure presented a risk of spreading available resources too thinly. This was reflected in the funding gaps noted across programmes and outputs. Although the country programme was well-funded overall (over 75 percent in the third of the five-year programme cycle), 33 of the 77 outputs had over 60 percent funding gaps, with 25 of those 33 having funding gaps of over 70 percent. The office stated that the PCRs/outcomes and IRs/outputs would be reviewed as part of the Mid-Term Review of the country programme in 2014.

Performance indicators and baselines: Some indicators were formulated as statements of results rather than indicators. For example, "*80 percent of Hard to Reach Areas in UN supported 17 districts with functional Village Clinics*"; "*ODF*[6] *Free Malawi and Drinking Water Quality Monitoring strategies implemented in 15 WASH*[7] *districts*"; "*National budget allocation for the NSSP*[8] *from domestic revenue increased by 400 percent*". In addition, some baseline data was not available; where it was, the office did not consistently provide its specific source and date. These weaknesses limited the office's capacity to measure progress on achievement of results.

Activities in the workplan*:* The audit noted activities with a significant budget (estimated at over US$ 10 million) that had not been included in the rolling workplans for three years, i.e. 2012-2013 and 2013-2014. (See also p17 below, under *Grants management*.) The activities were related to a project called "Keeping Girls in Schools" (KGIS) that was constructing water supply points and sanitation facilities in community-based day secondary schools. The office stated that this was an oversight and that the activity had now been included in the rolling workplans for the period 2014-2015, signed in July 2014.

Budgeting of results and activities*:* The budget estimates for programme results and activities in the rolling workplans were often not supported with evidence-based unit costs. While some sections did have unit costs that had supposedly been used, the audit could not establish the accuracy of the figures. In some cases, although the number of units varied significantly from one year to the other, the estimated budgets remained the same. For example, the same amount (US$ 10 million) was provided for constructing classrooms, teachers' houses and sanitation facilities in the two rolling workplans 2012-2013 and 2013-2014, even though the units varied significantly between them (300 versus 206 classrooms). In interviews with

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[4] The United Nations Development Assistance Framework (UNDAF), which is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

[5] 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.

[6] ODF: Open Defecation Free.

[7] WASH: Water, Sanitation and Hygiene.

[8] NSSP: National Social Support Programme, a Government of Malawi poverty reduction initiative.

programme sections, the audit found that budgets were based on the previous year's rolling workplans and that unit costs were not consistently used to forecast budget requirements. Inadequate budgeting and use of evidence-based unit costs reduced the office's capacity to ensure efficient allocation and use of financial resources.

The office stated that it was aware of the weaknesses relating to programme planning, and that it had started addressing them through the Mid-Term Review that was expected to be finalized in October 2014.

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

i. As part of the Mid-Term Review, determine the optimal number of planned outcomes and outputs, to ensure that distribution of available resources is optimal for achievement of results.
ii. Establish rigorous quality-assurance mechanisms for rolling workplans to ensure that performance indicators and baselines are correctly formulated and documented.
iii. Ensure that key activities are clearly stated in the workplans.
iv. Ensure that the budget allocated to each planned intermediate result and activity is well supported with sufficient and accurate information on unit costs.

Staff responsible for taking action: Deputy Representative and Chief Planning Monitoring and Evaluation.
Date by which action will be taken: 30 November 2014

Partnerships with NGOs

The office collaborated with 34 Non-Governmental Organizations (NGOs) during the period from January 2013 to June 2014, issuing 37 Project Cooperation Agreements (PCAs) and four Small-Scale Funding Agreements (SSFA) for the total amount of about US$ 28 million.

The audit reviewed the PCA processes, including the review of proposed PCAs by the PCA review committee (PCARC) and their approval by the Representative. The audit review also assessed the quality of joint work planning, linkage of activities with the overall rolling workplans, the UNDAF and national priorities, and reporting on results by NGOs in line with UNICEF's guidelines. The audit noted the following.

***PCA process*:** The minutes of the PCARC had not been approved by the Representative in any of the six cases reviewed. It was therefore not clear whether the Representative's signature of the PCAs was based on concurrence with the recommendations of the PCARC. There was also no evidence that the Representative had notified the Regional Director of financial commitments that exceeded US$ 1 million (there were four such PCAs) as required in the guidelines for collaborating with NGOs. Neither was there a record in any of the six cases reviewed of compliance with UN resolution 1267.[9]

Further, in three of the six cases reviewed, the office had not included, in the submissions to the PCARC, assessments of the NGOs' capacity to implement UNICEF-assisted projects – although this was required in the checklist that the office itself had drawn up. The office stated

[9] This requires verification that neither the organization nor any of its members have been mentioned on the consolidated list of individuals and entities belonging to, or associated with, terrorist organizations.

that following a risk assessment done from September 2013 to February 2014, it had established a revised Standard Operating Procedure (SOP) for PCAs and started having the minutes of the PCARC meetings approved/signed by the Representative in 2014. Examples of minutes signed by the Representative were verified by the audit after the onsite audit review. Further, the office stated that it had systematically assessed partner capacities, and that the missing assessment for the three of the six cases reviewed was a filing issue.

***Joint work planning*:** In four of the six cases reviewed, the workplans contained in the PCA programme documents were not prepared in accordance with the standard format given in the 2009 document *UNICEF programme cooperation agreements and small scale funding agreements with civil society organizations*. They also did not clearly indicate responsibilities for UNICEF and partners as required. In two of the six PCAs, the activities in the joint workplans were not budgeted.

Definition of results: In two of the six cases reviewed, the results were not sufficiently specific and measurable. The results framework section of the programme document described the planned activities but not the results expected from them. Weak statement of results limited the capacity of the office and partners to measure and report on the results to be achieved under the cooperative agreements. The office stated that it was aware of these weaknesses and had started to take steps to improve the quality of results contained in the PCAs through a PCA review that was conducted in April 2014.

Reporting: In some cases the progress reports were not presented in the format agreed during the development and signing of the PCA, and therefore missed (for example) description of purpose, its linkage to the UNDAF action plan and national priorities, and resources and future workplans. Also, the programmatic reports focused mainly on completed activities without reporting on progress towards results as compared with planned targets.

The office informed the audit that it was aware of the gaps in the management of PCAs and had started to take some action to address them. For example, the office had reviewed the PCA process and produced in February 2014 an improved PCA ToR, standard operating procedure and tracking tools to make the process risk-informed and more efficient and effective.

Agreed action 5 (medium priority): The office agrees to review its Project Cooperation Agreement (PCA) process, assign oversight responsibilities, and also to take the following steps:

i. Inform the Regional Director before entering into financial commitments above US$ 1 million under a PCA in accordance with the guidelines for collaborating with NGOs.
ii. Maintain on file complete documentation for the assessment of partners' capacity to implement UNICEF programmes.
iii. Assess the capacity and integrity of partners, including verification for non-association with terrorist organizations as required.
iv. Ensure that the PCA programme documents contain specific outputs linked to the intermediate results in the rolling workplans, and include properly-stated indicators.
v. Identify UNICEF and partner's roles clearly in the joint workplans for the PCAs, ensuring also that the workplans include specific and measurable results and are prepared in the format recommended in the guidelines for partnership with NGOs.
vi. Ensure that partners prepare and submit reports according to the standard reporting format and contents, including description of purpose, linkage to the UN

Development Framework action plan, and linkages to national priorities, resources and future workplans.

Staff responsible for taking action: Deputy Representative/PCA Secretariat
Date by which action will be taken: September 2014

Harmonized Approach to Cash Transfers

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

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

HACT is also required for UNDP and UNFPA, and the agencies are meant to work together to implement it, for example in the micro-assessment of partners that are common to more than one agency. However, in cases where UNICEF is unable to work effectively with other members of the UN country team (UNCT) on HACT implementation, the office is expected to make additional effort to improve the management of HACT, with assistance from the Regional Office and the Division of Financial and Administrative Management (DFAM).

The office worked with 123 implementing partners. During the period from January 2013 to June 2014, it disbursed a total of US$ 16 million as cash transfers to 80 partners. Of these, 37 partners in 2013 and six partners in 2014 received cash transfers from UNICEF in excess of US$ 100,000. During the current country programme cycle (2012-2016), 11 partners had so far received cash transfers with amounts exceeding US$ 500,000 each. The audit noted the following.

Macro-assessment: The UN agencies in Malawi conducted a macro-assessment of the public financial management system in 2011. Key risks identified included the capacity of the National Audit Office (NAO) to undertake risk-based audits due to insufficient well-trained auditors and financial resources. The macro-assessment report contained recommendations to address identified weaknesses. However, these had not been followed up either by the office or the UN.

Micro-assessment*:* During 2013, the office conducted micro-assessments of 49 implementing partners, bringing the total number that had been assessed to 105 out of a total of 124. At the time of the audit in July 2014, the office had completed the review of all 124 UNICEF partners that received, or expected to receive, US$ 100,000 or more during the year. Out of a total of 49 micro-assessments carried out in 2013, 16 partners were rated as low risk, 25 were rated as moderate risk, and five were rated as significant risk (three reports had yet to be issued). However, the recommendations made in the micro-assessment reports were not being systematically followed up.

Assurance activities: A total of 19 partners (30 percent) were spot-checked out of a planned 64 in 2013. In 2014, five, or 12 percent, of 43 planned spot checks had been conducted as of 30 June. According to the office, the low implementation rate of the assurance plan was due to expiry of long-term agreements with audit firms, renewal of which demanded protracted negotiations on revised rates. Seventeen partners underwent HACT audits for 2011 accounts while 16 were audited for 2012 accounts.

The office stated that partners had been asked to prepare action plans for implementing recommendations made in the micro-assessments and scheduled audits. However, it had no record of action plans received from partners, and no system for ensuring systematic follow-up of recommendations from the scheduled audits.

The assurance activities plan did not provide specific timeframe and staff responsibilities for spot-checks and audits, and did not take into account the risk ratings of partners to determine the frequency for spot-checks. Also, 28 of the 37 partners that received over US$ 100,000 in 2013 had not been spot checked. Some partners (including six NGOs) that received or expected to receive direct cash transfers (DCTs) totalling over US$ 500,000 during the period 2012-2016 had not been audited or scheduled for audit as of June 2014.

Further, there was no specific plan for programmatic assurance activities linked to the rolling workplans. Existence of a programmatic assurance-activities plan would help the office to obtain assurance not only on the use of funds (verified through financial spot checks) but also on the achievement of programme results. (See also observation *Programme monitoring*, p12 above.)

Training on HACT: In 2013, 11 UNICEF staff members, and a total of 171 members of staff from 74 implementing partners, were trained on HACT. The office stated that it had also conducted training for all staff in 2012. However, the partners visited by the audit, including Ministry of Health, Ministry of Education and two NGOs, said they had new staff managing cash transfers who had not received training on HACT. The partners also expressed a need for written guidance for management of cash transfers. The country office explained that, following the RCSA completed in February 2014, it decided to organize bi-annual HACT sessions to ensure staff and implementing partners were well trained and understood their roles in implementing HACT.

Agreed action 6 (medium priority): The office agrees to take the following steps, working through the HACT working group of the UN Country Team[10] where possible:

i. Ensure that the recommendations of the macro-assessment are followed up for implementation in line with the HACT framework as revised in 2014.
ii. Ensure that the recommendations made as a result of micro-assessments and special audits are systematically followed up.
iii. Ensure that the assurance-activities plan:
    - Includes a clear timeframe and staff responsibilities.
    - Takes into account the risk rating of partners in determining frequency of activities.

[10] The UN Country Team (UNCT) is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its ToR, and division of responsibilities with individual agencies, vary from country to country.

- o Includes programmatic assurance activities in addition to the financial spot checks.

iv. Share written guidelines for management of cash transfers with partners.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Operations and UN HACT Coordinator
Date by which action will be taken: March 2015

Grants management

The audit reviewed the management of grants to establish whether funds received were spent on time; whether financial commitments for services rendered or goods received were paid for (expensed) before the financial closure of the grant; and whether any extension of a grant was requested at least two months before expiry of grants.

As of June 2014, the country office had raised US$ 157 million – or 79 percent of the OR funds required for the 2012-2016 country programme cycle. There were 66 grants that were active, with an unutilized amount of US$ 42 million as of June 2014. The audit noted the following.

Expired grants*:* During the period from January 2013 to June 2014, 13 grants expired with unutilized programmable balances ranging from US$ 20,000 to US$ 500,000 (total US$ 1.7 million). Four of the 13 grants had unutilized balances of over US$ 200,000 each. This amount represents balances on grants that either have not been allocated to specific outputs, or have been allocated but without any commitments being raised in VISION before the expiry of grants, so that they cannot be utilized unless the grants' periods are extended. As of 8 July 2014, the office had 20 grants with unutilized programmable balances ranging from US$ 51,000 to US$ 2.6 million (total US$ 8.1 million) expiring in the period July to December 2014.

Financial commitments for planned donor-funded project activities should be raised against these balances before expiry dates of grants; if for some reason this is not possible, an office should request extension of the grants in accordance with established procedures.

Unexpensed commitments after financial closure*:* Following expiry of grants, the office is required to ensure that all financial commitments for services rendered or goods received are paid for (expensed) before the financial closure of the grant. The office had five expired grants whose financial closure dates had passed but still had unexpensed commitments ranging from US$ 32,000 to US$ 472,000 (total US$ 900,000) as of 8 July 2014.[11] The unexpensed amounts pertained to unliquidated cash transfers (US$ 459,000), supplies in inventory (US$ 321,000) and other commitments (US$ 100,000). In addition, there were 14 expired grants with financial closures within six to 12 months with unexpensed amounts totalling US$ 3.2 million as of 8 July 2014. Significant amounts of open commitments and balances on expired grants need close monitoring to ensure that funds are spent before financial closure of the respective expired grants.

[11] An item of spending is considered expensed when it is confirmed that the item or service has been received and the money paid. An unexpensed commitment can occur when an office commits itself to a purchase and allocates the money, but has not yet certified receipt of the good or service and paid for it. An unexpensed commitment may also arise because a cash transfer has been made or is scheduled to be made, but has not yet been liquidated (e.g. it is confirmed that the purpose for which the cash transfer was made has been fulfilled, and the money spent as agreed).

Extension of grants: The office did not always submit the requests for extension of grants to the donors in good time. The audit reviewed four requests for extension of grants and noted that three were submitted within a month of the expiry of grants, instead of three months in advance as required. This limits an office's ability to commit funds even where the extension is approved, and may lead to loss of funds if it is not.

Weak management of grants could lead to activities not being implemented and funds not being utilized within timeframes agreed with donors. This could also lead to cancellation of activities due to funds on expired grants being returned to the donors. The office stated that the status of grants utilization was monitored monthly through a dashboard developed for the Country Management Team. However, there was a need to ensure that sections actually acted on the information provided in the dashboard in time, to avoid delays in raising and expensing funds commitments.

Primary Health Care grant: The Memorandum of Understanding (MoU) was signed on 25 November 2011 and amended on 28 March 2012 with an expiry date of 30 June 2013. The grant was later extended to 31 December 2013 to allow time for the office to settle open invoices and commitments. The total programmable[12] amount received by the country office was US$ 13.4 million, all of which had been spent as of 31 December 2013.

The audit confirmed that funds received by the office under this grant were used for procurement of essential medicines (such as amoxicillin, paracetamol, doxycycline, metronidazole, etc.), and associated costs such as in-country distribution of the medicines. This was in line with the purpose of the grant agreed in the project proposal and donor agreement.

However, the audit team visited two health facilities in Lilongwe district and noted that the facilities did not have sufficient storage space. Because of this, several boxes with essential medicines were on the floor and were not stored in air-conditioned storage rooms as expected. Poor storage conditions may lead to spoilage of medicines and loss of resources.

According to the MoU for the Primary Health Care project, the grant covers the procurement and distribution of medicines, but not their storage. Further, the UNICEF office did not have responsibility for supporting the government in regard to storage, distribution of kits provided by UNICEF, upgrading of storage facilities and reporting on inventory and distribution. Responsibility for these was currently assigned to a foreign development agency. In view of this, the audit has not made any recommendation or agreed any action with the UNICEF Malawi office regarding the shortcomings in storage. However, the audit team did advise the office to contact the agency in question, so as to address the specific gaps in storage of medicines.

Keeping Girls in School (KGIS) grant: The MoU was signed on 11 March 2013 and amended on 13 December 2013 with an expiry date of 31 August 2015. The total programmable amount received by the country office was US$ 7.2 million, with expenditures so far amounting to US$ 6 million as of August 2014.

The audit confirmed that the funds received by the office under this grant were used for construction of water and sanitation facilities at community-based day secondary schools, and

[12] The programmable amount is the sum available to the country office for programme implementation after indirect support costs have been met.

for project support costs. This was in line with the purpose of the grant as stated in the funding proposal and the MoU.

The audit team visited six locations in Mangochi and Dedza districts where project implementation was ongoing as of June 2014. The audit confirmed existence of the completed and ongoing activities, but noted that the progress of work in three schools in Dedza district was about 10 weeks behind schedule. As of July 2014, when the work was scheduled for completion, only 40 percent of it had been done. The office explained that the contractor had reported difficulties in getting materials and labour, and that heavy rains were among the factors that contributed to delays in project implementation. The contract duration had been extended by 14 more weeks with completion expected in October 2014.

The audit noted that, although the KGIS project started in 2013, the office had not included the KGIS activities and budgets in its rolling workplans (RWPs) for 2012-2013 and 2013-2014. (See also *Activities in the workplan* on p11 above, under *Results-based programme planning*.) The office explained that this omission was an oversight and that it was corrected in the 2014-2015 RWPs signed in July 2014. Such an omission could lead to delays in resource allocation and implementation of activities.

A review of progress reports submitted to the donor indicated low financial utilization rates in the first seven months of the project (April-October 2013), since only US$ 601,000, or 25 percent of funds received in March 2013, had been spent as of November 2013. The office stated that there were delays in the start of the project due to preparatory work such as design, and hiring of contractors and staff that took longer than anticipated.

Child Friendly Schools (CFS) grant: The MoU was signed in September 2011 with an original expiry date of 30 June 2012, and amended in November 2011 (the amendment did not change the amounts involved). The total programmable amount in dollars received by the office under this grant was US$ 3.3 million.

The audit of the financial records maintained in VISION confirmed that out of US$ 3,389,630 received, the country office had spent US$ 3,367,628 (99 percent) as of 31 August 2014. The unspent balance as of 31 August 2014 was US$ 22,000. Of the total amount spent on the grant, US$ 2.9 million (88 percent) was spent on contractual services (construction work); US$ 367,000 (11 percent) on procurement of supplies (school furniture); US$ 28,000 (0.8 percent) on travel; and US$ 3,000 (0.1 percent) on general operating, plus other direct, costs. A further audit of a sample of 45 transactions, amounting to US$ 1,657,900 or 49 percent of the total grant received, showed that transactions pertaining to contractual services, procurement and travel amounting to US$ 1,651,600 (99.6 percent of the sample) were in line with the purpose of the grant stated in the funding proposal and the MoU.

However, the audit also noted the following.

Travel: The audit could not find sufficient evidence to confirm whether 18 travel-related transactions amounting to US$ 6,258 (0.4 percent of the sample) were related to the CFS project. The statement of purpose of trip on travel authorizations and corresponding trip reports did not indicate names of specific CFS project sites visited. Some of the travel authorizations and trip reports indicated names of different projects (such as KGIS), but had been incorrectly charged to the CFS grant. The office explained that this happened for field-monitoring travel that combined monitoring of activities under multiple projects in one trip.

Schools equipment: The audit team visited one of the 14 schools supported by the CFS project through construction of classrooms, teachers' houses and school furniture. It confirmed completion of work and delivery of school furniture. However, the audit noted that about a third of the students' desks that had been delivered to the visited school in 2013 were broken and unusable. The office explained that it was aware of the poor quality of furniture delivered by one of the suppliers and had stopped placing orders with the supplier. The office provided evidence that it carried out a review of all the furniture delivered by this supplier and found the desks to be faulty. It informed the supplier that it would not be paid until the desks were replaced. At the time of the audit, the office was following up with the supplier for replacement of the damaged furniture.

Borrowing of funds from other grants: In order to start the project as planned, the office had borrowed funds amounting to US$ 760,922 from other grants earmarked for similar projects, with the intention of returning the funds to the original grants when the donor's funds were accessible in VISION. The office stated that it did this because, although the donor had transferred the funds to UNICEF in September 2011, it could not access the funds until January 2012 due to the change from the old management system, ProMS, to VISION.

However, the borrowing of funds from the other grants was not in accordance with UNICEF procedures; and this exception was not properly documented and cleared with the respective donor. Further, the audit team noted that although the funds borrowed from other grants were returned through reversal transactions, this was not done until 2013 – although the audit found that transactions against the grant had indeed been made in VISION from January 2012.

Extension of grant: The office had not obtained written authorization from the donor (as expected in the donor agreement) for the extension of the CFS grant from 30 June 2012 to 31 December 2013. Email exchanges between the office and the donor suggested that extension of grants had been discussed in meetings, and there was indeed an understanding that the donor had agreed to extend the grant to 31 December 2013. However, the lack of written authorization led the donor to question some expenditures that had been charged against the grant in 2013 although the project had been expected to end in 2012.

As part of the RCSA completed in February 2014, the office developed Standard Operating Procedures (SOPs) for Grant Management which included steps and responsibilities for requesting and processing grant extensions.

Financial reconciliation: In a letter to the country office dated 19 December 2013, the donor expressed concerns regarding inconsistencies in financial reporting. It also indicated that the office had not provided a reconciliation of different balances disclosed in four donor reports submitted to the donor on 31 March, 2 August, 28 August, and 4 September 2013. The donor also raised the question of an unaccounted balance (the amount was not specified in the letter). The audit established that it was actually an unspent balance of US$ 905,000 reflected in the Funds Utilization Report (FUR) dated 4 September 2013 that was submitted to the donor. The audit found that inconsistencies had arisen from the basis on which expenditure was reported and whether it included funding that was committed but not yet spent. This is explained below.

The country office escalated the issue on financial reporting to DFAM, which in January 2014 conducted a transactional review and confirmed the existence of significant variations in utilization amounts in the Funds Utilization Reports (FURs) submitted for the CFS grant. However, the audit found that the transactional review done by DFAM did not provide an actual reconciliation of expenditures/utilization amounts in the four reports submitted to the donor. This had been a major concern raised by the donor in its letter to the country office. Since early 2014, the donor reports submitted to the donor by the country office provided only total expenditure amounts without budget-line breakdowns.

The audit noted that the Funds Utilization Reports (FURs) that were submitted to the donor were prepared on a budget utilization basis, and thus included funds that were committed but not necessarily spent, as well as those already spent. They therefore included commitments, funds reservations and purchase requisition amounts, and these varied over time depending on actual utilization of commitments, reservations, requisitions and exchange-rate fluctuations. These reports thus gave amounts that were different from the reports issued by DFAM (certified by the Comptroller), which were prepared on a modified cash basis – that is, they did not include commitments but were an indication only of funds that had actually left the account and been physically disbursed or transferred to a payee's (e.g. a supplier's or contractor's) account. As a temporary measure to address the problem, DFAM had instructed the country office to discontinue sharing the FURs with the donor and instead submit the reports issued by DFAM to the donor.

DFAM noted that this problem was an organization-wide issue, and that it was working with the Information Technology Solutions and Services (ITSS) Division to develop a new country office version of the donor report that would be prepared on the same basis as the financial reports certified by the Comptroller. However, as of August 2014 the problem of financial reporting had not been fully resolved. DFAM explained that action taken so far was to make available to country offices a "country office" version of the official donor report. The next step is to implement a completely revamped donor report that will put the certified financial reports from DFAM and the country-office donor reports on the same basis.

Unaccounted/unspent balances: During a meeting with the donor's office in Malawi, the audit team was informed that the only pending issue the donor had with UNICEF in Malawi related to an unaccounted balance of US$ 905,000 pertaining to the CFS grant. The donor stated that although UNICEF had provided explanations relating to challenges with the new accounting system (VISION) and exchange rate fluctuations, there had been no actual reconciliation and accounting for the balance of US$ 905,000. Otherwise, the donor noted that any issues relating to the implementation of the project activities were being discussed and addressed through the quarterly review meetings (suggested by the Malawi country office), which had been instituted to address information sharing gaps which existed before. The country office stated that due to system limitations in reporting, the reconciliation of the amount referred to by the donor could not be done at the country-office level and therefore DFAM's support was required.

Following the onsite audit and in consultation with the donor, the audit team established that the unaccounted balance of US$ 905,000 was actually an unspent balance reflected on the FUR dated 4 September 2013 that had been submitted by the country office to the donor with total expenditure of US$ 2,483,744. DFAM noted that the unspent balance (US$ 905,000) on the 4 September 2013 report was not based on actual expenditures, since the report was prepared on a budget utilization basis that included projections of expenditures in terms of commitments, funds reservations and requisitions, which are (as explained above) subject to changes during the implementation period. The table below compares the utilized amount as per the FUR submitted to the donor and the actual expenditure amount recorded in UNICEF books of accounts as of 4 September 2013.

According to records in VISION, the total actual expenditure as of 4 September 2013 should have been US$ 2,212,451 and the unspent balance should have been US$1,177,178 (and not US$ 905,000). This is because the records in VISION represent actual expenditures, while the report submitted to the donor by the country office was established using budget utilization commitments and requisitions.

Table 1: Comparison of amounts in FUR and actual expenditures as of 4 September 2013

Cost Category	Utilized amount as per FUR as of 4 September 2013 (**budget utilization basis**) (US$)	Actual expenditure in VISION as of 4 Sept 2013 (**modified cash basis**) (US$)	Difference (US$)
Contractual services	2,263,298	2,089,718	173,580
Supplies and commodities	212,432	93,231	119,201
Travel	28,019	26,497	1,522
General operating and other direct costs	(20,005)	3,006	(23,011)
Total utilized/expenditure	**2,483,744**	**2,212,452**	**271,292**
Total grant received	3,389,630	3,389,630	
Unspent balance as at 4 September 2013	**905,886**	**1,177,178**	**271,292**

Table 2 (see following page) shows a breakdown of actual expenditures accounting for the use of unspent balance (US$ 1,177,178) from 5 September 2013 to 3 September 2014. Total actual expenditures posted into UNICEF books of accounts from 5 September 2013 to 3 September 2014 were US$ 1,155,176. The unspent balance was therefore US$ 22,001 as of 3 September 2014.

The audit noted that eight transactions amounting to US$ 84,199, pertaining to Value Added Tax (VAT) clearing, that had been posted during the period May-July 2014 were incorrectly charged to the CFS grant. These entries were erroneously posted against the grant and should be reversed. When these transactions are reversed, the unspent balance will increase to US$ 106,201 and the total expenditure on the CFS grant will be US$ 3,283,430, which is consistent with the final certified statement that was issued by DFAM on 24 January 2014. DFAM explained that the VAT entries were incorrectly charged to the grant in 2014 after the final statement was issued. The VAT clearing entries were "system-generated" and DFAM indicated that it would follow-up with ITSS to fix the configuration in VISION.

Table 2: Summary of actual expenditures accounting the use of unspent balance as of 4 September 2014

Cost Category	**Actual expenditure in VISION as of 3 September 2014 (modified cash basis)**
Contractual services	879,033
Supplies and commodities	274,260
Travel	1,695
General operating and other direct costs	189
Total expenditure posted from 5 September 2013 to 3 September 2014	**1,155,177**
Opening unspent balance 5 Sept 2013	1,177,178
Unspent balance as of 3 September 2014	**22,001**

Certification of financial reports: The audit noted that the certified financial report submitted to the donor by DFAM (i.e. financial information disclosed outside UNICEF) did not contain a footnote explaining the meaning of certification by the Comptroller and the basis for its preparation. Lack of clear definition of what certification meant and the absence of footnotes to explain the basis of the financial report could lead to misinterpretation of the statements by the users. Further, DFAM had in place standard operating procedures for the preparation of the certified financial report. However, these procedures did not describe the quality assurance review process in DFAM to ensure the financial information disclosed in the financial report certified by the Comptroller or donor reports signed by country offices' Representatives was accurate and complete.

DFAM confirmed that the requirement for certification of donor reports is referred to only in the agreements that UNICEF signs with donors. The donor agreements do not define what is meant by certification. Further, DFAM stated that it was in the process of revising the format for certified and uncertified donor statements. When complete, these will be accompanied by detailed guidance notes for country offices, explaining the methodology for the new formats and providing guidance on what financial information can be shared with donors at country-office and HQ level. The basis of preparation will be defined in the new donor statement, which will separately disclose unliquidated direct cash transfers and open transactions (i.e. undelivered purchase orders).

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

i. Ensure that responsible staff in programme sections take action to ensure that commitments are raised on time before expiry of grants, and ensure timely expenditures against open commitments before financial closure of expired grants. The office also agrees to ensure that grant-extension requests are submitted to the donors well in advance before expiry dates, and the approval of extension of grants is properly documented and kept on file.
ii. Prepare a plan of action to ensure timely completion of activities under the Keeping Girls in School (KGIS) grant, and closely monitor both progress, and action to prevent undue delays.
iii. Establish mechanisms to ensure funds are not borrowed from other grants, in accordance with UNICEF procedures. Any exceptions should be properly documented and cleared with the respective donor.
iv. In consultation with the Division of Financial and Administrative Management (DFAM), reverse incorrectly coded transactions in the Child Friendly Schools (CFS)

grant.

Staff responsible for taking action: Deputy Representative, Section Chiefs, Donor Relations Officer and Budget Officer
Date by which action will be taken: November 2014

Agreed action 8 (high priority): The Division of Financial and Administrative Management (DFAM) agrees to:

i. Prepare a revised expenditure report that fully accounts for the use of funds for the Child-Friendly Schools grant and issue a final certified financial report on the use of funds to the donor.
ii. Revise its procedures to define the quality assurance process to ensure accuracy and completeness of financial information disclosed in certified financial reports submitted to donors.
iii. Review UNICEF donor reporting guidance and ensure that the basis for the preparation of financial information (i.e. modified, accrual or budgetary basis) to be disclosed in donor reports is adequate and clearly explained.
iv. In consultation with the Division of Information Technology Solutions and Services (ITSS), develop improved donor reporting tools in VISION to enable country offices to produce donor reports with financial expenditures prepared on the same basis as the certified financial reports. DFAM also agrees to work with ITSS to fix the configuration in VISION to prevent system-generated transactions being posted on grants after expiry dates.

Staff responsible for taking action: Deputy Director, Accounts Section; Accountant, Donor Reporting Unit; Programmer Analyst and ICT Specialist, ITSS
Date by which action will be taken: 31 December 2014

Programme monitoring

The Malawi country office had various programme monitoring mechanisms that included, among others, field-monitoring visits by staff and partners, monthly programme coordination meetings, meetings of the Country Management Team (CMT), and mid-year and annual reviews with implementing partners. However, the audit noted the following.

Field-monitoring visits: The office prepared monthly office-wide travel plans. However, the travel plan did not provide information as to the specific activities to be monitored. The travel plan did not therefore link to specific outputs in the programme workplans. The office stated that it had started requiring that all field-monitoring trips be subject to review and approval by the Deputy Representative, who verified their purpose in advance. However, this was not the same as linking to specific workplan outputs.

The office had a database for trip reports and required staff members to prepare them upon completion of travels. However, a review of a sample of 12 cases noted that only one trip report had been prepared within 15 days of the completion of travel, as per organizational guidelines; the remainder were up to three months after the mission. Another sample, of 16 trip reports, noted that the purpose of the travel did not clearly show linkage with specific results and activities in the workplan. Further, although the trip reports included action points arising from field monitoring visits the reports did not specify clear staff responsibilities and timeline for implementation of the action points.

End-user monitoring: The audit's review of trip reports noted that in some cases the staff members reviewed the status of cash transfers and supplies provided to the partners. However, in six of the 16 reports reviewed, this was not included.

According to office records, a total of 32 vehicles and 103 motorcycles had been procured and handed over to the partners during the period from January 2013 to June 2014 in accordance with the approved rolling workplans. Although the office had signed agreements for transfer of ownership with partners, it had not consistently monitored the continuing existence of the vehicles or their use for the intended purposes. The last visit by supply staff to monitor vehicles given to partners had been in August 2011. It was expected that programme staff on field visit would also review existence and usage of vehicles. However, the 16 sampled 2013/2014 trip reports contained no evidence that this had been done.

Field visit by the audit team: During the field visit, the audit noted some findings that required the office's attention and action, as follows:

- *Construction of teacher-training college (Chiradzulu district):* The contractor cited delays in transfer of funds by UNICEF that had led to two months' delay in procurement of construction materials and indicated that the planned completion of the project within the established timelines may not be possible in case of similar delays in future. The office explained that review, verification and certification of the bills and invoices submitted by the contractor took longer than expected.
- *Goliath primary school (Thyolo district):* The teachers raised concerns about the design of classroom windows (uncovered) that did not take into account the cold weather conditions in the area. The design and materials used for the library windows (10mm bars) was not strong enough to prevent break-ins, which could result in vandalism and in theft of books. The teachers stated that the school had not been consulted with regard to the design used. There had also been delays in provision of school furniture by UNICEF, and students were sitting on the floor and standing in the library. Delays in provision of supplies was due to poor planning for procurement of supplies that was not synchronized with the completion of planned activities.
- *Monkey Bay secondary school (Mangochi district): *The headmaster raised concerns about the privacy of the girls' toilets in view of the fact that the entrances to urinals and the door for the handicapped toilet were exposed, facing the classrooms. The headmaster said that the school was not consulted before the toilets were installed.
- *Construction of three schools in Dedza district:* Construction work at schools in Dedza district had not kept to schedule. According to the firm engaged by UNICEF to provide quality assurance, construction work at some of the sites visited by the audit had not progressed for the last month, and there was no assurance that the contractor would meet the agreed deadline.
- *School furniture at Nyamwiyo primary school, Blantyre district:* Over a third of the desks provided in 2013 were broken, and the school staff said the quality of desks was poor. The office had dropped the supplier and was considering how to replace the desks at the schools that had received poor-quality desks from it.
- *Storage of medicines at health facilities:* Storage and record-keeping of medicines at district and health facilities was weak; there was no air-conditioning, and there was insufficient space, with some cartons of medicines were on the floor. The office stated that the issue of improving storage at both the national and district level was part of the overall country reform of the Central Medical Stores. The office stated that UNICEF is a partner in the Health Donor Group, a network of international donors including donor

countries and United Nations agencies; while it was understood that UNICEF, with support of the donors, would provide essential medicines, other key development partners in the Group (such as the donor and and others) were expected to address the issue of storage.

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

i. Prepare field-monitoring plans with clear linkages to specific results and activities in the rolling workplans.
ii. Ensure that staff members prepare field trip reports within 15 days of completion of field trips, that trip reports indicate a purpose that is linked to specific rolling workplan results and activities, and that the reports contain action points together with the staff responsibilities and timeframes for their implementation.
iii. Ensure that staff consistently include in the field-monitoring visits a review of status and use of cash transfers and supplies, including a review of the existence, condition and use of vehicles that have been handed over to implementing partners.
iv. Review the findings from the field visits by the audit team; identify the causes and take action to address them, including ensuring timely transfers of funds to the contractor; address the issue of design of construction work; and ensure adequate consultations with end-users in planning of future construction activities.

Staff responsible for taking action: Deputy Representative, Chief of Operations, Supply and Logistics Specialist, and ICT Specialist
Date by which action will be taken: First quarter 2015

Programme evaluation

Country offices should implement monitoring and evaluation (M&E) plans that reflect their strategic priorities and cover all key elements of the country programme. Sufficient and timely evaluations help the office to assess effectiveness of interventions, and make the necessary improvements in programme management.

The country office, working with other UN agencies and government partners, had prepared a five-year Integrated Monitoring and Evaluation Plan (IMEP) for 2012-2016. Besides the five-year IMEP, the office had prepared annual IMEPs for 2013 and 2014. The audit noted the following.

Completion rate: Only 14 (or 40 percent) of the 35 M&E activities planned in 2013 had been completed. A further nine were ongoing, 11 were constrained, and one was cancelled. According to the office, the low implementation rate was due to the high workload from programme implementation and a lack of sufficient staff for M&E activities; it stated that this would be reviewed during the mid-term review of the country programme. (However, the audit also noted that IMEP activities were not included in the rolling workplans, which limited the office and partners’ ability to ensure allocation of resources to them.)

Areas not evaluated: The audit also noted that significant programme outcome component areas had not been adequately evaluated. For example, there had not been one evaluation conducted under the education programme during the last or current country programme, despite more than US$ 10 million being spent in that area during the last five years. Also, apart from an impact assessment/evaluation of the integration of water treatment and hand-washing incentives, there had been no evaluation completed under the WASH programme during the period 2008-2014.

Scaling-up: Some activities implemented as pilots were taken to scale without conducting evaluations. For example, the Community Case Management (CCM) initiative, which was implemented in 2007 had been scaled up even though no evaluation had been done (it had been planned for 2014, after the scaling-up).

Management response: The office did not ensure that it responded to the recommendations in those evaluations that had been completed, or that it developed a timely action plan to address them. The management response to one evaluation completed in February 2014 was still in draft as of July 2014.

Agreed action 10 (medium priority): The country office should ensure that activities in the Integrated Monitoring and Evaluation Plan are prioritized for timely implementation and ensure timely evaluation of key programme interventions. The office should also ensure that monitoring and evaluation activities are included in the rolling workplans signed with partners and that management responses to, and action plans for, completed evaluations are prepared in a timely manner.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation and Deputy Representative.
Date by which action will be taken: December 2014

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 the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. These included controls over management of bank accounts and reporting. The bank signatory panels were up-to-date and the office conducted bank reconciliation and cleared reconciling items on time. Also, the vendor master records were well managed and the office processed year-end accounts on time.

However, the audit noted the following.

Cash management

The audit review of controls pertaining to cash management and noted the following.

Cash-flow forecast: The office prepared cash forecasts and uploaded them on the intranet quarterly. The audit reviewed cash forecast versus the actual replenishments during the period from January 2013 to April 2014, and noted that in eight of 16 cases reviewed, the replenishments were less than 50 percent of the forecast amounts. In two cases, the actual replenishments were about twice as much as forecast. Similarly, the actual disbursements were much less than forecast amounts in eight of the 16 cases, ranging from 5 percent to 59 percent.

The variations were partly due to inadequate estimates that did not realistically reflect anticipated disbursements by the different programme sections. This was partly due to sections not regularly revising estimates to take into account actual requests and invoices in the short term, and previous expenditure trends in the long term. Improved cash-flow forecasts would help the office to communicate better estimates of cash needs to Treasury office in New York; this would in turn contribute to more efficient management of UNICEF's global liquidity.

Cash receipts and deposits: The audit reviewed all six cases of receipts of unspent balances from partners. The FACE form[13] or partners' letter, which are required to provide details about the refunds, were not provided as supporting documents for the receipt vouchers. Also, the review of time taken from receipt of cheques and related documents in Finance to the time of deposit took one to two weeks.

Agreed action 11 (medium priority): The office agrees to strengthen its controls to ensure credible cash forecasting, and ensure that cash receipts and deposits are based on sufficient supporting documentation and deposited in a timely manner.

Staff responsible for taking action: Finance Officer
Date by which action will be taken: March 2015 and ongoing

Management of cash transfers

Country offices are expected to have in place a system and controls that ensure the cash transfers required for implementation of programme activities are disbursed, spent and accounted for by partners in a timely manner. The country office disbursed a total of US$ 16 million from January 2013 to June 2014. The audit review noted the following.

Disbursement of direct cash transfers (DCTs): Three of the five partners visited by the audit highlighted cases of delays in receipt of DCTs from UNICEF. The Ministry of Health (MOH) stated that the notifications of cash transfers made by UNICEF were not received on time, with delays up to two weeks from transfer of funds. Conversely, the Ministry of Education, Science and Technology (MOEST) said that there had been cases where the funds took a long time to arrive despite notifications having been received. MOEST also cited cases of DCTs not received over a month after the request. The UNICEF office had no system for monitoring timeliness of disbursement of DCTs from receipt of requests to release of cash transfers to the partners.

Payment of allowances through Cash-In-Transit (CIT): The partners raised concerns that on many workshops and other occasions for which allowances are payable, the paying agents did not arrive at the venue on time. (UNICEF paid a bank to make the cash payments through its agent.) The partners met at the MOH and MOEST cited instances in which the agents arrived after the event had ended, and participants were not paid. The audit review of transactions, and discussion with the finance unit, noted that programme sections submitted requests and documentation to the finance unit too late for it to make payments through the bank before the activity date. The audit also noted that, as of June 2014, the service level agreement for making the payments through this arrangement was still in draft.

***Outstanding cheques pertaining to liquidated DCT*:** During a visit to MOEST, the audit review of the bank reconciliation statement noted eight outstanding cheques amounting to

[13] 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.

Malawian Kwacha (MK) 4,576,110 (approx. US$ 15,000) pertaining to cash transfers from UNICEF, five of which were six to 18 months old and three of which were four to five months old.

As of July 2014, seven of the eight cheques were still in the possession of MOEST and had not been cashed or handed over to the payees. The DCT amount to which the cheques pertained had been fully accounted for by MOEST through FACE form and liquidated in UNICEF accounts. Effectively, although accounted for by MOEST, the funds had not been spent as of July 2014. MOEST stated that the cheques had been issued to a government department that had not collected them because it was no longer accepting cheques. However, MOEST had not voided the cheques and had not informed UNICEF of the issue until the time of the audit.

DCT balances at the Ministry of Health: The audit review at the MOH noted a difference of MK 169 million (about US$ 400,000) between the balance of unaccounted (not yet liquidated) DCT per UNICEF records and those of the Ministry. Three days after the visit, the Ministry provided a letter to UNICEF explaining that the difference represented disbursements made to the districts, that most of the districts had not spent the funds, and that they were planning to refund the money to UNICEF. The audit could not confirm this information, as the Ministry's letter did not provide sufficient details to reconcile the differences in the records.

Liquidation of DCTs: The total cash transfers to partners that had not been accounted for by the partners as of 1 July 2014 was US$ 5.3 million. Of the total unliquidated amount, US$ 3 million (57 percent) had been outstanding for over six months and US$ 1 million (19 percent) for over nine months. MOEST and another partner, DAPP,[14] said that the liquidation of DCTs for which supporting documents had been provided to UNICEF took up to three months, and this prevented further release of funds in the meantime.

Liquidation documents: The audit reviewed a sample of liquidations of cash transfers and noted that the office's review of them had been weak. There were significant over-expenditures on budget line items, ranging from 48 percent to 168 percent, that were not adequately justified by partners. Some of the partners visited noted that they had been given a flexibility of 20 percent over-expenditures, beyond which a written authorization from UNICEF was required. In another case, the documentation for a partial liquidation amounting to MK 3.6 million (US$ 9,190), but incorrectly giving the total of MK 39,833,700 (US$ 99,585), was used to liquidate the full amount; this left the equivalent of US$ 90,394 unaccounted for in the liquidation documents submitted.

Weak review of liquidation documents was also noted within the partners. During the visit to MOH and MOEST, the audit noted that they had no system for verification and approval of liquidations of disbursements made to staff responsible for implementing activities within the ministries. While such disbursements were approved by responsible officers, the accounting for the use of funds that was later used to prepare the FACE form for UNICEF was not verified and approved by the approving officers within the ministries.

Further, a review of three transactions sampled at MOEST noted that the invoices and supporting documents for payments made from the cash transfers received from UNICEF were not stamped PAID. The audit noted that the office did not conduct financial spot checks of the MOH and MOEST in 2013. The spot checks were planned to be conducted in 2014 (see observation *Harmonized Approach to Cash Transfers*, p13 above).

[14] DAPP is an NGO, Development Aid from People to People.

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

i. Establish monitoring mechanisms to ensure timely disbursement of cash transfers to partners.
ii. Finalize the agreement with the bank and review the Cash-in-Transit process, and set a minimum lead time for programme sections to submit approved payment requests so that payments are made to the bank in advance of the planned activities.
iii. Follow up with the Ministry of Education, Science and Technology (MOEST) regarding the outstanding cheques pertaining to UNICEF-provided direct cash transfers, establish the status of funds and seek refunds as appropriate.
iv. Follow up with the Ministry of Health (MOH) to establish the status of the outstanding balances and secure refund of unspent funds as appropriate.
v. Review the liquidation process to identify bottlenecks and ensure timely liquidation of cash transfers.
vi. Review and strengthen the verification process to ensure that arithmetic accuracy of documents submitted for liquidation is properly verified and that any significant deviations (beyond 20 percent) from authorized budget-line allocations is documented and approved by UNICEF in advance.
vii. Provide guidance and support to the MOH and MOEST on accounting for use of cash transfers, and conduct spot checks to ensure that that accounting is verified and approved by designated officers at the ministries.
viii. Ask partners to ensure that invoices and supporting documents for payments made are stamped "PAID".

Staff responsible for taking action: Deputy Representative, Chief of Health, Chief of Education, Finance Officer
Date by which action will be taken: January 2015

Supply procurement and logistics

A country office is expected to ensure timely availability of supplies for programme activities, as per workplans agreed with partners. The audit review noted the following.

Planning for procurement of supplies: The total procurement of supplies in 2013 (actual and commitments) was US$ 20.3 million, or 149 percent of the planned amount (US$ 13.6 million). As of June 2014, total procurement for 2014 was US$ 2.3 million, or 20 percent of planned procurement (US$ 11.2 million). In addition, commitments so far amounting to US$ 7.9 million had been raised for procurement of essential medicines under the Primary Health Care project.

The audit review also noted significant variations between the supply plans signed with partners and the office's consolidated plan. For example, the supply plan for WASH signed with partners in 2014 had total procurement of US$ 16 million, while that reflected in the consolidated plan was only US$ 700,000. The office stated that this was because the supply plan for WASH included procurement for services.

The audit noted that the supply unit did not review the supply plans prepared by the sections before they were signed with partners. Further, the supply plans were not updated to show progress and track quantities purchased against those planned.

Timeliness of procurement and delivery of supplies: Although supply plans were prepared during the first quarters in 2013 and 2014, the supplies were not requisitioned on time. As of December 2013, for example, only 38 percent of planned supply procurement for the Education section had been requisitioned. Low requisition rates (actual *vs*. planned) were noted in HIV/AIDS (47 percent); Health (54 percent); and WASH (55 percent) as of the same date. The office explained that this was partly due to delays in receipt of expected funding. However, the schedule for procurement was not aligned with the timeframe for implementation of activities.

Further, delays in delivery from suppliers were noticed in 11 out of 15 sample cases reviewed by the audit. The delays ranged from two to six months. There was also a delay of three to four months from the receipt of supplies to handover to implementing partners in six of 15 cases reviewed. There were also often unrealistic target arrival dates on the purchase orders, particularly for local procurement. The office did not systematically evaluate and document the performance of the suppliers.

Distribution plans: None of the 15 transactions reviewed had a distribution plan along with sales order. The distribution plans were only shared after items were received. This made it difficult to establish whether the items ordered were delivered to the intended consignees.

In-country logistics: UNICEF had been supporting the government of Malawi with in-country logistics for supplies relating to HIV/AIDS under the Global Fund-supported project, and for essential medicines under the Primary Health Care (PHC) essential medicines project. This was because of weak government logistical capacity. UNICEF's support included distribution of HIV/AIDS medicines from the Central Medical Store to the districts, and procurement and distribution of essential medicines to health facilities.

Total costs for in-country logistics from January 2013 to June 2014 amounted to US$ 1.6 million. Although the office had repeatedly informed the Ministry of Health that it wished to hand over the responsibility for in-country logistics, the actual hand-over had not been done as of June 2014, and no hand-over strategy had been agreed. The office explained that for the HIV/AIDS-related supplies, the Global Fund Country Coordinating Mechanism (CCM) had asked UNICEF to manage distribution until the Ministry of Health was ready to take responsibility. UNICEF had agreed to continue distribution until the end of September 2014. Meanwhile, UNICEF's draft exit strategy from in-country logistics will be finalized and signed off on, and implementation will continue.

Supporting documentation and record keeping: The office did not maintain a record of partners' staff authorized to receive and acknowledge receipt of supplies. Also, the goods receipt notes (GRNs) did not bear the seal of the partners in five of the 15 reviewed. The GRNs indicated only the name of the transport driver's name and/or the receiving person's name.

In 13 of the 15 cases, no copies of purchase orders and inspection reports were attached with payment documents. This limited the ability of certifying officers to perform the three-way match when initiating payments (parking invoices) in VISION. In some cases, the pre-delivery inspection reports were not on file. Further, the supply files were not kept complete and up to-date in the right sequence; they were also missing information such as copies of invoices, delivery notes and evidence for handover of supplies to partners.

The office said it had put in pace the processes for conducting pre-delivery inspections for supplies towards the end of 2013. It also stated that with respect to the goods receipt notes, the deliveries were made directly to the end-users and not to the partners, and that it would continue to encourage suppliers and transporters to put full names, designations and official stamps on delivery notes and waybills.

Agreed action 13 (medium priority): The office agrees to take the following steps:

i. Undertake realistic planning and revision of supply plans during the year to ensure that procurement is done as planned.
ii. Implement the supply plan as a priority, and raise requisitions for supplies in VISION in a timely manner.
iii. Raise sales orders with realistic target arrival dates, and purchase orders with feasible delivery dates.
iv. Finalize and implement an exit strategy from provision of in-country logistics, taking into account existing assessments of the partners' capacity done by development partners and the evaluation of the Primary Health Care project.
v. Establish mechanisms to ensure full names, designations and official stamps of beneficiaries are obtained on delivery notes and waybills.
vi. Maintain complete documentation in supply files, including copies of purchase orders, invoices, inspection reports, and delivery notes, particularly handover to partners.

Staff responsible for taking action: Chief of HIV/AIDS, Supply & Logistics Specialist, Supply Officer
Date by which action will be taken: First quarter 2015

Contracts for services

Country offices are expected to put in place controls to provide reasonable assurance on the management of contracts for services. The office had issued a total of 305 contracts (92 to consultants and 213 to contractors) with total cost US$ 15.8 million during the period from January 2013 to 30 June 2014. The audit review noted the following.

Signature of contracts*:* The office did not consistently ensure that contracts were signed before their start date. In the audit review of a sample of 19 contracts (nine consultants and 10 contractors), 10 contracts (one consultant and nine contractors) were signed after the start date, with delays ranging from one to 140 days. Not signing contracts before start of contracts exposed the office to risks of disputes on the terms of the contracts, and to insurance liabilities in case of accidents involving the consultants or contractors. The office stated that the contracts automatically picked the start dates from the requisitions and that no consultant started the work before the actual contract was signed.

Coding of contracts for services*:* Incorrect coding was noted in four of the 19 contracts that were reviewed. Incorrect coding may lead to incorrect classification and analysis of expenditures and incorrect financial reporting.

Reference checks: In seven out of nine cases pertaining to consultants, there were no reference checks on file.

Supporting documentation: In all cases reviewed, while deliverables were mentioned as part of the contracts, the payments made could not be easily linked to them, because the deliverables as stated in the contracts were not clearly linked to payment schedules. This risked payment without assurance of having received good value for money. Also, in six out of seven cases, the copies of contracts were not attached to the payment vouchers.

Selection process: The audit review noted that the documentation for the selection process of consultants was signed by the section chief alone. Involving more than one person in the selection of consultants may bring in objectivity to the process.

Deviations: The audit review noted that in 13 of the 19 cases reviewed, the amounts on invoices could not be matched to payment amounts on the contracts' payment schedules. This was because the office did not record explanations for any deviation or mismatch in amounts between contracts payment schedules and invoices. Doing so would assist certification of payments.

The weaknesses noted on contracts for services were partly due to inadequate oversight on the management and processing of contracts. The office had taken some steps to address the weaknesses, including establishing a work process for contracts that had been updated in January 2014.

Agreed action 14 (medium priority): The office agrees to improve oversight over the management of contracts for services by ensuring that:

i. Contracts for services are signed before their start date.
ii. Contracts for services are correctly coded in VISION.
iii. Reference checks are obtained and kept on file for consultants.
iv. Contracts include payment schedules that are matched with deliverables and that payments for contracts are supported with copies of relevant pages of signed contracts.
v. More than one person is involved in the selection of consultants, to demonstrate objectivity in the selection process.
vi. Deviations from deliverables or payment schedules on contracts for services are justified, documented and approved before payments are made.

Staff responsible for taking action: Supply and Logistics Specialist, Chief of Operations, Human Resources Specialist
Date by which action will be taken: First quarter 2015 and ongoing

Human resources management

Country offices are expected to ensure that staff have adequate capacity, knowledge and skills required to support the implementation of the country programme and achievement of planned results. UNICEF executive directive CF/EXD/2009-008 (updated by CF/EXD/2013-004) sets out the provisions for the selection of staff members aiming at placing the right person in the right job in the quickest possible time.

The office had a work process for recruitment and had set a standard duration for completing the recruitment processes, i.e. three months for both national and international staff. Selection panel members were duly appointed and a central review body (CRB) was put in place. It completed the recruitment of 25 positions (11 international posts, eight national professional and six general service posts) between 2013 and 2014.

The audit reviewed a sample of eight of the 25 recruitment processes for national and international posts and noted that due process was generally followed. However, there were some shortcomings, due to a combination of weak oversight, poor planning and nonavailability of selection panel and CRB members.

For example, in four out of the eight samples reviewed, the office did not consistently adhere to the evaluation criteria indicated in the vacancy announcements when evaluating the candidates. About 25 to 67 percent of the competencies used in the selection for the four cases had not been included in their respective advertisements. In those four cases, the candidates were assessed using competencies (for instance drive for results and formulating strategies and concepts) that were not included in the vacancy announcements.

It also took the office an average of two and half months after the closing date to conduct interviews. In general, the recruitment process was protracted. In five of eight cases reviewed, it exceeded the office's own standard of three months, taking three and half to six months.

Finally, the office was not verifying the academic qualifications of the selected candidates. The office had indicated that there was no clear guidance from the Division of Human Resources (DHR) on how such verification could be carried out. No recommendation is made on such guidance in this report, as OIAI has already raised this issue and made recommendations to DHR in previous audit reports.

Agreed action 15 (medium priority): The office agrees to ensure it adheres to the criteria set out in the vacancy announcement when evaluating candidates, and review its recruitment process and identify bottlenecks to ensure timely selection of candidates.

Staff responsible for taking action: Human Resources Specialist and Chief of Operations
Date by which action will be taken: 31 August 2014 and ongoing

Inventory management

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

The office maintained programme supplies in third party-managed warehouses in Blantyre and Lilongwe. It had completed a physical inventory count of the supplies in December 2013. As of the audit (June 2014), the total value of programme supplies in the warehouses was US$ 1.4 million.

The audit visited the main warehouse in Lilongwe, which had about US$ 1.1 million-worth of supplies (79 percent by value of the total). The warehouse was being managed by a third party. The following was noted.

Warehouse facilities: The warehouse management company did not have inventory management software for managing UNICEF supplies. It used a spreadsheet to record and update movement of supplies in to and out of the warehouse. The company explained that the software for managing inventory had been purchased but had not been installed at the time of the audit. Use of the correct software would have reduced the chance of human error and improved the quality of reporting.

There was no closed-circuit television (CCTV) surveillance of the storage area. Neither were there sensor or panic alarm systems to alert security at the main gate should there be burglary or unauthorized entry during the night or off-hours. This would reduce the potential risk of pilferage and loss of supplies.

Storage conditions: The lighting in some parts of the warehouse was poor. The warehouse was not equipped with a thermometer for measuring and tracking the warehouse temperature – although some of the supplies stored therein were health and nutrition supplies, including pharmaceutical drugs with a total value of about US $379,000. The drugs included Amoxicillin (30,000 packs), Erythromycin (77,000 packs) and Oxytocin (12,000 packs). The manufacturers of these drugs had prescribed certain temperature limits within which the drugs must be stored in order to remain potent. Without a thermometer and temperature log chart, it was difficult to determine whether the nutrition and health supplies had been stored within the required temperature range.

Recording of supplies: Supplies totalling US$ 262,000 (about 18 percent of the total supplies) were recorded in VISION as direct delivery (DDEL). DDEL refers to supplies that are meant to be delivered directly to the implementing partners and would not normally be stored in the warehouse. More than half of these supplies with the intent code DDEL had been sitting in the warehouse for over six months.

Aging of supplies: About 18 percent of the supplies had been stored in the warehouse for over a year, and another 18 percent for between six months and a year. The office stated that these items were procured with the intent of prepositioning for emergencies; however, this was not reflected in the inventory records.

Goods-in-Transit: The audit reviewed the general ledger account that is used to record the value of programme supplies controlled by UNICEF while in transit from a supplier or freight forwarder, until they are either delivered to a UNICEF field warehouse (in which case they remain under the control of UNICEF) or are handed over to a partner (as substantiated by a receipt-of-goods document).

At the time of audit, the account had a balance of US$ 2.1 million with 244 line items of goods-in-transit. Pending delivery to a UNICEF warehouse or receipt by the partners, these 244 items would not be cleared, the account balance would not be reduced and they would not be recorded as inventory or expenditures. About 54 percent (US $ 1.1 million) of the outstanding items were procured with DDEL intent, which by implication would be delivered to the implementing partners directly without passing through the warehouse. Twenty-four percent of this DDEL (US $275,000) had been in transit for upward of six months and one of the items, valued at US $19,152, for more than a year. Further, some of the items in goods-in-transit were due to deliveries made to partners that had not acknowledged them with goods receipt notes.

Agreed action 16 (medium priority): The office agrees to establish oversight mechanisms for inventory management, and to:

i. Coordinate with the third party responsible for management of the warehouse and establish an inventory management system for tracking and recording UNICEF supplies, and install closed-circuit television (CCTV) surveillance tools and a panic alarm system in the warehouse.
ii. Advise the third party responsible for management of the warehouse to install a thermometer gauge where nutrition and health supplies, including pharmaceutical drugs, are stored.

iii. Store supplies according to the conditions specified by the manufacturer.
iv. Review the original intent of supplies in the warehouse and reflect the actual intentions in VISION.
v. Review the supplies at the warehouse, draw up a distribution plan, and deliver the supplies in accordance with the workplans on the basis of which they were procured in the first place.
vi. Institute a process, and assign responsibilities, for oversight, timely analysis and clearance of open items in the goods-in-transit account.
vii. Ensure that partners properly and promptly acknowledge receipt of supplies.

Staff responsible for taking action: Supply and Logistics Specialist and Supply Assistant
Date by which action will be taken: First quarter 2015

Information and communications technology (ICT)

The office had a procedure for providing users with access to core UNICEF ICT resources, such as the network, email, Intranet and VISION transaction management system components. It had correctly assigned the human resources unit to initiate the provisioning of access to ICT resources, since that unit maintained the employment records of staff members and consultants.

However, the audit noted that seven users' access dates did not match those of their contract expiry dates. Two users had access to the ICT resources beyond their contract expiry dates (by six years in one case). On the other hand, five users had their access rights set to expire before their contracts. Also, consultants had been given access to the office's ICT resources (such as the office area network, laptops, and internet) without their signing a non-disclosure agreement as required by UNICEF policy.

The office had an elaborate Business Continuity Plan (BCP), including a disaster recovery process, and this was updated periodically. The latest update had been in April 2014. However, the office had last conducted a comprehensive simulation of this process in January 2013 and had used the Representative's residence as the only site for such testing. Given the turnover of staff members and frequent updates of UNICEF ICT resources, it is imperative that the office conduct more regular comprehensive simulation of its BCP in multiple locations.

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

i. Review users' access to ICT resources, together with their respective contract expiry dates, and ensure that they are matched in VISION and in the system for provisioning and de-provisioning of access to ICT resources.
ii. Conduct more regular comprehensive simulation of the Business Continuity Plan in multiple locations.
iii. Implement a process for granting access to the ICT systems and applications to consultants in accordance with the ICT policy. Any exceptions should be documented and approved in line with the policy.

Staff responsible for taking action: ICT Specialist
Date by which action will be taken: March 2015

Operations support: Conclusion

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

Annex A: Methodology, and definitions of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control 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 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 of 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.