

Internal Audit of the Nepal Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Nepal country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 7 to 26 April 2014. The audit covered the period from January 2013 to April 2014.

The 2013-2017 country programme has three main programme components: *Policies reformed*; *Social sector systems strengthened*; and *Social norms and behaviour changed*. The total approved budget for the country programme is US\$ 144 million, of which US\$ 34.1 million is regular resources (RR) and US\$ 109.9 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, Kathmandu, and there are three zone offices. As of April 2014, the country office had a total of 164 approved posts, of which 26 were for international professionals, 70 for national officers and 63 for general service staff. As of November 2013, 17 of the 164 established posts were vacant. The total budgets were US\$ 32.9 million in 2013 and US\$ 31.7 million in 2014. Total expenditure was US\$ 30.2 million in 2013 and US\$ 8.1 million in 2014 as of March.

Action agreed following the audit

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

- The findings and action points from field-monitoring visits were not consistently recorded and followed up in a timely manner. In 65 percent of sampled cases, no trip reports had been prepared. Further, none of the 22 reports reviewed indicated the kind of programme input (cash or supply) given to the partners, or evidence of review of status, use and effectiveness of such inputs.
- The office, working with other UN agencies, had conducted macro-assessment of the public financial management system, and carried out micro-assessment of key partners and scheduled audits of selected partners. However, the recommendations made in these assessments and scheduled audits had not been followed up. The office's assurance plan was not risk-based and partners had not received sufficient training.
- There were significant weaknesses in the recording and management of property, plant and equipment. For instance, assets were not recorded at the right purchase value; the Property Survey Board (PSB) recommendations were not always supported; assets were written-off without Comptroller's approval; and some assets were delivered to staff members without proper documentation. Further, the counts of physical assets done in 2013 and 2014 were not properly documented, and some results of the physical counts recorded UNICEF's management system, VISION, were inaccurate.
- Contracts for services were not managed well. Forty-five percent of sampled contracts for services had not been signed before their start date; reference checks were not done in

50 percent of sampled cases; interim evaluations of individual consultants were not done every six months as required; some payments to institutional contractors were not supported with original invoices; and some payments were made without certification or service certificates.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office, in the areas examined, needed improvement to be adequately established and functioning during the period under audit.

The Nepal country office 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 (ToR) 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.

The office had updated its risk assessment and drawn up an action plan with mitigating activities; it monitored the status of these.

The office had conducted compulsory ethics training for staff in August 2013, and all staff, including those at the zone offices, had been briefed on the code of conduct, with special emphasis on integrity and fraud. The office had drafted a letter to remind staff, especially those serving as members on committees in their individual capacity, on their obligations, including the need to safeguard confidentiality.

However, the audit also noted the following.

Staffing structure

Country offices are expected to establish an adequate staffing and management structure for the country programme. The country office had a total of 164 approved posts, of which 25 were international professionals (including three United Nations Volunteers), 74 were national officers and 65 were general service staff. In addition, the office had seven positions under temporary appointments. As of April 2014, 17 of the 164 established posts were vacant. The audit review noted the following.

Alignment of staffing structure with the country programme needs: The country office had not analyzed gaps in staff capacity to ensure that the staffing structure was aligned to the needs of the country programme. The office explained that it was planning to conduct such an analysis in preparation for submissions to the next Programme Budget Review (PBR)¹ in July 2014. The audit also noted that the recruitment of some vacant positions was on hold pending the analysis (but also due to UNICEF's forthcoming Global Shared Services Centre, which may affect posts in some country offices.)

Use of individual consultants: The country office had 48 consultants as of April 2014. At least 10 of these consultants had been working on their current functions for more than a year, and their contracts had been renewed several times. There had been no comprehensive analysis to identify which consultancies were required in alignment with the rolling workplans signed with partners. The office said it was aware of the use of consultants for extended periods and was going to review consultancies and align them to workplans; also that it would consider establishment of staff positions if the need for the functions was expected to be continuous during the country programme.

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

- i. Carry out a comprehensive skills mapping to ensure that the staffing structure is aligned to the country programme strategy.
- ii. Develop a clear plan for consultancies in alignment with the rolling workplans, and, if the functions performed by consultants are continuously needed during the country programme, consider establishing regular staff positions.

Staff responsible for taking action: Representative and Deputy Representative

Date by which action will be taken: July 2014

Delegation of authority

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

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

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 representative had delegated authorities and responsibilities in 2013 and 2014 for the approving, paying, certifying, authorizing, receiving, purchase order (PO) release L2 & L3, and programme L2 roles. The staff members had signed for their acceptance of the delegated authorities (except for the bank signatories). The audit reviewed delegation and segregation of authorities and the roles assignment in VISION, and noted the following.

Roles assignment: The approving role was assigned to a programme specialist (and therefore not an accounts-staff member), who could post financial transactions in VISION. The travel administrator role was assigned to three programme assistants in the zone offices who handled travel issues at zone level, and they could approve and amend travel authorization and could post and amend travel expenses in VISION. (This function is normally restricted to the Chief of Operations or the Admin Officer.) The programme L2 role was assigned to the Finance Officer and Chief of Operations, and non-programme staff could perform programme functions, including authorization of direct cash transfer (DCT) payments and authorization of liquidations. Inappropriate assignment of roles could lead to inappropriate transactions being processed in VISION.

Segregation of duties: Two staff members were assigned both approving and paying roles, and could therefore pay invoices they themselves had posted. In addition to the assignment of approving and paying roles, one of these staff members was also assigned the certifying role, which involves confirming that information on invoices matches with goods receipts and purchase order. This meant that that staff member could perform the certification, posting and paying functions together. The approving and certifying roles were assigned to the Admin Assistant, who could also therefore post invoices certified by himself.

Other segregation-of-duties violations included three cases of assignment of asset accounting L1 and inventory role, three cases of receiving and certifying roles, and three cases of assignment for authorizing and purchase order release L2 roles. Inadequate segregation of duties could lead to inappropriate transactions going undetected.

The audit also noted that the office had not adequately reviewed the ToA. For example, the certifying role in VISION had been assigned to two senior programme assistants and two programme assistants, although this role had not been delegated to them by the Representative.

Signatory Panel: Out of 41 staff members who were signatories to UNICEF bank accounts, only seven staff members had formally acknowledged awareness of accountability and acceptance of delegation. In addition, the bank signatory lists, including those for zone offices, had not been updated; thus a staff member who had retired in September 2013, and two others who had joined UNICEF offices in other countries on 1 February 2014, were still signatories to UNICEF Nepal bank accounts.

Assignment of roles not in line with staff functions, inadequate segregation of duties, and inconsistency between delegated roles and actual assignment in VISION, could weaken the

effectiveness of internal controls and could lead to inappropriate transactions. The office had not adequately mapped the roles to ensure that the roles delegated to staff were in alignment with the guidelines in UNICEF's Financial and Administrative Policy No. 1. The office also lacked mechanisms for periodic review of roles mapped in VISION. During the audit in April 2014, the office informed the audit that it had taken immediate action to address the issues relating to assignment of roles and segregation of duties.

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

- i. Review the roles assigned to staff members in VISION to ensure that roles are assigned appropriately and are in line with the delegation by the Representative.
- ii. Establish a mechanism to regularly review the roles assigned to staff members, to ensure adequate internal control and segregation of duties.
- iii. Establish a mechanism for thorough reconciliation of the delegated roles in the Table of Authority with those assigned in VISION.
- iv. Establish a mechanism to periodically review and update the bank signatory panel list to reflect staff movements.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: June 2014

Statutory committees

The office had established the appropriate governance committees, including the Country Management Team (CMT) and the Joint Consultative Committee (JCC) and Property Survey Board (PSB) in 2013 and 2014. The audit reviewed a selected sample of the minutes of the meetings of the CMT, JCC and PSB, and noted the following.

CMT function: The office had a functioning CMT, which held 10 meetings in 2013 and had held two meetings so far in 2014 (as of April). The CMT had ToRs as well as representations of the programme and operation teams. However, the CMT's minutes did not adequately reflect discussions that it had held, as per the ToR, on funding, programme results and office priorities in 2013 and 2014 (the office showed the audit the presentations used at these discussions).

Also, the minutes did not always demonstrate that decisions were made on the basis of sufficient information. For example, the CMT made a decision to increase the Contracts Review Committee (CRC) ceiling to US\$ 50,000, but there was no record of an assessment of risk, or local capacities, to support the decision. Office priorities were also discussed, according to the office, but these too were not reflected in the minutes of the CMT meetings; the office stated that the review of priorities had been delegated to programme management and operations teams, but there was no record of these teams briefing the CMT on their conclusions. (The audit also noted that the mechanisms and frequency for review of office priorities were not reflected in the Annual Management Plan²).

JCC function: The JCC is a body through which management and the Staff Association can meet. Both were adequately represented on the office's JCC. However, while the ToR for the JCC required quarterly meetings, the JCC met three times in 2013, and once in 2014 as of April.

² An office's Annual Management Plan ensures that that office's human, financial and other resources remain focused on the country programme and its hoped-for outcomes for children and women. To this end, it defines management mechanisms and the related staff accountabilities, so that everyone understands their roles and responsibilities.

The Staff Association kept the JCC informed on staff issues, and the committee resolved most of them. The office informed the audit that the JCC had taken action on a number of staff wellbeing issues such as implementing work-life balance arrangements (flextime), staff development initiatives, and support to national staff when they needed to relocate to new duty stations within Nepal. However, some issues, such as practices relating to terminal expenses, and daily subsistence allowance (DSA) for staff, had been pending for over six months.

PSB function: Some of the PSB recommendations were based on submissions in which itemized information was not complete (see observation *Property, plant and equipment* in the Operations section of this report).

Strengthening of CMT minutes, especially on office priorities and progress of programme implementation, would assist proper execution of recommended actions. Timely and adequate follow-up of staff concerns would increase trust and improve office performance.

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

- i. The minutes of the Country Management Team adequately record discussions and recommended actions on office priorities and progress of programme implementation; agreed actions are specifically assigned to staff members; and assigned actions are followed up for implementation.
- ii. The Joint Consultative Committee meets as per ToR and pending issues are followed up for timely resolution.
- iii. Submissions to the Property Survey Board contain complete information.

Staff responsible for taking action: Representative

Date by which action will be taken: June 2014

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, 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 time bound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation.** This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation.** This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The country office had adequate controls in place to effectively advocate and mobilize action on children issues in Nepal. For instance, it participated in a nationwide sanitation social movement to help people live in Open Defecation Free (ODF) environments as of 2013; and worked with partners to finalize the first ever Multi-Sector Nutrition Plan. It had also adequate mechanisms in place to support partners in implementing innovative interventions such as the national Child-Friendly Local Governance (CFLG) framework that had been approved by the National Cabinet.

However, the audit also noted the following.

Programme funding

Total funding of Other Resources (OR) available to the office was US\$ 13.4 million in 2013 and US\$ 21.7 million in 2014 (as of April), against the board-approved annual ceiling of US\$ 22 million. In 2011 and 2012, actual OR had been US\$ 17.2 million and US\$ 20.3 million respectively (this was in excess of annual ceiling of US\$ 16 million).

However, not all programme components were equally well funded. The office experienced funding gaps for Child Protection, which had an overall funding gap of US\$ 2.7 million in 2013, or 43 percent of its annual budget ceiling. The funding gap in three of the four Intermediate

Results (IRs)³ under Child Protection ranged from 62 percent to 85 percent in 2013. There was a similar situation in 2014, with a total funding gap for Child Protection of US\$ 1.9 million (30 percent). The funding gaps impacted implementation of some of the planned programme activities in child protection. The office was aware of these funding gaps and has undertaken negotiations to raise funds with donors with a possibility of getting funding for child protection in the third quarter of 2014.

The country office had developed a comprehensive resource mobilization⁴ strategy, which was being updated as of April 2014. However, the office had not developed an action plan for implementing the strategy, and had not assigned specific staff responsibilities or developed key performance indicators on resource mobilization.

Agreed action 4 (medium priority): The country office agrees to develop an action plan to ensure that the resource mobilization strategy is implemented in a systematic manner; and establish key performance indicators and specific targets on resource mobilization activities. Priority will be given to raising funds for programmes with significant funding gaps (such as the Child Protection Programme).

Staff responsible for taking action: Representative and Deputy Representative

Date by which action will be taken: December 2014

Programme monitoring

The Nepal country office had various programme monitoring mechanisms. They included, among others: field-monitoring visits by staff and partners; review of programme implementation in CMT meetings (see observation *statutory committees*, p8 above); monthly review of programme performance through programme coordination meetings; and mid-year and annual reviews with implementing partners. The office reviewed programme performance monthly and through the mid-year and annual reviews, as established by the office and agreed with partners. However, the audit noted the following shortcomings.

The office had established a standard for frequency of field monitoring by staff, and prepared a plan for field monitoring. The office required staff members to prepare trip reports upon completion of travel. However, the audit review noted that in 47 of 72 cases tested (or 65 percent), they did not do so. That meant that significant findings and action points arising from field-monitoring visits were not recorded. This would prevent timely follow-up of any recommendations or action points. Where reports were prepared, it was sometimes after a long delay; while four of the nine cases reviewed were on time, the remaining five were completed after delays that ranged from five to nine months after completion of travel.

The office had designed a web-based trip report mechanism which indicated, among other things, follow-up dates, responsible staff member and action points. The audit review noted a clear link between what was monitored and the expected results established in the rolling

³ UNICEF programmes plan for results on two levels. A programme component result (PCR) is a result of the country programme, against which resources will be allocated. An intermediate result (IR) is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

⁴ While the terms “resource mobilization” and “fundraising” are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

workplans. However, none of the 22 reports reviewed indicated the kind of programme input (cash or supply) given to the partners, or contained evidence of review of status, use and effectiveness of such inputs. Total amounts of cash transfers and supplies given to partners in 2013 were US\$ 10.3 million and US\$ 2.4 million respectively. In addition, the operations staff had not been involved with programme staff in the end-user monitoring for DCT and supplies in 2013 and 2014 (as of April). End-user monitoring undertaken jointly by programme and operations staff gives opportunities for synergies between sections.

Sufficient monitoring and oversight by management would significantly increase the office's capacity to ensure adequate and consistent implementation of field monitoring, trip reporting, end-user monitoring and follow up on recommendations arising from monitoring programme activities.

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

- i. Establish rigorous oversight mechanisms to ensure that staff members prepare trip reports upon completion of each trip to document the results of field monitoring, and that significant recommendations from field-monitoring visits are systematically followed up to ensure corrective actions are implemented timely.
- ii. Ensure that staff members consistently include a review of status, use and effectiveness of programme inputs such as cash transfers and programme supplies provided to partners during field visits.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: June 2014

HACT implementation

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 scheduled audits.

HACT is required for other UN agencies (including UNDP and UNFPA⁵), and country offices are expected to coordinate with them to ensure best use of resources.

During 2013, the office collaborated with 298 partners and disbursed a total of US\$ 9.4 million as cash transfers. Of the 298 partners, 14 received amounts equal to or greater than US\$ 100,000; 29 partners received between US\$ 50,000 to US\$ 99,000; and 252 partners received

⁵ UN Development Programme and UN Population Fund.

less than US\$ 50,000. The total amount of cash transfers made to implementing partners from January 2013 to April 2014 was US\$ 27 million. The audit review noted the following.

Macro-assessment: There had been a macro-assessment of public financial management systems in 2012. It highlighted a number of weaknesses, including inadequate capacity of the Supreme Audit Institution (SAI) to conduct audits of government departments and agencies; lack of follow-up on audit recommendations made to government departments; and weak financial management capacity of government partners. The UNCT⁶ had not followed up on the implementation of recommendations from the macro-assessment. However, Nepal's SAI informed the audit team that it would seek support of the UN agencies in capacity building and would, upon request, provide updates on the implementation of the recommendations made in the macro-assessment.

Micro-assessments: The country office, working with other UN agencies through the UNCT, carried out micro-assessments of 37 partners. Out of 37 micro-assessments carried out in 2013, one partner was rated as low risk, 22 were rated as moderate risk, and 14 were rated as significant risk. However, the office had not yet followed up with partners on the implementation of recommendations made in the micro-assessment reports. This was due to insufficient capacity and inadequate prioritization. These had been partly addressed by hiring a Quality Assurance Officer, who had been responsible for coordinating HACT implementation since early 2014.

Assurance activities: The office had a plan for assurance activities, and had undertaken a number of financial spot-checks; it had also carried out field monitoring of implementation of activities in 2013, and in 2014 as of April. (See also the observation *Programme monitoring*, above.) However, the assurance plan was not risk-based, since there was no clear strategy of basing frequency of assurance activities on the risk rating of partners.

A total of 14 partners had received cash transfers from UNICEF exceeding US\$ 500,000 during the last country programme. However, no scheduled audits had been conducted for four of the 14. In addition, the audit recommendations stemming from the scheduled audits had not been followed up for implementation. As of April 2014, the office had a list of partners to be audited, but there were no specific dates for scheduled audits agreed with partners. The scheduled audits of government partners that had been conducted, had been done by the SAI, which was the Office of the Auditor General.

Training on HACT: The office and other UN agencies had conducted training for 58 implementing partners in 2013. However, more was required, according to the four government partners visited by the audit, which had some new staff managing cash transfers. The partners also expressed a need to have written guidance for management of cash transfers.

The office was aware of the need to address gaps relating to HACT implementation and had started taking action. For example, the office had created a National Officer post of Quality Assurance Officer, responsible (among other things) for assisting implementation of HACT and acting as UNICEF focal point for HACT at inter-agency level.

Agreed action 6 (high priority): The country office, working through UNCT where possible,

⁶ UNCT stands for UN Country Team, and 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.

agrees to take the following steps:

- i. Systematically follow up significant recommendations made in the macro-assessment of the public financial management system, and in micro-assessments and special audits of partners; and report progress to the Country Management Team.
- ii. Identify and prioritize specific areas for capacity building of the Supreme Audit Institution and develop an action plan.
- iii. Revise the plan for assurance activities, including financial spot-checks, programmatic monitoring and scheduled audits, to ensure that the plan is risk-based, taking into account the risk rating of partners.
- iv. Conduct training on HACT for partners not yet trained.
- v. Provide written guidelines (in English and local language) for management of cash transfers to the partners.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: July 2014

Partnership with NGOs

Between January 2013 and April 2014, the office issued 31 project cooperation agreements (PCAs) and 24 small-scale funding agreements (SSFAs) for a total estimated budget of US\$ 6.7 million. The office procedure for processing PCAs involved review of proposed partnerships with NGOs by the PCA Review Committee (PCARC). A set of documents, including a note for the record and NGO assessments, were required for submission to the PCARC. The audit reviewed seven PCAs and found the following.

In two cases, the PCAs were signed without NGO assessments. The office stated that the assessment of these partners was planned for 2014. These two submissions to the PCARC also lacked evidence for verification for compliance with UN resolution 1267.⁷

In four cases, the workplan contained in the PCA programme document was not prepared in accordance with the standard format given in the PCA guidelines, and did not clearly indicate responsibilities for UNICEF and partners for all the planned activities, as required for a joint workplan. Lack of identification of clear responsibilities for partners in the joint workplan weakened accountabilities, and the application of the partnership concept; this could lead to weak implementation of planned activities. Improved functioning of the PCARC would strengthen the oversight of partnership with NGOs.

In three cases, the progress reports submitted were not in accordance with the agreed format and contents. In these three cases, the partners reported progress on implementation of activities, but not in the achievement of results against targets and indicators established in the results framework of the PCAs. Inadequate use of standard reporting prevented the office from reporting progress against targets and indicators.

Insufficient oversight and quality assurance of the PCA process by the PCARC and inadequate review of progress reports reduced the office's capacity to ensure effective partnerships with NGOs.

⁷ Resolution 1267 requires a UN agency to verify that neither the organization nor any of its members are mentioned on the consolidated list of individuals and entities belonging to, or associated with, terrorist organizations. For further details see <http://www.un.org/sc/committees/1267/>.

Agreed action 7 (medium priority): The office agrees to review and strengthen its partnership cooperation agreement (PCA) process, and establish oversight mechanisms to ensure that:

- i. Submissions to the PCA Review Committee (PCARC) contain all required supporting documentation – including all NGO assessments, which should be conducted before PCAs are signed.
- ii. Joint workplans for the PCAs clearly identify UNICEF and partner’s responsibilities and accountabilities.
- iii. Partners are trained and guided to prepare and submit reports that meet agreed standards, including provision of updates on indicators and comparative analysis of actual against planned results.
- iv. The PCARC carries out an effective review of PCA submissions.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: July 2014

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the 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 the closure of accounts. For example, the office's 2013 year-end accounts closure reports were properly processed and submitted to the Division of Financial and Administrative Management (DFAM) according to the established timeline. However, the audit noted the following.

Transactions processing

Country offices are expected to establish controls to ensure that payments are correctly made to appropriately selected providers of goods and services, including partners, consultants and suppliers. The audit review of financial controls noted the following.

Vendor master records: A total number of 2,761 vendor records had been created for the Nepal country office as of April 2014. The audit noted that vendor master records were duplicated for 132 vendors, so that 357 records (or 13 percent) were duplicates. Out of these duplicate vendors, nine were blocked for payment, 11 were marked for deletion and five were blocked for payment and marked for deletion. While the audit observed no duplicate payment due to duplicate vendor master records, that risk does arise from such duplicates. There was also the possibility that payments could be made to a partner with direct cash transfers outstanding for more than three months.

Travel: Travel requests were not submitted, as required, at least two weeks before departure date, as noted in four of nine cases reviewed.

Disbursement of cash transfers: DCTs to partners were not disbursed in accordance with the

activity implementation timeframes as stated in either the workplans or in the partners' requests. In five of the 15 cases sampled by the audit, disbursement of funds was delayed; the delays ranged from 68 to 337 days after the activity start date.

The delays were partly caused by late submission of requests for cash transfers by partners. Late finalization of annual workplans in 2013 could also have contributed to late submission of requests by partners. In five of 15 cases reviewed, they had been submitted after the activity start date, ranging from eight to 330 days. Also, although the office's standard time for processing DCT and reimbursement payments was 15 days from receipt of partners' request to transfer of funds, the actual time exceeded this in seven of the 15 cases reviewed, by 23 to 60 days. Late disbursement of funds had led to delays in the implementation of related programme activities. Two of the seven partners interviewed by the audit team expressed concerns regarding delays in payment of DCT and reimbursements.

Liquidation of cash transfers: The total cash transfers not accounted for by partners as of 8 April was US\$ 5.7 million, of which US\$ 727,000 had been outstanding for over six months; of this, US\$ 87,000 had been outstanding for over nine months. Also, in none of the 10 cases reviewed were there activity reports demonstrating the activities implemented as per established procedures. The audit noted five cases where significant amounts of refunds of DCTs were made without record of reasons for the refunds. The refunds, which totaled over US\$ 100,000 in these five cases, ranged from 33 percent to 74 percent of the original amounts paid to partners.

Reprogramming of cash transfers: A review of seven cases noted that unliquidated cash transfers were re-programmed ("resetting the clock") without sufficient justification. In all seven cases reviewed, the funds had been reprogrammed to avoid partners to have DCT outstanding for over six months due to delayed implementation. According to UNICEF's Financial and Administrative Policy No. 5, reprogramming may be considered following the completion or cancellation of activities, but not for delayed implementation.

The processing of transactions would be improved by strengthening oversight to ensure that UNICEF policies and procedures are followed.

Agreed action 8 (medium priority): The country office agrees to establish rigorous oversight mechanisms, and train key responsible programme and operations staff in financial policy and procedures; and take the following steps:

- i. Identify and verify vendors with multiple master records; block master records which are invalid or considered duplicate, and mark them for deletion; and periodically review vendor master records in order to prevent duplications and ensure completeness and accuracy of vendor records.
- ii. Disburse direct cash transfers (DCTs) in accordance with planned implementation schedules of activities; process DCTs and reimbursements within agreed standard time; and ensure that DCTs are released to partners on time.
- iii. Ensure complete receipt of activity reports from partners and timely liquidation of DCTs to minimize significant amounts outstanding over six months.
- iv. Reprogramme cash transfers only on an exceptional basis, supported with adequate justification as per policy and procedures on reprogramming (see Financial and administrative policy 5, supplement 3: *Cash disbursements*).

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: July 2014

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 used both individual consultants and institutional contractors. Between January 2013 and 15 April 2014, it issued a total of 138 contracts (100 to consultants and 38 to contractors), with a total cost of US\$ 4 million.

The office did not always ensure that contracts were signed before their start date. The audit reviewed 20 contracts, and found that nine were signed after the start date, with delays ranging from one to 22 days. In another five cases, the contracts were signed on the day they began. Only six of the 20 cases were signed before the start date.

The audit reviewed 10 cases to see if references for individual consultants had been checked, and found that in five of these cases this had not been done. The audit also checked 10 contracts that were ongoing at the time of the audit, to see if the office had evaluated the performance of individual consultants every six months. In eight of the 10 cases, there were no interim evaluation reports.

In eight of the 10 cases of individual consultants reviewed, there was no evidence on file for medical insurance. The office stated that it was difficult for individuals to obtain insurance coverage, as there were few if any service providers of health or medical assurance in Nepal; and, as an interim measure, the office requested consultants to obtain good health certificates. However, in three of 10 cases reviewed, no health statements were found.

Payments were supported by contracts but not always by invoices. For instance, in three of the 10 institutional contracts checked by the audit, the payments were made without invoices; in a further two, they were made based on copies of invoices. In four cases, the invoices were not certified to the effect that the services had been received in accordance with contractual requirements. There were three cases where payments were supported with contracts not signed by consultants; in five cases the service certificates for payments were missing. Also, in four cases where payments were made by cheque to institutional contractors, the receipts were missing.

The above weaknesses were partly due to inadequate oversight, monitoring and processing of contracts. Insufficient evidence to support payments reduced the office's capacity to obtain assurance that it had received good value for money spent.

The office had started addressing some of the weaknesses noted. For instance, it had revised the work process for contracts for services, and clarified staff roles and requirements at each step in the process.

Agreed action 9 (high priority): The country office agrees to significantly improve oversight and monitoring of contract for services, and implement the revised work process for contracts for services, to ensure that:

- i. Contracts for services are signed before the start date of contracts.
- ii. Reference checks are conducted for individual consultants.
- iii. Interim performance evaluations of individual consultants are conducted upon completion of six months on a contract.

- iv. Health statements are completed and filed as required, and evidence for insurance coverage of consultants is kept on file to the extent possible.
- v. Payments for contracts are adequately supported with original certified invoices, service certificates and signed contracts.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: June 2014

Supply procurement and logistics

Country offices are required to establish effective processes so that the procurement of programme supplies is properly planned, implemented and monitored. The office's total procurement of programme supplies during the period from January 2013 to April 2014 was approximately US\$ 4.2 million.

Warehouse management: The office had four warehouses, three of which were in the zone offices and one in Kathmandu. Total value of stock in all these warehouses was US\$ 361,000 as of April 2014, and most of it was prepositioned emergency supplies. The audit reviewed management of the warehouses in Kathmandu and at the Nepalgunj zone office.

In Kathmandu, a considerable volume of prepositioned items had been in storage in the warehouse for almost three years, and had expired and recently been disposed of. For example, hygiene kits valued US\$ 89,000 were received by the office in 2008 and 2009, expired by the end of 2012, and were disposed of in 2013. The office still had some prepositioned items that had been stored in the warehouse for more than 32 months, and they were due to expire in six to 11 months. This included 73 percent of the 232 cartons of oral rehydration solution that had been received two and a half years earlier. The review also noted that the full stock of some prepositioned items received in 2009, 2010 and 2011 (amounting to US\$ 26,000) was still in the warehouse.

In Nepalgunj, the zone office's warehouse was managed by a staff member who could not fully track the inventory of the zone office in VISION. More than 75 first-aid kits with medical components had expired in 2009 but were still stored in the warehouse. It was also noted that proof of supplies delivery documents were not properly completed and certified by some partners.

Procurement of vehicles for partners: In 2013, the office had procured four vehicles for one of the partners and in 2014, the procurement of another vehicle was in progress. However, the office had not arranged the relevant standard agreements with the partners before handing over the vehicles. There were thus no clearly documented terms and conditions for use of the vehicles, and no monitoring mechanisms had been agreed in writing with the partners.

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

- i. Train staff members responsible for warehouse management and ensure that expiry schedules of the supplies in warehouses are monitored, and that responsible sections are alerted in advance.
- ii. Reduce the volume of prepositioned supplies through establishment of long-term arrangements with local suppliers.

- iii. Always obtain appropriately signed and stamped proof-of-delivery documents from the partners.
- iv. Ensure signature of standard agreements on the use and monitoring of vehicles given to partners and agree on monitoring mechanisms with them.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: June 2014

Property, plant and equipment (PPE)

Country offices are responsible for recording and safeguarding assets. This includes periodically reconciling a physical count of the inventory with the balances in the VISION system. The country office had PPE with a purchase cost amounting to US\$ 1.9 million as at December 31, 2013. The office had tracked PPE in VISION and had conducted physical inventory counts in 2013 and 2014. The audit reviewed controls relating to recording, management, disposal and physical inventory count.

Accuracy in recording: There were inaccuracies in the recording of assets. For example, the original value for 33 asset items purchased in 2013 and 12 asset items purchased in 2014 was recorded as zero. However, their carrying value was recorded at an average of more than US\$ 1,430 each. This must have been based on the original value, but as that had not been entered, it was not possible to know if the carrying value had been correctly calculated.

Thirteen asset items valued at a total of US\$ 23,200 were not tagged, and could not be easily tracked. Locations of asset, including vehicles, motorbikes, laptops, projectors and other information and communication (ICT) equipment, were not clearly indicated, and the office could not track assets by location in VISION. For example, during physical verification of sampled assets the audit noted a photocopier, valued at US\$ 7,000, that was not in VISION.

Physical count: The office had not properly documented the results of the count of physical assets in 2013 and 2014 (the result should have been recorded in writing and signed by the staff concerned). Moreover, some results of the physical counts recorded in VISION were not accurate. For example:

- The asset count record in December 2013 showed three vehicles that had in fact been donated to partners in 2012.
- The physical count record for eight asset items valued at a total of US\$ 17,400 were not entered in VISION during the asset count exercise conducted in December 2013.
- One vehicle was not traced in VISION and the results of a physical asset count did not capture it; however, it was at, and in actual use by, the Nepalgunj zone office.

Nepalgunj zone office: The asset management of the Nepalgunj zone office was weak. Some assets were delivered to staff members without proper documentation. For example, the office could not locate signed asset custody forms for eight 300GB hard disks, one smart-UPS and one 10V solar charger, although all had been distributed to staff members.

Assets disposal: Some of the PSB recommendations were not fully informed and it was noted, in some cases, that itemized information in the PSB submission was not complete. For instance, PSB recommendations on the disposal of four generators and six laptops were not backed up with information on the original value, acquisition year and current status. Lack of such information could cause uninformed decisions and thus financial loss.

Writing off inventory with carrying value more than US\$ 5,000 needs approval of the Comptroller, and this was not always sought. For example, a PSB recommendation to write off expired hygiene kits valued at US\$ 53,214 and expired therapeutic spread sachets valued at US\$ 16,443 was approved by the Representative, and the supplies were disposed of without Comptroller approval.

One vehicle was damaged in an accident in November 2010. The vehicle was submitted to the Property Survey Board (PSB) for disposal, which was then approved by the Representative. The entire process took until August 2013.

Thirteen motorbikes were stored in an open area without security or protection from the elements. The office explained that some of the motorbikes were old and had been recommended for PSB disposal through scrapping, but this had taken long to approve.

The weaknesses noted above could have been partly due to the fact that the office was undertaking a renovation of the office premises, which involved movement and disposal of furniture and equipment. The office decided to delay recording and reconciliation of the assets until the renovation is completed. The office informed the audit that they were aware of the above weaknesses and will address them once the renovation is complete.

Agreed action 11 (high priority): The office agrees to:

- i. Update the asset master record on a timely basis to ensure that it is up to date and reflects correct record of the assets.
- ii. Ensure appropriate storage for assets and submit cases for disposal to the Property Survey Board in reasonable time.
- iii. Conduct the physical inventory count precisely to assure accurate and timely reconciliation of the physically located assets with that in VISION and vice-versa; and record the result of the physical count in writing, signed by the staff concerned.
- iv. Ensure that submissions to the Property Survey Board contain all necessary information; and obtain approval of the Comptroller, when required, prior to disposal.

Staff responsible for taking action: Chief of Operations, Admin Officer and Senior Admin Assistant

Date by which action will be taken: June 2014

Operations support: 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 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.