

Internal Audit of the Pacific Islands Countries Office

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Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Pacific Islands Countries Office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 24 February to 19 March 2014. The audit covered the period from January 2013 to February 2014.

The Pacific Islands Countries programme consists of 14 states: Cook Islands, Fiji, Federated States of Micronesia, Kiribati, Nauru, Niue, Palau, Republic of the Marshall Islands, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

The 2013-2017 country programme has five main programme components: Health and Sanitation, Education, HIV and AIDS, Child Protection, and Policy, Advocacy, Planning and Evaluation. There is also a cross-sectoral component. The total approved budget for the country programme is US\$ 71.8 million, of which US\$ 27.8 million is regular resources (RR) and US\$ 44 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 ceiling.

The Pacific Islands Countries office is located in Suva, the capital of Fiji, and there are three project offices.¹ As of February 2014, the Pacific Islands Countries office had a total of 105 approved posts, of which 30 were for international professionals, 36 for national officers, 34 for general service staff and five for UN volunteers. As of February 2014, 30 of the 105 established posts were vacant. Total expenditure was US\$ 20.6 million in 2013, and US\$ 1 million for 2014 so far, as of February.

Action agreed following the audit

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

- There was a long-term threat to the office's sustainability from the way staff costs were distributed, both among funding sources (they represented most of RR and Institutional Budget funding) and across donors (one donor funded the majority of posts in the Child Protection programme). The country office will review its current staffing structure and profile in light of the prevailing funding situation, and prepare an updated contingency plan for programme budget review.
- The audit noted that a high proportion of RR funding was used for operational costs, leaving little if any for programme implementation. The office, with the input of the Regional Office, will review and revise the office structure in the context the available funding sources for its programme and operating activities. It will analyze the cost

¹ A Project Office is an organizational entity established in the following situations: where UNICEF's assistance is through a multi-country programme managed by an area office or through a joint Country Programme; where specific functions are performed in a location outside the country; or where UNICEF has no official presence in a location but posts are assigned to it for specific purposes.

effectiveness of its project offices and prepare realistic programme and operating cost projections within the approved budgets. It will also advocate, to UN agencies, the application of a consistent formula for the recovery of operating costs for joint offices, and pursue recovery of operating costs due to UNICEF whenever appropriate.

- The office's fundraising relied on a very limited number of donors offering uncertain prospects, and there were programme areas that were not part of the multilateral priorities of the existing major donors. The office will take mitigation measures to address critical issues in this area, including a review of its fundraising strategy to ensure that it includes specific and realistic targets.
- The office had not yet fully implemented the Harmonized Approach to Cash Transfers (HACT). The office will establish a governance framework that clarifies and documents the oversight responsibilities and accountabilities related to HACT, at both country-office and project-office levels. It will also reinforce the capacities of staff and implementing partners in HACT, and ensure that a consolidated HACT assurance activities plan is implemented and monitored.

Conclusion

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

The Pacific Islands Countries 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.

Staffing structure

The office had 105 approved posts (30 international professionals, 36 national officers, 34 general service posts and five United Nations Volunteers). As the 2013-2017 country programme was a continuation of the previous one, there had been no substantial changes to the staffing structure; the majority of the proposed changes concerned reporting lines and re-balancing RR/OR funding.

However, the office did not have the resources for this staffing structure. As a result, 14 positions were vacant for either part of or all 2013, including some key positions such as a chief and seven specialists.

The office had taken some steps to deal with this. It had charged 21 OR-funded posts either

fully or partially to RR, and had obtained clearance from the Programme Budget Review (PBR)² to transfer the funding source of three positions from OR to the institutional budget.³ The office had also asked for the support of the Regional Office in reviewing the staffing structure and reducing the content and scope of some programmes. However, as of February 2014, 21 positions were still vacant because of lack of funding and staff members holding fixed-term contracts had been told there was no guarantee that their contracts would be renewed upon expiry. The audit's own calculations showed that, given the status and prospects of OR funding, several contracts would not be renewed, and by the end of 2014 around 30 percent of the office posts would be vacant.

Funding split for staff costs: Beyond the immediate constraints noted above, there was a long-term threat to the office's sustainability from the way staff costs were distributed. The 2012 PBR noted that the percentage of staff costs in RR (69 percent), OR (47 percent) and institutional budget (89 percent) raised risks to programme balance and sustainability. At the PBR's request, the office prepared a contingency plan, which was expected to be updated as the situation evolves. However, the contingency plan had not been updated.

The distribution of staff costs across donor contributions also presented a risk to the sustainability of the office staffing structure. Out of 14 donor contributions received in 2013, 11 did not allow for cross-sectoral costs, either because the amounts were too small or because the donor had not agreed to such a provision. Salaries funded by OR were therefore levied on the small number of donors that both contributed relatively high amounts and did allow for funding of salaries and operational costs. As an illustration of this situation, in 2013, one donor funded 19 OR posts, including nine out of the 12 positions in the Child Protection programme at the time of the audit. Because of internal reorganization by that donor and changes in its aid policy, there was no guarantee that its financial support would continue at the same pace or in the same areas. To manage this risk, the Child Protection programme had been revised and activities and budgets had been reduced accordingly (see additional information in the observation *Fundraising*, p18 below).

Skills profiles: While some posts were vacant because of lack of funding, two others were being kept vacant because the profiles of the posts were not adequate and did not match the needed skills (the posts were the Health officer and UNV immunization officer in Vanuatu). The 2010 PBR had questioned the relationship between the management structure of the programme and the intended results, and recommended that the office consider scenarios for future staff needs in the preparation of its next country programme strategy. However, the office had not undertaken a formal staff capacity analysis either following the 2010 MTR or during the preparation of the 2013-2017 country programme.

In the absence of a staff capacity analysis and given the affordability issue, there is a risk that the office lacks the staff skills and numbers to implement the approved country programme successfully.

² 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.

³ Simply put, the institutional budget covers those costs that are not provided for in specific programme budgets, but must be met for the organization to function in support of those programmes.

Agreed action 1 (high priority): The country office agrees to review its current staffing structure and profile in the context of the prevailing funding situation and prepare an updated contingency plan for the Programme Budget Review.

Target date for completion: 31 July 2014

Responsible staff members: Representative, Deputy Representative, and the Country Management Team

Office structure and operational costs

Despite the relatively small population of the Pacific Islands countries (two million, of which 900,000 are children), delivering the Pacific Multi-Country Programme to 14 countries poses a unique challenge due to widely scattered geography, considerable cultural diversity, differing levels of vulnerability and of economic and social development, and unreliable and costly transport and communications.

The main office is located in Suva, Fiji, and there are three project offices,⁴ in the countries of Kiribati, Solomon Islands and Vanuatu. In addition, there is one out-posted staff member in Tuvalu supporting education activities, and two in Samoa supporting child protection and immunization.

The audit noted that the total non-staff budget allocation for meeting operational costs was approximately US\$ 623,000 per year (this included RR, OR and the institutional budget). The audit review found that the operational costs in 2013, the first year of implementation of the new country programme, were US\$ 932,000, i.e. 50 percent more than planned. Out of this amount, US\$ 810,000 had been charged to cross-sectoral RR. This represented an increase of 227 percent over what had been planned to be charged to that source (US\$ 248,000); the difference had had to come from other programmes.

In addition, according to the office's estimates, the staff salaries and non-staff costs for 2014 would require US\$ 5.5 million of RR, i.e. 92 percent of the total annual RR allocation. The non-staff costs estimate for 2014 was US\$ 1.5 million, i.e. an increase by 61 percent compared to 2013 actual expenditure. This happened because the office did not undertake a cost-effectiveness analysis of the project offices when preparing for the new country programme; it also underestimated the operational costs and did not establish mechanisms to control them. The consequence was that almost all RR funds were used for staff and non-staff costs, and programme implementation relied solely on OR, creating a high risk of the programme operating outside of the mandate approved by the Executive Board. As an example, US\$ 53,000 were received in 2013 from a donor to implement activities for which the office had not submitted a proposal and which were not part of the programme's priorities.

Joint offices: The question of operational costs was complicated by the fact that the office was involved in joint operational arrangements with other UN agencies. Since 2008, the UN has extended its presence in the Pacific through the setting-up of eight Joint Presence Offices on the basis of reciprocal hosting agreements between the three participating agencies (UNDP, UNFPA and UNICEF). In each of the eight joint offices, one of the three agencies hosts

⁴ A project office is an organizational entity established in the following situations: where UNICEF's assistance is through a multi-country programme managed by an area office or through a joint Country Programme; where specific functions are performed in a location outside the country; or where UNICEF has no official presence in a location but posts are assigned to it for specific purposes.

– and therefore bears the support costs associated with – the joint office, and represents the interests of the other two agencies. Under the current configuration, UNDP manages the Joint Presence Office in Solomon Islands, Palau and Tuvalu; UNICEF leads in Kiribati and Vanuatu; UNFPA hosts the joint presences in the Federated States of Micronesia (FSM) and Marshall Islands (RMI); and UN Women has staff based in Nauru.

According to the reciprocity principle, the office covered all the operational costs of the joint presence offices that it hosted in Kiribati and Vanuatu. However, this principle appeared to be applied inconsistently, as the office was being charged US\$ 83,000 for operational costs in Solomon Islands, where the lead agency is UNDP. Having learned this, the audit later found that there was a separate memorandum of understanding between UNICEF and UNDP that outlined how the operational costs were distributed between the two agencies in Solomon Islands. The audit was informed that UNICEF contributed to the operational costs because of its relatively large size (12 staff members at the time of the audit).

The audit also noted that UNICEF and UNFPA shared the cost of one out-posted staff member in Samoa hosted by WHO. This staff member coordinated the activities of the UNICEF child protection programme in Samoa; however, UNFPA was making more efficient use of the individual, as their office in Samoa support the implementation of UNFPA's activities not only there but also in three other island countries (Niue, Cook Islands and Tokelau Islands).

Meanwhile, some weeks before the audit, the UNICEF Representative had sent a cost estimate for the Joint Presence Offices in Kiribati and Vanuatu to the UN Resident Coordinator, requesting that the costs be shared between participating agencies. However, as of the date of the audit, no formal response had been received.

Agreed action 2 (high priority): The office agrees to, with the input of the Regional Office, review and revise the office structure in the context of the available funding sources for its programme and operating activities. Specifically, the office will:

- i. Analyze the cost-effectiveness of its project offices and prepare realistic programme and operating cost projections within the approved budgets.
- ii. Advocate to the other UN agencies the application of a consistent formula for the recovery of operating costs for joint offices, and pursue recovery of operating costs due to UNICEF whenever appropriate.

Target date for completion: 31 January 2015

Responsible staff members: Chiefs of Operations, Chief of Offices, Country Management Team and Administrative Assistants

Other Resources positions funded by Regular Resources

According to a Deputy Executive Director memo of 29 June 2012, Representatives have the authority to use RR funds to temporarily bridge a gap in funding of OR-funded posts for a maximum period of six months within any given calendar year, provided the temporarily reassigned RR funds are released back into the country programme within the same calendar year.

In 2013, the office had faced a shortage of OR funding and delays in receiving new grants, and had charged a total of US\$ 379,711 of RR to totally or partially cover salaries of OR-funded

positions. However, the office could not refund US\$ 216,506 of this after receiving the awaited OR, because the payments from RR had been processed prior to the issue date of the OR grant (that is, the official confirmation in the system that it would become available).

A further US\$ 154,851 that had been funded by RR for a period of more than six months had not been refunded to RR.

Agreed action 3 (medium priority): The office agrees to reinforce its controls over the use of Regular Resources funds to temporarily bridge the funding gap of Other Resources-funded posts.

Target date for completion: 30 June 2014

Responsible staff members: Chief of Operations and Human Resources Specialist

Supervisory structures

The office committees and teams are governance tools to assist the management in addressing programmatic and/or operational issues to better achieve results.

In 2013 the office had established 20 office committees. Six of these were statutory committees required by UNICEF policy.⁵ There was also a Programme Management Team (PMT); this is not actually required, but is not unusual in country offices, sharing the task of overseeing the programme itself (as distinct from administrative matters).

However, the office had created 13 more committees as additional governance tools, including a Gender Committee and a Caring-for-Us Team. The office planned even a higher number (23) of office committees in 2014. This many number of committees risked increased staff workload – for example, one programme Chief was member of six committees and another of seven (and both were chairing two committees each). Also, one committee (Gender Committee) had terms of reference (ToRs) that stated that “up to 10% of a staff member’s time is to be allocated” to it.

Moreover, while the staff confirmed that the majority of the committees were functioning, the audit could not assess their effectiveness, as minutes were available for only 10 of them. The audit did review the committees’ ToRs and noted that some committees were not fulfilling their functions. For example, the Security and Emergency Committee was to review the Business Continuity Plan (BCP) and its implementation annually, but this had not been done. The Pacific Emergency Response Team (PERT) was meant to contribute to the development and bi-annual updating of UNICEF Pacific’s Emergency Preparedness Plans/Early Warning Early Action (EWEA), but the Disaster Recovery Plan (DRP) – the ICT component of the BCP – also needed finalization and testing. The accountability of committees was also not always clear.

⁵ These six are as follows: a Country Management Team (CMT), which oversees management of the office and programme; a Contract Review Committee (CRC), to review any contracts placed by the office above a certain value; a Property Survey Board (PSB), which considers proposals to write off or dispose of assets; a Human Resources Development Team (HRDT) to assess staff training needs; and the Joint Consultative Committee (JCC), a forum for management to discuss issues with staff representatives.

Agreed action 4 (medium priority): The office agrees to improve the management of office committees by:

- i. Reviewing the existing office committees to eliminate those not critical to achievement of results.
- ii. Completely documenting the terms of reference and memberships of all committees.
- iii. Recording the outcomes of discussions for follow-up and monitoring purposes.

Target date for completion: 31 December 2014

Responsible staff members: Country Management Team, Librarian/Archivist & Committee Chairs

Office priorities

An office's Annual Management Plan (AMP) 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. It defines management mechanisms and related staff accountabilities. It also defines the programme and management priorities for the year.

The guidelines⁶ on preparation of AMPs recommend that there should not be more than 10 key programme priorities and six management priorities, so as to focus on strategic issues. However, the office's 2013 AMP listed – under key priorities – not only six management results but also cost saving measures, six most significant results for operations and project offices, advocacy priorities, strengthening of monitoring and evaluation, staff learning and development, table of authority, approach to workplans and quality assurance over their preparation, optimization of work processes, and travel management.

Besides not being limited to key management and programme results, these priorities were also mingled with management arrangements (for example, travel plans were included as a priority). They were also not always SMART⁷ (example: "improve efficiency and effectiveness"). Accountability was not systematically assigned to the relevant staff. Performance indicators for the priorities, when mentioned, were not systematically relevant (example: mid- and end-year reviews, minutes of meetings).

In particular, the most significant results for project offices were not specific to each office, and were formulated in general terms; it was not clear precisely what was expected from each one of the project offices. Furthermore, progress towards these office priorities was not monitored by the CMT. It was examined during the Annual Management Review, but only partially (field and operations priorities were reviewed, but not programme priorities).

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

- i. The office priorities that are identified in the Annual Management Plan (AMP) are established as per the organizational guidelines and are of a limited number so as to focus on the most critical ones.
- ii. The project offices are advised as to how to submit their priorities in relation with their specific context and challenges, for review in Suva and incorporation into the

⁶ Executive Director's Memo *Revised Guidelines for the Preparation of the Country Programme Management Plan (CPMP) and Annual Management Plan (AMP)* (CF/EXD/MEM/2005-005).

⁷ Specific, measurable, achievable, relevant and time-bound.

country office AMP.

- iii. The office priorities are specific, measurable, achievable, relevant and time-bound, and responsible staff are assigned to each one of them.
- iv. The office priorities are reviewed by the Country Management Team at an appropriate frequency.

Target date for completion: 31 December 2014

Responsible staff members: Representative and Chiefs of Field/Project Offices, Deputy Representative and Chiefs of Field/Project Offices and Country Management Team

Delegation of authority and segregation of duties

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 approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1 on Internal Controls and its supplements. Each office is also required to maintain a signed manual Table of Authority (ToA), and the Head of the Office should review the ToA periodically to confirm its continued accuracy and appropriateness. UNICEF also uses a program called Approva to manage segregation of duties and to detect conflicts.

The audit compared the Approva report generated on 20 February 2014 with the latest signed manual ToA provided by the offices, dated 7 February 2014. The following inconsistencies were noted.

- Seven delegated authorities were recorded in VISION but were not included in the ToA. Five related to the previous Representative.
- Two authorities were delegated in the ToA but were not recorded in VISION.
- One type of delegated authority was assigned to two staff members in delegation of authority letters but was not included in the signed ToA.
- There were 17 staff members from the project offices who were included in the bank signatory panels as paying officers (six in Kiribati, five in Solomon Islands, and six in Vanuatu) but were not included in the signed ToA.
- Two paying officers included in the signed ToA were not in the signatory panel.
- Chiefs of project offices were delegated the Direct Cash Transfer (DCT) certification authority but this delegated authority was not included in the signed ToA.

The Approva report also revealed nine segregation-of-duties conflicts, of which four were rated high risk – including authorizing and releasing, receiving and certifying, and bank reconciliation and certifying. The office could not provide evidence that it had taken any mitigation measures regarding these high-risk conflicts.

Agreed action 6 (medium priority): The office agrees to:

- i. Address the segregation of duties conflicts rated high risk noted in Approva as soon as possible, either by removing the conflicting roles, or by establishing mitigation measures and monitoring their implementation.
- ii. Assign responsibility for the periodic review of the delegated authorities to ensure consistency between the approved manual table of authority, the authorities

recorded in the system and the signed delegation of authority letters.

Target date for completion: 30 May 2014

Responsible staff members: Chief of Operations

Responsibilities of project offices

According to the Country Programme Management Plan (CPMP),⁸ the accountabilities of project offices cover the following:

- Programme planning, implementation, monitoring and evaluation.
- Management of UNICEF operations in-country.
- Representing UNICEF in working with government, civil society, donors, and media groups at national and sub-national level and in joint UN frameworks of action.
- Representing UNICEF and the UN in national and sub-national Emergency Preparedness and Response.

These accountabilities were broken down into a detailed list of activities with 49 performance indicators.

These accountabilities were correctly reflected in the AMP and in the performance evaluation reports (PERs) of the chiefs of project offices. However, project offices were not required to submit regular documented reports that reflected their overall performance and the status of fulfilment of their accountabilities. Reporting was therefore limited to remote participation in meetings of the CMT and PMT (which were constrained by the poor quality of telecommunications), and quarterly inputs to programme reviews.

Furthermore, even though the chiefs of project offices were the managers of the outputs assigned to their countries, they were not provided with a budget and were not delegated any authorities in the signed ToA. In field trips to the project offices, the audit found that the project office had mainly a facilitation role in the preparation of workplans and follow-up on their implementation. Final decisions on the workplan contents and the amount and the timing of the allocations were taken in Suva.

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

- i. Ensure that the chiefs of project offices are provided with resources and authorities commensurate with their roles and accountabilities.
- ii. Establish a mechanism to ensure regular review, and monitoring of, project offices' performance indicators.

Target date for completion: 31 July 2014

Responsible staff members: Country Management Team

Management of human resources

The office's staff structure and funding of staff costs are reviewed in the observation *Staffing*

⁸ When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

structure (p5 above). However, the audit also reviewed the office's management of human resources, and noted the following specific issues.

Timeliness in recruitment: In 2013, the office filled 15 positions of which 11 were international professionals and four were national staff. The recruitment process for three of the four national positions took more than five months between the advertisement of the positions and the issue of the offer letter. The audit review noted that the cause of this delay was either incomplete information submitted to the Regional Office, or staff in charge of conducting and documenting recruitment tests and interviews not giving sufficient priority to these tasks.

Sick leave: The audit reviewed the office sick leave records and noted that from 1 April 2013 to mid-February 2014, 265 days of certified medical leave and 239 days of uncertified medical leave were recorded. The office had not taken any action to satisfy itself of the legitimacy of the certified sick leaves, as it could have done under the provisions of administrative instruction AI 2009/009. The audit noted also that in one case, a staff member was granted 38 days of certified sick leave without submitting the case to the Division of Human Resources, as should be done when the certified sick leave exceeds 20 days.

Agreed action 8 (medium priority): The office agrees to:

- i. Define timeframes for key steps of local recruitment processes, and monitor compliance.
- ii. Strengthen its monitoring of certified sick leave.

Target date for completion: 31 July 2014

Responsible staff members: Human Resources Specialist, and Chief of Operations

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures should be recorded in a risk and control library.

The audit reviewed the office's RCSA process, and found that the risk and control library updated in February 2014 was written by the Operations team, then sent to the chiefs of programme sections for further contributions. This exercise did not seek inputs from the project offices; in fact, one project office (Vanuatu) had conducted its own RCSA, producing a separate risk profile and action plan. The last office-wide RCSA exercise to incorporate the project offices' inputs had been in 2011. In discussion with the office staff, the audit noted that the office had yet to determine whether the RCSA exercise conducted at the countries office should be covering the risks of the project offices or not. In conclusion, the office had yet to implement a RCSA process that systematically assessed the risks and opportunities facing UNICEF in the Pacific Island Countries and determined the appropriate responses.

The office did not have a robust mechanism to monitor implementation of the action plan for mitigation of the risks identified in the RCSA. The audit reviewed all time-bound actions planned for 2014 for mitigating high risks identified in the RCSA. However, it found that they were all postponed from the 2013 action plan – and had in fact not yet been implemented at the time of the audit (in early 2014).

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

- i. Implement the Risk and Control Self-Assessment (RCSA) process across its whole operation, including project offices, to identify and manage risks and opportunities of all offices.
- ii. Establish a process and accountability for timely implementation and periodic monitoring of the RCSA action plan.

Target date for completion: 15 November 2014

Responsible staff members: Chief of Operations and Deputy Representative

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the control processes over Governance, as defined above, needed improvement to be adequately established and functioning.

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, relevant 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, except for evaluation. This was omitted because no particular issues were noted at the risk assessment stage.

Programme planning

UNICEF programmes should be evidence-based, both to bring about the best outcomes for children and women, and to ensure that advocacy on their behalf is also evidence-based. In planning a new country programme, offices should perform a situation analysis (SitAn) that presents as accurate as possible a picture of the situation of children and women in the country. The SitAn normally takes the form of a single document, but this is not essential provided there are sufficient studies and data available to inform the development of the programme.

The office showed the audit 33 documents that included studies on children and poverty (two in Kiribati and Vanuatu, dated 2012 and 2013), atlases of children's social indicators (five – in Vanuatu, Fiji, Federated States of Micronesia, Republic of the Marshall Islands and Solomon Islands) dated between 2011 and 2013, UN country desk reviews (13), and UNICEF country SitAns (13) dated between 2003 and 2007.

However, the audit found no evidence that the office had conducted an in-depth review of the information available by country to draw an overall picture of the main issues for children and women in the 14 countries. Such an overview would have provided evidence and focus for the design of the current programme. Its absence raises the risk that the office might not make best use of its available resources. As an example, the information available on HIV/AIDS shows that the Pacific is categorized as a low prevalence region with few new HIV infections

each year; the number of people living with HIV is very low. However, the countries programme structure included a separate HIV/AIDS programme with a planned amount of US\$ 8.7 million (12 percent of the total planned programme amount), with two outcomes, 12 outputs and six staff positions. The basis for this allocation of resources was not clear. However, in view of the severe shortage of programme funding, most of the programmes had reduced their scope and shifted focus to the most important issues where the office had a comparative advantage (Child Protection and Education).

The data available on children in the Pacific was generally outdated. As an example, the basic data included in the Country Programme Document referred to primary school enrolment rates dated between 2004 and 2009, access to water and sanitation numbers dated back to 2005, childhood malnutrition data ranging between 2002 and 2009, and birth registration percentages from 2007 and 2009. To address this issue, the five-year Integrated Monitoring and Evaluation Plan (IMEP) included, for each programme component, a series of surveys and studies to inform the baselines and the situation of children in the respective area. Indeed, one of the management strategic drivers was strengthening the evidence base for action and advocacy, including strengthening of routine data collection and use in all countries. However, the audit noted that the various programmes were operating in silos, without a coordinating mechanism to ensure strategic and efficient data collection.

The Pacific Islands Countries range from least developed to middle income countries, with varying resources and capacities and levels of progress in meeting children's needs. The office had recognized this and adapted its programme strategies accordingly, dividing the 14 countries into three tiers of countries. The programme was designed to support the achievement of key results at scale for children in the three less developed – tier one – countries (Kiribati, Solomon Islands and Vanuatu) while aiding strategic policy engagement and system-building in the middle tier (Fiji, Marshall Islands, Federated States of Micronesia, Nauru, Samoa and Tuvalu) and continuing to assist policy advocacy in the five remaining countries (Palau, Tonga, Cook Islands, Niue and the New Zealand territory of Tokelau). The audit reviewed the MYWP work plans of Health and Sanitation and Child Protection in light of this approach and noted that some service-delivery type of activities were planned for the middle- and upper-tier countries, and that Child Protection activities for the least developed countries were extended to two additional countries from the middle category (Fiji and Samoa). Therefore, the office's "three-tier" approach provided a flexible framework for programming in a complex multi-country environment, but the categorization of the countries, and the planning of activities by tier, needed to be revisited.

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

- i. Develop a strategic approach to data collection and ensure better coordination, efficiency and timely availability of the needed information.
- ii. Draw on the experience gained from the first year of implementation of the new country programme, the changes initiated in the programme's design, updated baseline data collected in 2013, and analysis of available information, to prepare a strategy paper that highlights the main issues to be addressed for the remaining period of the country programme.
- iii. Assess the validity of categorizing the 14 Pacific Islands Countries into three tiers (less developed, middle- and upper-tier countries) and amend the programme strategy as necessary to fit each country's situation.

Target date for completion: 31 August 2014

Responsible staff members: Country Management Team, Policy, Advocacy, Planning and Evaluation Team

Workplans and results reporting

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

The 2013-2017 country programme covers 14 countries. A 2013-2017 UN Development Framework joint action plan had been established in lieu of individual CPAPs⁹ between the government partners and the UN agencies. This joint plan, accompanied by country specific results matrix at the output level, had so far been endorsed by nine out of 14 countries. The country result matrices reflected the planned collaborative outputs of all participating UN agencies by 2017. However, the matrices did not specify the contribution of each agency.

UNICEF had derived its own results matrices at the outcome and output levels that served as a basis for planning and for budget allocation. The programme structure included 13 outcomes and 74 outputs. There were outputs that were specific to each of the three tier-one countries (Kiribati, Solomon Islands and Vanuatu), while other, more generic, outputs covered the remaining countries. Workplans for all the programme components were signed with the governments of the tier-one countries, while for the rest of the countries, there were either sectoral workplans, or no workplans were signed. In these latter cases, the UNICEF-supported activities were based on internal workplans that had not been signed with the partners.

The audit interviewed different implementing partners in one project office, and found that none of them were aware of the five-year output results matrices; they therefore lacked an overview of the achievements expected from the cooperation with UNICEF and the guiding framework for the preparation of the workplans. This is a risk to partners’ ownership of the programme. The UNICEF office management suggested that this might be due to turnover of implementing partners since the preparation of the country programme, especially where there were signed workplans, and all the programme results were reflected in them.

Agreed action 11 (medium priority): The office will ensure that discussions between field/project officers and technical counterparts are consistently related to the overall planned results. It will also ensure that these discussions are better documented, and will periodically prepare a summary of the results matrix and share it with partners.

Target date for completion: 31 December 2014

Responsible staff members: Programme Chiefs and Field/Project Office Chiefs

⁹ 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.

Advocacy

According to UNICEF's Programme Policy and Procedure Manual (PPPM), a strong, purposeful and sustained advocacy plan, when properly prepared, will help raise awareness of children's issues among policy-makers and the public, and promote action in support of children's rights. Although important in all countries, advocacy is an especially important component of UNICEF's programmes in middle-income countries, where there is less emphasis on direct service delivery and more on increasing the focus on children's needs.

In the Pacific Islands countries, the objective of the countries programme is to support the achievement of key results at scale for children in the three tier-one countries while aiding strategic policy engagement and system building in the six tier-two countries, and continuing to assist policy advocacy on behalf of children in the five tier-three countries. Advocacy is therefore a key strategy, particularly for the five tier-three countries. However, the 2013 annual management plan (AMP) advocacy priorities – related to equity, participation and social inclusion, and climate change adaptation and disaster risk reduction – were in line with neither the country programme nor with the office advocacy strategy. Moreover the advocacy activities reported in the office's 2013 annual report were more related to social mobilization and communication than advocacy. For example, the office had used Facebook, a regional lifestyle magazine, and a flash mob in the streets of Suva, Fiji, to engage youth to address cyberbullying and bullying in schools; this was presented as advocacy although it is really social mobilization.

The audit also noted that, while the office advocacy strategy focused on national development plans and budgets that addressed deprivations and disparities, social protection and youth policies, it concentrated mainly on the tier-one countries without any specific mention of tier-two and tier-three countries as per the country programme. Also, none of the available planning documents clarified what specific policy changes were sought, or identified the policy-makers, political and social leaders that need to be influenced, what activities would be used to do so, or how accountability was assigned.

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

- i. Align its advocacy strategy to the Country Programme Document, with clear indications of what policy changes are expected and how the office will achieve them, including for tier-two and tier-three countries.
- ii. Align the advocacy priorities set out in the Annual Management Plan (AMP) with the office advocacy strategy.
- iii. Document in the AMP the responsibilities of the relevant staff for implementation and monitoring of the agreed advocacy priorities.

Target date for completion: 31 December 2014

Responsible staff members: Chief of Policy, Advocacy, Planning and Evaluation

Fundraising

According to the approved Country Programme Document for 2013-2017, the planned country programme budget amounted to US\$ 71.8 million, of which US\$ 44 million was OR – i.e. 61 percent. Country offices must raise most OR themselves; if successful, they can fundraise up to the OR ceiling, which is the budgeted amount (in this case US\$ 44 million).

The Pacific Islands Countries office relied heavily on raising OR to achieve its planned programme results, as most of the RR was consumed by staff and operational costs (see observations *Staffing structure* and *Office structure and operational costs* on pp5-7 above).

Out of the approved OR ceiling of US\$ 44 million, US\$ 19 million, or 43 percent, had been available at the end of 2013, which was the first year of the current country programme. US\$ 12 million had been carried over from 2012, and US\$ 7 million came from new grants. When considering only new grants received in 2013 against the OR ceiling (for that year) of US\$ 8.8 million, the office resource mobilization performance stood at 80 percent. However, the office relied on a very limited number (three) of donors for most of the OR received.

A key donor had conducted a review of its partnership with the office, the conclusions of which indicated that support from this donor would be less than in previous years. Furthermore, there were limited prospects for fundraising for the Education, HIV/AIDS and Child Protection programmes, given the current funding context in the Pacific. There was therefore a high risk that the office might implement donor-driven activities, rather than priority programme activities supported by UNICEF.

The programmes with the largest OR funding shortfalls as of February 2014 were: cross-sectoral, at 98 percent unfunded; HIV/AIDS, 83 percent unfunded, Child Protection, 80 percent unfunded; and Policy, Advocacy, Planning and Evaluation, 65 percent unfunded.

The office had prepared a resource mobilization strategy¹⁰ for the 2013-2017 programme, and has drawn up standard operating procedures for resource mobilization in January 2014. It was planning to establish a resource mobilization committee headed by the Representative in 2014. However, the audit noted that important elements of the strategy were still missing, such as the critical funding needs by sector, and specific and realistic fundraising targets. In general, the office lacked a plan of action to address the unique challenges facing the Pacific programme, given the limited donor base, limited fundraising prospects for Education, Child protection and HIV/AIDS, and reliance of the majority of OR salaries on a very limited number of donors whose future funding was uncertain.

Agreed action 13 (high priority): The office agrees to review its resource mobilization strategy to ensure that it includes:

- i. Specific and realistic fundraising targets.
- ii. An action plan and mitigation measures that address the critical issues of:
 - a. Over-reliance on very limited number of donors with uncertain prospects.
 - b. Programme areas (such as education, child protection and HIV/AIDs) that are not part of the multilateral priorities of the existing major donors.

Target date for completion: 31 December 2014

Responsible staff members: Resource Mobilization Task Force headed by the Representative

¹⁰ A strategy of this sort would normally be referred to as “resource mobilization” rather than “fundraising”; while the two terms 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.

Harmonized Approach to Cash Transfers

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

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either government entities or NGOs. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

HACT is required for three other UN agencies (UNDP, UNFPA and WFP), and country offices should coordinate with them to ensure best use of resources.

When conducting an audit of a field office, OIAI normally reviews the state of HACT implementation. In this case, the review took the form of a follow-up of a recent OIAI's advisory engagement on HACT conducted in November 2013, at the request of the country office. The advisory engagement aimed to support the office in strengthening the management of its cash transfer transactions. The office was in the process of following OIAI's advice.

The audit conducted spot checks (two in Fiji and two in Solomon Islands), and identified significant weaknesses of the government implementing partners in planning, budgeting and reporting on cash transfers. These included:

- Large differences between planned and actual amounts spent, without securing prior approval of the office.
- Missing invoices.
- Liquidation before completion of the activities.
- Signatories on supporting documents without names or references to be used in case verification is needed.
- Reporting on expenditures that included UNICEF funding but also other sources of funding, making it difficult to distinguish how UNICEF funds were utilized.

The audit also reviewed the improvement measures taken by the office. The office had managed to recover an unused sum of SBD (Solomon Islands Dollars) 2,516,554 (equivalent to US\$ 345,000) from the Ministry of Health and Medical Services (MHMS) in Solomon Islands. Further, it had revised the Funding Authorization and Certificate of Expenditure (FACE)¹¹ form to include the review of the direct cash transfer (DCT) request and liquidation by the chief of the project office. Other required improvements included:

¹¹ The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

- Implementation of spot checks to validate expenditures reported by the Vanuatu Ministry of Health and Medical Services in 2013.
- Establishment of a governance framework that would clarify and document the oversight responsibilities and accountabilities related to HACT management, at both countries-office and project-office levels.
- Reinforcement of the capacities of staff and implementing partners in HACT. The office stated that it was planning multiple training exercises in 2014 and specifics for the training were being determined at the time of the audit.
- Planning of the macro- and micro-assessments and finalization of the office-wide HACT assurance activities plan (although the latter plan was under preparation).

Based on discussions with staff, the audit noted that delays in action were worsened by expectations, unmet so far, that other UN participating agencies would embark on the HACT process, and by funding shortages that hampered the implementation of HACT.

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

- i. Establish a governance framework that clarifies and documents the oversight responsibilities and accountabilities related to the Harmonized Approach to Cash Transfer (HACT), at both country-office and project-office levels.
- ii. Reinforce the capacities of staff and implementing partners in HACT, using experienced UNICEF staff from other country offices that have implemented it.
- iii. Expedite the process of preparation of the macro and micro-assessments for the current multi-country programme.
- iv. Ensure that, for each country where the office is operating, a consolidated HACT assurance activities plan is prepared, reviewed and monitored at a level and frequency deemed appropriate. If possible, the plan should be coordinated within the inter-agency mechanism, particularly for common partners, to reduce costs (if this is not possible, the office should undertake the work alone).
- v. Ensure that a mechanism is established to follow up on the results of the micro-assessments, and special and scheduled audits, as well as spot checks.
- vi. Implement spot checks to validate expenditures reported by the Vanuatu Ministry of Health and Medical Services in 2013, and, as necessary, request a refund of the funds that have not been used as per agreements and/or workplans.

Target date for completion: 31 December 2015

Responsible staff members: Chief of Operations, Deputy Representative, Representative

Management of direct cash transfers

Cash transfer to implementing partners was one of the major inputs in the Pacific Islands Countries programme. In 2013 the country office disbursed total of US\$ 4.9 million in direct cash transfers (DCTs), which was 24 percent of annual expenditure.

DCTs were an area covered by the OIAI advisory engagement late in 2013, and the office was in the process of following OIAI's advice.

The office faced challenges in liquidation of DCTs. As of 14 March 2014, according to UNICEF's internal reporting system, the Manager's Dashboard, total outstanding DCTs stood at US\$ 2.1

million. Of this amount, those outstanding over six months amounted to US\$ 369,000 (17 percent) and those over nine months were US\$ 780,000 (37 percent).

The audit made the following observations in this area.

- The office had not obtained, from all implementing partners, a formal list of accounts details and designated officials authorized to submit and certify FACE forms.
- The office had not established standard rates for common types of cash transfers – such as daily subsistence allowance (DSA), stationery, transport, etc. – appropriate to the countries supported by the programme. This was pending analysis from the country office and in one project office. The matter was also being discussed with other UN agencies.
- The office did not have a process to ensure that durations of activities were indicated in the FACE request forms, and that instalments in the partnership cooperation agreements (PCAs) were linked to periods of activities.
- The office had implemented a tool to monitor the timeliness for processing the DCT payments, but had not identified and addressed the causes of the repetitive and important delays. Based on the office's HACT monitoring tool, for the period of July 2013 and February 2014, there were 30 payments that took more than 10 days (which is the maximum stipulated by the office work process); instead they took from 11 to 105 days. The reasons of the delays included FACE forms not properly filled in, or payments not having been forecast so that replenishment was needed from NYHQ. In 14 of the 30 cases, however, payments were on hold due to outstanding liquidations.
- The Programme Management Team had not identified the root causes of the delays in the liquidation, determined clear action points and followed up on their implementation. The audit was informed that this topic had been discussed during the HACT committee meeting and that action was pending at the time of the audit. Based on the audit assessment (spot checks and staff interviews), the long-outstanding DCTs were the result of weak capacity of implementing partners, as well as delays to activities due to late payments to the implementing partners who had to use the slow public financial system.
- The office had not adjusted its work-planning cycle to ensure timely sharing of planned activities and budgets with the relevant Ministries of Finance. This was necessary to ensure their inclusion in the Government budget and hence expedite the disbursements to the implementing partners concerned.
- The office had not started to obtain acknowledgement letters for DCT payments to ensure that payments had been received on time by the intended implementing partners.

Agreed action 15 (medium priority): The office agrees to:

- i. Adjust its work-planning cycle to ensure timely sharing of planned activities and budgets with the relevant Ministries of Finance, so as to enable their inclusion in the Government budget.
- ii. Obtain from implementing partners the formal list of accounts details and designated officials authorized to submit and certify Funding Authorization Certificate of Expenditure (FACE) forms for the request and liquidation of cash transfers, to be used by the Finance unit as a control before the issue of the payments.
- iii. Set and use standard rates for the common categories of cash transfer appropriate to the countries supported by the programme to ensure fairness between partners and

- consistency between programmes. The standard rates, if feasible, should be harmonized with other UN agencies.
- iv. Ensure that durations of activities are indicated in the FACE request forms and that instalments in the Project Cooperation Agreements are linked to periods of activities, both of them not exceeding three months.
 - v. Monitor the performance indicator related to the timeline for processing payments, and take corrective action whenever repeated and important deviations are observed.
 - vi. Ensure that the programme meetings identify the root causes of the delays in liquidations, identify clear action points, follow up on their implementation and escalate to the Country Management Team if needed.
 - vii. Obtain acknowledgement letters for direct cash transfer payments, to ensure that payments were received on time by the intended implementing partners.

Target date for completion:

Responsible staff members: Deputy Representative/Chiefs of Planning, Advocacy, Policy and Evaluation, Chiefs of Field/Project Offices, Finance Officer, Programme Officers and Programme Chiefs.

Supply management

The total value of the 2013 supply plan was approximately US\$ 2.9 million, of which only US\$ 270,000 – 9 percent – had been procured by end of the year. The Operations performance dashboard, submitted to the monthly CMT meetings, systematically tagged the supply performance indicators as red flags from May 2013 onward because of poor performance compared to the office benchmarks. The management stated that the issue had been discussed, but the audit could not find any evidence in the minutes of the relevant CMT meetings.

The audit reviewed the supply plans of the Health and Child Protection programmes in detail, and found that that poor implementation of the supply plan was due mainly to delays in the implementation of the programme itself, and to lack of funding. Transaction testing on a sample of high-value local procurements found delays of two to 10 weeks in the releases of purchase orders due to delayed allocation of funding. Delivery of supplies was around two months after the expected date due to delayed implementation of activities by the partners (but also to the challenges of shipping of supplies to small and distant islands).

Agreed action 16 (medium priority): The office agrees to strengthen its controls over the implementation of the supply plan, through the regular review of supply performance indicators during Country Management Team meetings; and identify the causes of poor performance and take corrective action to address them.

Target date for completion: 30 June 2014

Responsible staff members: Programme Chiefs, Senior Supply Assistant and Chief of Operations

Programme monitoring

The office used various mechanisms to monitor implementation of the country programme, including staff field-monitoring visits, internal monthly and quarterly programme review

meetings, CMT meetings, and annual reviews with implementing partners. However, the audit team noted the following areas for improvement.

Field-trip monitoring: In 2013, the office spent about US\$ 1.65 million in travel costs, which was approximately 8 percent of annual expenditure. Due to wide dispersion of the programme implementation sites, travel was costly and time-consuming.

The audit reviewed six field-trip reports from 2013 and found that they generally reviewed and reported on the progress of the activities. However, the recommendations in the reports were either vague, or did not identify the timeframe or accountable staff for implementation. Also, there were two cases in which the staff reported on a bottleneck or weakness in implementation without a corresponding recommendation.

The office had yet to implement a mechanism to systematically monitor the recommendations from the field trips. The field trip reports prepared by the staff in the project offices were not always shared with the relevant Chiefs of sections in the country office and vice-versa. There were individual staff who had created monitoring tables for their own field visits, but no monitoring mechanism had been implemented at the sectional or office level.

Annual programme reviews: Offices are expected to conduct annual programme reviews with the counterparts to assess progress against planned results, identify the constraints and take corrective measures in the following workplan.

Based on the interviews with government counterparts and staff, the audit noted that not all programmes conducted an adequate annual review. In the project office visited by the audit, two programmes did not hold an annual programme review; another discussed only the orientations for 2014 workplan without reviewing implementation of the 2013 one with the implementing partners. In another case, a programme conducted an annual review but could not provide any evidence that its conclusions had been agreed with the counterparts. The audit examined a recommendation from that review and found that it was a recommendation from the country office, not the counterpart, and that it was not reflected in the 2014 draft workplan.

Agreed action 17 (medium priority): The office agrees to improve programme monitoring by establishing a system that ensures the following:

- i. Field-trip recommendations that are specific, measurable, achievable, relevant and time bound (SMART), and address all the weaknesses/bottlenecks found during the field visits.
- ii. A process for monitoring the status of implementation of recommendations from field visits.
- iii. Systematic sharing of field trip reports between relevant sections and project offices.
- iv. Systematic annual programme reviews with relevant counterparts in the project offices, and recording of conclusions agreed.

Target date for completion: 31 July 2014

Responsible staff members: Monitoring & Evaluation specialist with Chief of Planning, Advocacy, Policy and Evaluation, Deputy Representative, Chiefs of Programme, Chiefs of Field/Project offices

Office reporting

Information reported by a country office in its annual report should be accurate and reliable, especially since one of its overall purposes is to provide input to organization-wide reporting on results for children and women, and to contribute to organizational learning. Country offices are also expected to produce timely, good-quality donor reports that are acceptable to donors.

Country Office Annual Report: The audit reviewed the accuracy of results reported in the 2013 Country Office Annual Report (COAR) and noted that three of the eight sampled results were not supported by reliable sources. Either the report referred to was not yet validated, or there was no documented evidence, or the information reported did not tally with the source used.

Donor reports: Of the total 2013-2017 country programme budget of US\$ 71.8 million, US\$ 44 million (61 percent) is OR. As discussed in the observation *Fundraising* (p18 above), the Pacific Islands Countries programme is heavily dependent on a limited number of donors. This increases the importance of donor reporting. The office had established a donor report work process (including the quality assurance process), and 26 of the 28 donor reports due in 2013 were submitted on time.

The audit selected three donor reports submitted in 2013 for review. Two of the three reports had results that were not in SMART form. This was because they related to contribution agreements in which the agreed results had not been SMART to begin with.

One of the donors commented on the delays in answering an enquiry and, in two examples, the absence of response. The audit found that this was contributed to by donors providing feedback through various channels (management, Chiefs of sections or programme focal point) and not always sharing it with the quality assurance team for follow-up.

Agreed action 18 (medium priority): The office agrees to:

- i. Strengthen its controls over the preparation of the annual report to ensure that all key results reported are supported by reliable documented evidence.
- ii. Strengthen the quality assurance process for donor reports to ensure that all the expected results of the proposals are specific and measurable, and that donor reports are results-based.
- iii. Establish, and communicate to staff, a donor feedback protocol to ensure that all donor feedback is shared with the quality assurance team, so that it can follow up any enquiry from the donors.

Target date for completion: 31 December 2014

Responsible staff members: Representative, Deputy Representative, Chief of Planning, Advocacy, Policy and Evaluation, and Monitoring & Evaluation Officer, Programme Chiefs and Field Office Chiefs.

Programme management: Conclusion

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

3 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, except for inventory management. This was omitted because of low materiality.

Bank reconciliation

Bank reconciliation is one of the most important financial controls, as it verifies the validity, accuracy and completeness of the accounting records against an external source of information. This process provides assurance that risks related to incomplete accounting records, fraud and irregularities are managed. UNICEF Financial and Administrative Policy (Supplement 2 on Segregation of Duties) stipulates that the bank reconciliation should be conducted by a staff member not involved in cash receipt, payment, banking or treasury-related responsibilities, in order to minimize the risk of concealing errors or misconduct.

However, the audit noted that apart from one period, the Finance Officer, who posted payments and held blank checks, had been involved in the bank reconciliation since 2012; this included signing as the preparer. When the audit brought this inadequate segregation of duties to its attention, the office decided to delegate the bank reconciliation preparation responsibility to the Administrative Assistant for February 2014. This was planned as a temporary measure, as the Administrative Assistant's bank reconciliation function conflicted with his current certifying function; a longer-term solution would be put in place later.

Agreed action 19 (medium priority): The office agrees to assign bank reconciliation tasks to an appropriate staff member to ensure adequate segregation of duties in bank reconciliation processing.

Date by which office indicated action was completed: 30 April 2014

Responsible staff members: Chief of Operations

Payment processing

The following issues were noted related to payment processing.

Supporting documents for payment: The audit selected a sample of 12 payments with total value of US\$ 606,796 to review and noted the following.

In 2013, the office paid US\$ 47,808 in DCTs to a service provider without any formal agreement. This arrangement was based on an inter-agency Memorandum of Understanding that stated that the office 'disburses funds to partners identified by [partner UN agency]' and the office 'assumes responsibility as the Managing Agent for the administrative responsibility and financial accountability for funds'. However, no formal agreement had been established between the service provider and the office. Also, the office could not explain why the service provider was receiving DCTs although it was neither a government agency nor an NGO.

The audit also noted that one large service contract had been fully paid though the deliverables were not completed. This contract was established for January-August 2010 with a total value of US\$ 240,000. Based on the correspondence, the audit noted that the office had made some comments on the implementation of the contract that the service provider should have addressed; it did not adequately do so. The disagreement between the two parties escalated, and the service provider requested the final payment in full in December 2012. The management had approved payment, however, before evaluating the final product. The evaluation was conducted at the time of the final payment of US\$ 93,500 in March 2013, which stated that the service provider "did not provide complete picture of the actual situation on the ground... feedback of [the office review] was not incorporated... [and] overall performance was unsatisfactory". The audit reviewed the products delivered and concluded that they were not complete, and that US\$ 128,000 (53 percent) of the contract should have been withheld.

Timeliness in payment: There were delays in payment of rent and utility costs in the project offices. This was due to delayed allocation of RR/OR at the output level, making funds for cross-sectoral activities unavailable. As at 13 March 2014, the office was using the institutional budget to pay for the rent and utilities for a project office, with the intention that it be charged to the proper source (RR or OR) later. Despite this, this project office had approximately US\$ 8,200 of its US\$ 20,000 rent and utility costs outstanding, including the rent from January 2014.

Agreed action 20 (medium priority): The office agrees to strengthen payment processing by:

- i. Establishing mechanisms to ensure that all payments are adequately supported and exceptions are justified (it may for example, consider establishing a checklist of supporting documents by type of payment, to be shared with all staff).
- ii. Establishing a procedure to expedite the allocation of resources to the cross-sectoral programme and processing payments that are overdue.

Target date for completion: 31 July 2014

Responsible staff members: Chief of Operations and the Admin/Finance Officer

Asset management

As of 12 February 2014, the Suva office and the three project offices had 513 items of property, plant and equipment (PPE), with total original value of US\$ 745,021 and carrying value (after depreciation) of US\$ 263,926.

PPE database: The audit reviewed the PPE database in VISION and found that there were 42 items that lacked both the tag number and serial number, preventing physical verification of the asset. Also, there were programme supplies registered as PPE in the database (the audit found three). The audit's review of a total 28 PPE samples at the Suva office and a project office also found that eight items were without asset number/tags or had incorrect asset numbers on the item. Five items that were physically present were not in the PPE database, and four items were in locations different from those given in the PPE database.

The office informed the audit that each office had conducted the physical verification of assets in 2013. However, for one office (Suva) the physical verification report was not available, and no results from a physical count had been submitted to Property Survey Board (PSB) during 2013 and up to February 2014. The audit could not find evidence that the PPE records were reconciled from the physical verification exercise. Also, delays in the country office sending the assigned asset numbers to the project office also left some items without asset numbers/tags.

PPE safeguards: In 2013, the office had two laptops (one in Fiji and one in Vanuatu), one Blackberry and one camera stolen (excluding one laptop lost in transit from Suva to Kiribati). However, the filing of the police report, and submissions to PSB for write-off, were not done consistently, and the audit could not verify whether adequate action had been taken with regard to the stolen items.

PSB recommendations: PSB recommendations were not promptly carried out. For example, in 2012 the PSB recommended a public bidding for items to be disposed of but this was not done until more than 12 months later. Three items recommended for sale in 2012 had not yet been sold in March 2014.

The audit noted that insufficiency in PPE management was exacerbated by vacancy of the accountable staff post, which is that of Senior Administrative Assistant (recruitment for which had been delayed since September 2013 by a directive from HQ to freeze all vacant posts that might be affected by creation of UNICEF's new global service centre).

Agreed action 21 (medium priority): The office agrees to strengthen management of Property, Plant and Equipment (PPE) through the following:

- i. Establish procedures to conduct physical verification and ensure that any discrepancies are reported to the Property Survey Board (PSB), and reconciled in the database as per the approved PSB recommendations.
- ii. Assign and record tag numbers on the assets and in the database in a timely manner.
- iii. Ensure that procedures for stolen assets are clearly communicated to staff, and that adequate decisions are applied by PSB (i.e. write-off, reimbursement, etc.).
- iv. Monitor timely implementation of PSB decisions.

Target date for completion: 30 June 2014

Responsible staff members: Chief of Operations, Chair of the Property Survey Board and Senior Admin Assistant

Information and Communication Technology security

For security, offices are expected to use official UNICEF email system (i.e. Outlook or Lotus Notes) and not public email systems (i.e. Gmail, Hotmail). However, the staff in the project offices were using public email systems due to the slow speed of the Lotus Notes email. Staff mentioned that the slow speed of emails often prevented staff from completing work on time, and was potentially dangerous as disaster warning and updates (for example tsunami and cyclone warnings) were sent primarily by email.

In the case of one project office, the Regional Chief of ICT told the audit that it did have the bandwidth to use the official UNICEF email system; however, the staff at that office said it was slow (as was teleconferencing). While all offices were to migrate to Microsoft Outlook in (tentatively) July 2014, which should improve the speed of the email system, teleconferencing will remain an issue.

Given that this project office shares internet connectivity with other joint UN presence staff (45 staff in addition to UNICEF's 12), the adequacy of current capacity needed to be reviewed. The regional chief of ICT's last visit to the country office had been in June 2010.

Agreed action 22 (medium priority): The office agrees to assess, in consultation with Regional Chief of Information and Communication Technology (ICT), the adequacy of the offices' ICT capacity to utilize standard systems (for example email, teleconference facilities), and take mitigation measures if use of public systems is inevitable.

Target date for completion: 1 July 2014

Responsible staff members: Chief of Operations and the Senior ICT Assistant

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.