

Internal Audit of the Mexico Country Office

December 2014

Office of Internal Audit
and Investigations (OIAI)
Report 2014/38



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Mexico Country Office. The audit team visited the Mexico Country Office from 27 July to 4 August 2014. The audit sought to assess the office's governance, programme management and operations support, and covered the period January 2013 to June 2014.

The current 2014-2018 has five components: *Policy analysis and knowledge generation; System-building for child rights and protection; Early childhood and primary-school age child development with equity; Adolescent development and participation; and Social and resource mobilization for the rights of children and adolescents.* There is also a cross-sectoral component. The programme has an approved budget ceiling of US\$ 39.8 million comprised of US\$ 3.8 million regular resources (RR) and US\$ 36 million of 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, 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.

The country office is located in the capital, Mexico City, with no zone offices. At the time of the audit the office had a total of 42 posts.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address the issues raised in this report. None of these are being implemented by the country office as high priority – that is to say, concerning issues that require immediate management attention.

Conclusion

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

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

Contents

Summary	2
Objectives	4
Audit Observations	4
Governance	4
Recruitment	5
Governance: Conclusion	6
Programme management	6
Country programme sub-national strategy	7
Data and information availability	8
Measurement of results	9
Harmonized Approach to Cash Transfers	10
Programme management: Conclusion	12
Operations support	13
Direct cash transfers	13
Contract management	14
Operations support: Conclusion	15
Annex A: Methodology, and definition of priorities and conclusions	16

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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

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

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had developed a country programme management plan (CPMP) for 2014-2018 that outlined management strategies, priorities and indicators. The office had also outlined a programmatic vision, programme priorities, management results, indicators and targets. The office also had annual management plans (AMPs) for 2013-2014. There were office priorities, with indicators and milestones as a monitoring framework.

The office had a country management team (CMT); this is a body that advises the head of an office on issues pertaining to the management of the country programme and strategic programme and operations matters. The office had established a generally effective structure of oversight and advisory bodies such as an audit and oversight committee and a security management team. These had defined membership and ToRs, and functioned well.

The office had a total of 42 approved staff posts, including eight international professional posts (of which two were vacant); 12 national officer posts (two vacant); and 22 general service staff posts (four vacant). Mexico is classified as an upper middle income country, with a per capita GNI of US\$ 9,330.

The office had commissioned an external consultant to undertake a team-building exercise, aimed at contributing to the self-awareness of staff members in the office in the areas of self-management, productivity, working relationships, leadership styles, and career development. An action plan was outlined as a result of this exercise, and was being implemented at the time of audit. The office ensured that staff were aware of the ethics policy through an awareness raising session conducted in December 2013 by the Ethics Office.

The country office's controls related to performance management were adequate; performance assessments for 2013 (mid-year and annual) were conducted and documented, and key outputs for heads of sections were well aligned with programme outputs.

However, the audit review noted the following.

Recruitment

In 2013 and in 2014 up to July, the office had recruited 17 staff. Four were international professionals, five were national professionals and eight were general service staff, of which three were temporary appointments.

There were delays in six out of the 17 recruitment processes; these ranged from six to 25 months. The cause of the delays included late announcements for the vacant posts; in two cases, the office took three months to advertise them. There were also internal delays in the selection process after the candidates were short-listed. For example, for six posts, the office's internal selection process took between two to nine months (an average of 3.8 months) to select the candidates. (The delays cited in this observation exclude those incurred by re-advertising the vacancies due to a lack of adequate candidates).

The audit review noted that, while the office had set out the workflow for recruitment for 2013-2014, the timelines for each step had not been defined. Also, the office had stated in the 2014 AMP that it would draw up a human-resources plan to ensure timely recruitment processing, but this had not been completed. From August 2014, the office had instituted a process to monitor timely recruitment, but it was too soon to assess its effectiveness.

Agreed action 1 (medium priority): The office agrees to complete its human-resources plan and ensure it includes a mechanism to monitor timely recruitment.

Staff responsible for taking action: Human Resources Assistant

Date by which action will be taken: December 2014

Governance area: Conclusion

Based on the audit work performed, OIAI concluded 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.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The 2014-2018 country programme action plan (CPAP)¹ was aligned to the 2014-2019 UNDAF² and to national development priorities. The UNDAF was signed between the government and 24 UN agencies in Mexico. UNICEF had also signed agreements with the ministries of Finance, Education, Social Development, Health and Home Affairs, and with the Social Welfare Agency, which inaugurated collaboration for child rights promotion and protection with the newly elected Federal authorities.

The country office had initiated demonstration initiatives in six states to test the success of models in child protection systems, educational inclusion and child rights planning and budgeting. The lessons learned from these initiatives had been distilled in 13 publications of good practices, to be shared with other states.

Overall programme coordination sought to engage in constructive dialogue with national authorities, and the office had identified key advocacy themes, with related activities to support their achievement. The office had also supported the production of nine publications

¹ The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

² The United Nations Development Assistance Framework (UNDAF) 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.

in 2013. These were widely disseminated and used in evidence-based advocacy.

The audit noted that the country office had endeavoured to underpin all its supported monitoring and review activities within an equity focus that emphasized analysis to enable determination of the most marginalized groups, in line with current UNICEF guidance. The country office also based monitoring at outcome level on data and information from national level information systems.

However, the audit noted the following.

Country programme sub-national strategy

The 2014-2018 country programme marked a major shift from a previous geographical focus on seven priority states, to a new form of engagement at subnational level, with the assumption of achieving national reach in all 32 states. One element of the subnational strategy was an advocacy platform – the *10 Points for Children* initiative³ – promoted by the office and the civil society network (REDIM).⁴ Under the initiative, the States establish their commitment to 10 points with concrete actions and indicators that measure the state's progress. Each indicator has its own means of verification, usually official reports and documents (both from national and state official data systems). The draft document is reviewed and commented on by UNICEF and REDIM's technical teams, which make suggestions to ensure quality of the indicators and a rights-based and equity-focused approach.

The audit reviewed the country office's actions pertaining to its sub-national strategy and noted the following.

Governance and monitoring mechanisms: The country office's role included approving each state's readiness to implement the agenda. However, the country office had the responsibility of consolidating the information from the state-established monitoring systems into systematized indicators that would show progress against the 10 Points. The audit noted that there was no mechanisms that would enable a clear segregation of these two roles. The office stated that it had enlisted the support of REDIM to assist with the approval of states, but was still exploring the possibilities of different institutional partners assuming monitoring functions.

Quality-assurance mechanisms: Although indicators had been defined for each action to assist monitoring of progress, the office had not yet established quality-assurance mechanisms to enable the validation, security and accuracy of data and information within the monitoring mechanisms currently being established at state level. The absence of such mechanisms compounded the risks entailed in accurate verification of self-reported progress against established indicators. The office informed the audit that an online monitoring platform was being designed, to which states and municipalities would upload data against agreed indicators. The office indicated that the online monitoring system would ensure that there was a quality-control mechanism for the data and information delivered by participant

³ The 10 Points of the initiative include the creation of an integrated system for the guarantee of children's rights, prevention and punishment of violence against children, reduction in infant mortality and a range of others. Further information may be found at <http://10xinfancia.mx/>.

⁴ The Child Rights Network (*Red por los Derechos de la Infancia en México*, REDIM), a national-level coalition of 73 civil society organizations.

states and municipalities.

Technical capacity: Initial lessons from implementing the strategy showed that there was a high level of demand for the country office's support—which, while positive, posed the risk of outstripping the country office's current capacity to respond. During meetings with state officials in two states, the audit was informed that they still needed a lot of technical support and guidance from UNICEF to implement the required action.

The increasing demand for technical assistance meant the office needed better criteria for prioritization of requests. The office stated that it was putting together packages of technical advice to be offered to states in the areas of: legislation review; support for public policies in nutrition, health, education and protection; capacity building; and in overall agenda setting. In addition, local situation analyses and on-line child rights information modules, constituting technical assistance, reference information and advisory materials, were completed in partnership with local academic and civil society centres of excellence, and were launched in four states.

The country office did acknowledge the issues in this observation. It commented that 2014 was the initial year of implementation of this sub-national strategy, and that it was to be expected that not all required mechanisms would be in place.

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

- i. Undertake a realistic risk assessment of its assumptions related to implementation of its sub-national strategy—specifically, on its technical capacity to support implementation; and ensure that action planned to reinforce its technical support capacity are commensurate with the scope of work the strategy entails.
- ii. Implement mechanisms to segregate its responsibilities related to implementation of the strategy, ensuring avoidance of any conflict of interest that may lead to reputational risk.
- iii. Implement quality-control mechanisms to mitigate risks to the accuracy, validity and security of data and information within the monitoring and evaluations systems being implemented at state level.

Staff responsible for taking action: Deputy Representative and the Monitoring & Evaluation Officer

Date by which action will be taken: March 2015

Data and information availability

UNICEF country programmes should be designed on the basis of the best possible data and information on the situation of children and women in the country. To this end, country offices are advised to do a situation analysis (SitAn) on the situation of children and women at least once during the country programme cycle. If possible, the SitAn should be updated annually, or whenever relevant new data and information becomes available.

The primary programme function of the Mexico country office is to undertake federal (national) level human rights-based knowledge generation, advocacy, and capacity-building. The country programme contains a programme component on policy analysis and knowledge generation.

A consolidated report on progress against results was compiled at the end of the 2008-2013 country programme. This report showed that for 10 out of 28 baselines from 2008, there was either partial or no disaggregated 2012 data by ethnic group and municipalities on key indicators such as maternal mortality, infant mortality, under-five mortality, nutrition and child protection. The office reported that weaknesses in data harmonization and collection from administrative records at sub-national levels had constrained the consolidation of reliable information on child protection at national level. The UNICEF Regional Director, in his comments on the 2013 country office annual report, noted that Mexico still had significant data gaps in some internationally standardized children and adolescent indicators. He encouraged the country office to work with the Regional Office in devising means of assisting the country to close these data gaps.

To address the data gaps, the country office provided support to state institutions on comprehensive analysis of child-related data and indicators, including on investment in children, which have become a mandated inclusion in federal budgets during the previous country programme period. In addition, the country office commissioned SitAns in four states, starting in 2013, to improve the availability of information and data and to undertake more evidence-based advocacy on inequities, especially amongst marginalized communities.

In spite of these activities, there was still an absence of representative information – especially on qualitative indicators (for example, behavioural and attitudinal) – regarding knowledge, attitudes and practices. These are a key feature of the interventions that the country office supports (although some data that exist in national survey frameworks were used as proxy).

Agreed action 3 (medium priority): The office agrees to address current data gaps by ensuring representative information based on appropriate indicators and baselines.

Staff responsible for taking action: Chief of Social Policy and the Monitoring & Evaluation Officer

Date by which action will be taken: March 2015

Measurement of results

Country offices are expected to define baselines and targets for their programmes, and indicators with which to measure progress. Within the 2014-2018 CPAP results framework, baseline information on key performance indicators were outlined for each programme component result, with sources and means of verification.

The audit reviewed the outcomes, indicators and targets for the 2014-2018 country programme. It noted that there was room to improve the definition of targets to enable a more realistic assessment of progress towards achievement of the programme outcomes.

As an example, one of the programme outcomes was defined as follows:

By the end of 2018 positive opportunities for adolescent development and participation are expanded in more inclusive school and community environments, increasing educational

access, inclusion and achievement, and adolescents' resilience and capacity to protect themselves from violence, exploitation and crime, and to prevent early pregnancy.

The target for this outcome was: *Reduce number of out-of-school children by 10 percent; increase national coverage in upper secondary school education to 80 percent.* The indicators were: *Number of out of school children 12 to 17 years old; Enrollment in upper secondary education.* These indicators and targets did not show how the office would determine progress on the outcome related to positive opportunities, achievement, resilience or capacity for adolescents protect themselves from violence, exploitation and crime; or to prevention of early pregnancy. The office informed the audit that it was in the process of developing indicators with the relevant partners.

Also, although the results matrix included some qualitative indicators (on policies, laws, legislation etc.) for its programme outcomes, they were lacking in pertinent areas where the issues related to knowledge, attitudes, and practices (such as inclusive education, or violence). Ways to address the gaps, such as commissioning surveys, were constrained by cost, given the size and complexity of the country and the different types of municipalities. Further, the office pointed out that country offices are not meant to exceed two indicators for each programme outcome and output. It argued that, given the need to align indicators with the mostly quantitative new indicators in UNICEF's Strategic Plan, there had been less scope for inclusion of qualitative indicators as well. However, the office was aware of the issue, and the audit noted its efforts in seeking alternative solutions, such as exploring mechanisms with the national statistical institutions.

Agreed action 4 (medium priority): The office agrees to, with support from the Regional Office, review its results framework and determine the best approach to ensure adequate logic between outputs and outcomes (this may require commissioning an evaluability assessment,⁵ which would recommend necessary adjustments). The office also agrees to, at the same time, ensure that timely adjustment, where necessary, is undertaken to assure measurability of planned annual results.

Staff responsible for taking action: Deputy Representative, Monitoring & Evaluation Officer, and Chief of Programme and Planning

Date by which action will be taken: June 2015

Agreed action 5 (medium priority): The Regional Office agrees to help the country office outline indicators that capture the entirety of the various components being supported and/or adequately reflect all the dimensions of outputs and outcomes.

Staff responsible for taking action: Deputy Representative, Monitoring & Evaluation Officer

Date by which action will be taken: March 2015

⁵ An evaluability assessment establishes the extent to which a programme or initiative could be evaluated; in so doing, it may indicate whether the intervention is specific enough. The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) defines an evaluability assessment as "The extent to which an activity or project can be evaluated in a reliable and credible fashion". Such an assessment, it states, should assess "whether or not the development intervention is adequately defined and its results verifiable, and if evaluation is the best way to answer questions posed by policy makers or stakeholders."

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, 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 public 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.

The audit reviewed the office's implementation of HACT and noted the following.

Macro-assessment: The UN had not commissioned a macro-assessment in the country due to the Government's expressed opinion (in 2009) that this activity was irrelevant, since national-level government entities did not accept transfer of funds from UN agencies. The audit confirmed that the office did not transfer any funds to government entities at the national level.

Micro-assessments: In December 2012 the office had commissioned an audit firm to carry out micro assessments of four partners that received over US\$ 100,000 annually. The office had followed up on the weaknesses noted in the assessments and had concluded that the final risk rating of all assessed partners was low risk. The office informed the audit that it was planning updated micro-assessments for the current country programme cycle.

Assurance mechanisms: Although it had planned individual spot checks, the office did not have a risk-informed assurance plan for 2013-2014. The audit checked the assurance activities for five implementing partners, with total cash transfers per partner during the audit period ranging from approximately US\$ 47,000 to US\$ 189,000 during 2013 and 2014 up to June. During 2013 and up to July 2014, four partners had been subjected to one spot-check each and one partner, which had received approximately US\$ 76,000 during 2013-2014, was not spot-checked at all. The office commented that this was due to other competing priorities during the period.

The spot checks were inconsistent. Some spot-check reports included payment amounts reviewed, weaknesses observed and corresponding implementing partner's responses. Others, however, lacked documentation of any qualitative review, other than the payment amount reviewed. Also, the audit noted that the office had yet to establish a robust mechanism for monitoring follow-up of the weaknesses observed during spot-checks. For example, in one spot-check report the office had identified a discrepancy in a liquidation amount, but had not kept a record of the follow-up details. The office responded that this issue had been discussed with the partner in question, both at the time and later over the phone, and that procedures would be reinforced in future workplans. However, there was no record against which the audit could check whether any remedial actions had been taken.

During a field visit to a state ministry, the audit was informed that direct cash transfers (DCTs) advanced to state government partners were not subjected to annual audits carried out by state institutions, while another state ministry said that all funds, irrespective of source, were subjected to annual audits.

Agreed action 6 (priority medium): The office agrees to implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2014 HACT guidelines and procedures by:

- i. Exploring the possibility of completing a macro-assessment.
- ii. Completing micro-assessment of all eligible implementing partners.
- iii. Developing and implementing an assurance plan that combines programmatic monitoring, spots checks and audits.

Staff responsible for taking action: Deputy Representative, Chief of Operations and the Monitoring & Evaluation Officer

Date by which action will be taken: June 2015

Programme management: Conclusion

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

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 capital equipment. It also includes the identification, security, control, maintenance and disposal of property, plant and equipment (PP&E).
- **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. However, as the office did not procure a high volume of inputs, the review of procurement controls was limited to competitive bidding and the function of the Contract Review Committee (CRC). For similar reasons, the review of asset management controls was limited to recording and disposal. Due to audit resource constraints, the review of Information, communication and technology controls was limited to security of data related to private-sector fundraising (PSFR) activities.

The audit found that controls were functioning well over a number of areas. The country office's financial controls related to bank reconciliations were adequate. The controls related to reconciling entries into the DonorPerfect software on donor revenue were also adequate. The country office's CRC reviewed all procurements above US\$ 20,000 and exceptions were adequately justified. CRC proceedings were generally well-minuted.

As of 22 May 2014, the office's total carrying value of property, plant and equipment (PPE) were US\$ 169,481 corresponding to 431 items. All items had location and inventory number recorded in UNICEF's management system, VISION, and all assets over US\$ 500 had been physically verified in 2013. The office had conducted the yearly physical count at 2013 year-end, documented the reconciliation and reported its assets to the Division of Financial and Administrative Management (DFAM) in a timely manner.

However, the audit also noted the following.

Direct cash transfers

Cash transfers amounted to US\$ 1.5 million in 2013 – the second largest annual expenditure after staff costs. At the time of the audit (July/August 2014), the office had expended US\$ 166,380 in cash transfers. During the audited period, the office had advanced DCTs to 12

implementing partners, both state governments and NGOs. As of May 2014, approximately 4 percent (US\$ 32,000) had been outstanding for over nine months (all with one partner).

The audit reviewed a sample of DCT transactions with five implementing partners, which had received cash transfers ranging from US\$ 47,000 to US\$ 189,000 in 2013 and in 2014 up to June. The audit noted that there were delays in payment of about a month from the date of the payment request by the implementing partners. The office explained that in the two cases, the delays were due to unavailability of funds. It also stated that it was developing a more precise monthly forecast of the PSFR revenue, so that programme sections could better plan the budget. During 2013, in cases of shortage of funds, the section chiefs met the office's private fundraising and partnerships section to decide on prioritization of activities and allocation of available funds.

Agreed action 7 (medium priority): The office has agreed to establish a process to ensure timely release of cash transfers to implementing partners that is linked to the planned activity dates. The process could include enhanced monthly forecasting of private sector fundraising income and systematic planning/prioritization of programme funds allocation.

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

Contract management

Contracts and professional services were the second largest programme input after DCTs. They accounted for about US\$ 1.4 million, or 19 percent, of annual expenditures in 2013, and US\$ 626,000 (24 percent) in 2014 up to May. Contracting activities were mainly focused on support to the fundraising operation. The audit reviewed the management of contracts and noted the following.

Consultant contract management: The audit reviewed the consultants' contracts from 2013 up to time of the audit and noted that of 34 contracts, nine contracts for which the closing dates had expired remained open in VISION. This may prevent reallocation of any unspent funds tied to those contracts. The audit also noted that for 11 contracts that had been closed and paid, there had been no evaluation of the way in which the contract had been executed. The remaining 14 contracts were open and in progress.

Payment clauses: The office' largest fundraising activity was Face-to-Face (F2F), in which individuals are approached in (say) shopping malls and asked to become UNICEF donors. F2F was outsourced to a professional fundraising contractor. This was one of the office's largest contracts, with a value of approximately US\$ 122,000 for 2014.

The contract amount was based on an estimate and not necessarily the actual amount to be paid in practice, as there was mutual understanding between the office and the contractor that actual payment would be based on the amount of revenue generated. However, this arrangement was not included in the agreement with the contractor. Neither had the office included a compensating clause that payment would only be made based on the contractor's performance (e.g. if the contractor failed to raise a satisfactory amount, they would be paid accordingly). There was therefore a risk that the office would not gain from the contract.

The office indicated that the fact that the contracts were not in Spanish could make them hard to understand for local contractors. The office had used standard contracts, but had been

wary of translating them in case of accidental changes to the legal meaning. It stated that it had asked Supply Division to assist in the translation of the contracts.

Agreed action 8 (medium priority): The office has agreed to establish mechanisms to periodically monitor consultant contracts to ensure accurate recording of information, and timely closure to enable release of unused funds.

Staff responsible for taking action: Deputy Representative, Operations Manager, PFP Chief, and Communications Chief

Date by which action will be taken: December 2014

Agreed action 9 (medium priority): The office agrees to ensure, with the assistance of the Regional Office, that appropriate terms and clauses are included in contractual documents. It will also follow up with the Supply Division for the translation of contractual documents into Spanish where deemed relevant.

Staff responsible for taking action: Fundraising Officer and Supply Assistant

Date by which action will be taken: December 2014

Conclusion: Operations support

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 operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

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

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a 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 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.