

Internal Audit of the Republic of the Sudan Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Sudan country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 11 March – 2 April 2014. The audit covered the period from January 2013 to 10 March 2014.

The 2013-2016 country programme has three main programme components: *Child rights and disparity reduction*; *Transition from emergency to early recovery and sustainable development*; and *Social policy, monitoring and evaluation and communication*. The total approved budget for the country programme is US\$ 284.4 million, of which US\$ 41.4 million is regular resources (RR) and US\$ 243 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, located in the capital, Khartoum, has six zone offices and three sub-offices. As of February 2014, the country office had a total of 238 approved posts, of which 44 were for international professionals, 80 for national officers and 114 for general service staff. As of February 2014, 18 of the 238 established posts were vacant. The total allotments were US\$ 60.8 million in 2012 and US\$ 100 million in 2013. Total expenditure was US\$ 60.1 million in 2012 and US\$ 99.7 million in 2013.

Action agreed following the audit

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

- During the mid-term review, revisit and adjust the country programme to include key progress indicators, baselines and targets, to streamline results to be achieved; and establish a quality assurance mechanism and guidance for the development of workplans.
- Give priority to raising funds for the country programme by ensuring the completion and implementation of the revised resource mobilization strategy.
- Fully implement the Harmonized Approach to Cash Transfer by: conducting a macro-assessment of Sudan's public financial management system; undertaking micro-assessments of implementing partners; and developing and implementing a comprehensive assurance plan.
- Ensure that facts and data in donor reports are accurate, reliable and verifiable, and that the reports cover the key attributes of reporting according to the guidance issued by UNICEF's Public Sector Alliances and Resource Mobilization Office.
- Review current processes and procedures for processing, monitoring and supervising financial transactions.
- Establish oversight mechanisms for, and improve the management of, programme supplies and stocks in the warehouse.

Conclusion

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

The Sudan 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 corruption, 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 office had established governance bodies and advisory teams — such as the country management team (CMT), contract review committee (CRC), and property survey board (PSB) — with clearly defined terms of reference. In the case of CMT, it had an effective database to keep track of the status of action points agreed during its meetings.

The evaluations of staff members' performance for 2013 were completed on time, as was the setting of 2014 objectives for staff members.

However, the audit also noted the following.

Assignment of authorities

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

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

The audit reviewed the VISION role mapping, ToA and delegation of financial signing authority. The office had assigned roles to staff members and mapped these roles in VISION. In addition, the representative had delegated authorities to staff as authorizing, purchase-order releasing, receiving, certifying, approving and paying officers. Staff had been formally notified of the roles/authorities they had been assigned, and had acknowledged their awareness of the responsibilities and accountabilities associated with them. The office periodically updated the table of authority to reflect changes in the staffing. The delegated authorities were accurately registered in VISION. However, the audit also noted the following.

Alignment of roles with functional responsibilities: Due to limited review, some role assignments were not aligned with the functional responsibilities of the staff members. For example, the approving officer role, which involves posting of invoices (an accounting function), was also assigned to non-accounting staff (the health specialist, WASH officer, health and nutrition officer and fundraising specialist).

Segregation of duties: In order to prevent error and fraud, roles are segregated so that no one individual can have complete control of any transaction. However, some roles in the office were not adequately segregated. The office was not aware of these cases since it depended solely on Approva,¹ in which they were not considered to be violations of segregation of duties. For example, the approving officer role was assigned to five staff members who were also assigned the conflicting role of paying officer; they could therefore effect payments for invoices they themselves had posted.

In reviewing financial transactions, the audit team found that in 28 of 68 sampled payment transactions, the same staff member had posted invoices, processed the payments towards these invoices through payment run, and signed the corresponding cheques/bank transfers. Effectively, the staff member had complete control of key steps in the payment processing. There was no adequate segregation of duties to prevent and/or detect errors or irregularities (the audit did not actually observe any such irregularities arising from this).

Another staff member had been assigned both the L1 and L2 asset accounting roles and could perform the complete process of asset creation and approval on his own in VISION, increasing the risk of error. There were also other segregation of duties violations.

Bank signatory panel: Only one of the bank signatory panel members had acknowledged in

¹ Approva is a software system used to manage user roles in VISION; among other functions, it provides an analysis and reporting of segregation of duties and justifications of exceptions.

writing their awareness of accountability and acceptance of the authority delegated to them. Also, a staff member who had retired in September 2013 was still a signatory.

Agreed action 1 (medium priority): The office agrees to take the following steps:

- i. Regularly review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.
- ii. Regularly review the registration of the table of authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.
- iii. Secure written acknowledgement from the signatory panel members of their awareness of their accountabilities and acceptance of authorities delegated to them.
- iv. Keep the bank signatory panel up to date.

Staff responsible for taking action: Chief of Operations/Finance Officer

Date by which action will be taken: July 2014

Functioning of advisory teams

Country offices are expected to maintain appropriate teams and committees to monitor and guide their operations and the implementation of the country programme. The office issued the terms of reference of the teams and committees such as the country management team (CMT), property survey board (PSB), and contract review committee (CRC). The terms of reference specified, among others, the purpose and functions. The composition of the teams and committees were also properly identified.

However, the audit noted that the threshold for review by the CRC was low. With the implementation of VISION in 2012, UNICEF set the threshold for CRC review in country offices at US\$ 50,000. However, the Sudan office had opted for a threshold of only US\$ 20,000. This was a low threshold for an office of this size and resulted in the CRC reviewing 109 proposals in 2013 and the first quarter of 2014. Of these, 46 proposals, or nearly half, were below the more usual threshold of US\$ 50,000. The relevant policy does permit offices to set a lower threshold, based on their assessment of local risks and capacities; but the audit did not find evidence of such an assessment. Keeping the threshold at US\$ 20,000 significantly increased the workload of CRC members and other staff involved in the preparation and presentation of CRC submissions.

Agreed action 2 (medium priority): The office agrees to assess the risks associated with the local situation and/or capacities, and review the Contract Review Committee threshold on the basis of the assessment.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: September 2014

Risk management

In accordance with UNICEF's enterprise risk-management (ERM) policy, the office is expected to systematically manage the risks and opportunities that could affect the achievement of its objectives. The policy requires the office to carry out a Risk and Control Self-Assessment (RCSA), in which an office or unit reviews the risks and records the measures that should be used to mitigate them. It then records both in a risk and control library.

The office had not given sufficient priority to implementation of the UNICEF ERM policy. It had finalized its RCSA at the end of 2012, having identified high risks in nine areas including aid environment and predictability of funding, partner relations, and financial management. However, there was no written action plan for addressing these. Had the office implemented such a plan, it might have strengthened areas that presented significant risks – such as HACT implementation, donor reporting and resource mobilization, all of which are discussed later in this report.

The RCSA had not been kept fully up to date because of senior staff changes during 2013. The Representative had joined the office in January 2013, and the Deputy Representative and the Chief of Operations in August 2013.

Agreed action 3 (medium priority): The office agrees to give priority to an office-wide risk and control self-assessment, involving all the zone offices, as well as the country office in Khartoum; to record mitigating activities for all the risks identified; and to draw up and implement an action plan for those activities.

Staff responsible for taking action: Deputy Representative/Chief of Operations/Chief of Field Operations

Date by which action will be taken: November 2014

Accountability and reporting lines

To ensure the implementation of the country programme and the achievement of planned results, country offices are expected to establish an office structure that is aligned to the needs of the approved country programme, and to assign clear reporting lines and accountabilities to staff.

Reporting lines: The office structure lacked clear accountabilities and reporting lines. While the programme sections in Khartoum were accountable for the overall results in the country, the corresponding sections at zone offices were accountable for the results in their regions, and there was an apparent overlap. Furthermore, the sections in zone offices reported to the chiefs of those offices who in turn reported to the senior humanitarian affairs specialist, and not to the deputy representative. The latter would have been more appropriate, being responsible for the overall results of the country programme and the supervisor of the programme sections in Khartoum. Also, although section chiefs in Khartoum were responsible for providing technical oversight to programme staff, they did not contribute to establishment of individual staff members' annual performance objectives or to the performance appraisals of the zone office staff.

Management of grants: The section chiefs in Khartoum were responsible for the management and reporting of grants, but lacked authority over their use by zone offices. They were, however, held ultimately responsible for the follow-up of the outstanding direct cash transfers and donor reporting. The senior humanitarian affairs specialist who supervised the zone offices was not involved in the management and use of the grants either.

Humanitarian staff: To ensure capacity to respond to Sudan's complex humanitarian environment and emergency functions, each section in Khartoum and the zone offices had at least one staff member with humanitarian responsibilities, who acted as the sector coordinator in UNICEF-led sectors (Nutrition, WASH, Education and Child Protection). In Khartoum, these staff members were the cluster coordinators who reported to the section

chief of each sector. At the zone level, they were the nutrition, WASH, education and child protection sub-regional specialists.

Although the CPMP² indicated that these staff were to be coordinated by an emergency specialist who would be reporting to the deputy representative, the existing structure did not have such a post. Moreover, the chief of El Fasher zone office had been made responsible for overall coordination in UNICEF-led clusters and to analyse trends in Darfur area. As such, sub-regional specialist posts for nutrition, WASH, child protection and education had been established. However, while the first three reported to the chief of El Fasher zone office, the education sub-regional specialist was reporting to the chief of Nyala zone office.

Agreed action 4 (medium priority): The office agrees to review the organizational structure related to programme in Khartoum and the zone offices. It also agrees to review: the responsibilities, accountabilities and reporting relationships between the sector staff in the zone offices and the sections in Khartoum; and those for the management of, and reporting on, grants.

Staff responsible for taking action: Deputy Representative/Chief of Operations/Chief of Field Operations

Date by which action will be taken: October 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 The CPMP is the Country Programme Management Plan. 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.

2 Programme management

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

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had conducted adequate mid-year and annual reviews in 2013. The annual reviews were conducted at state and country levels with the participation of implementing partners.

The office had commissioned an evaluation of a significant programme – the UNICEF-assisted Water, Sanitation, and Hygiene Programme; this was assessed as highly satisfactory by an external quality assurance firm managed by the Evaluation Office. The results of the evaluation had been disseminated, and management had responded to each of the recommendations made in the evaluation.

However, the audit also noted the following.

Situation analysis

Country offices are expected to prepare, at least once in the course of a country programme cycle, a new or updated Situation Analysis (SitAn) document that sets out the situation and needs children and women. This information will be used to inform the design of the next country programme, ensuring that it best addresses the real needs of children and women. The SitAn can be a synthesis of new statistics, national policies, laws and trends, and new research and analysis accumulated over the past years.

In April 2011 the office had completed a SitAn to inform the 2013-2016 country programme. However, it was based on outdated and unreliable information. For example, in the area of

child and maternal health and nutrition, the data on which the analysis was based on pertained to 2006. In the area of child protection, the SitAn acknowledged an absence of reliable data on the majority of child protection concerns. Inadequate information creates a risk of programmes and strategies that do not meet the critical needs.

The audit noted that three major data sets were expected in 2014: a national nutrition survey; the 2013 Multiple Indicator Cluster Survey (MICS) and Sudan Household Health Survey (SHHS); and a survey of 80,000 villages across Sudan. The MICS, planned for completion in 2014, is expected to be used to update the situation of women and children and develop the next country programme. In addition, the office stated that a comprehensive SitAn was envisaged for the mid-term review (MTR) at the end of 2014.

Agreed action 5 (medium priority): The office agrees to ensure that the planned 2014 SitAn is prepared using up-to-date and reliable information.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: October 2014

Planning for results

UNICEF offices are expected to plan their country programmes against concrete outcomes for children, and progress towards them should be measured against baselines, using indicators that are SMART (specific, measurable, achievable, relevant and time-bound). The audit reviewed whether the country programme was planned in such a way as to make this possible, starting with the country programme document (CPD) itself. The CPD is the basic description of the programme that is approved by UNICEF's Executive Board.

CPD: The audit noted that two programme components of the CPD — *Child rights and disparity reduction*, and *Transition from emergency to early recovery and sustainable development* — were overlapping. While the latter component purported to cover children in emergency areas, the former also included the same areas as it was national in scope. Both components involved the same sectors (i.e. health, WASH, nutrition, education, and protection). This meant that key progress indicators, baselines and targets could not be tied unequivocally to a set of interventions. The programme components had apparently been meant to fit the existing office structure. The office's new management team acknowledged the problem and intended to adjust the country programme in the upcoming mid-term review at the end of 2014.

Summary of results matrix (SRM): The SRM is an annex to the CPD that indicates the key strategic improvements to the country situation that will be attributable to the UNICEF-assisted country programme. It includes the expected Programme Component Results (PCRs).³ These are linked to the expected outcomes of the United Nations Development Assistance Framework (UNDAF), which is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

All the PCRs are expected to be represented in the CPD and consistent with the summary statement of results in the SRM. They were. However, some of the baselines were still to be

³ UNICEF programmes plan for results on two levels. A programme component result (PCR) is an output 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.

determined, so there was no certainty that the targets set were realistic and would result in a positive incremental change in the situation of children and women. Furthermore, a number of key progress indicators and targets were not clear, or directly linked to the achievement of planned results. For example, one PCR was *Access to WASH [water, sanitation and hygiene] services will be expanded to reach an additional 1.4 million people during the four-year programme cycle*. However, the key progress indicator and target for the same period were that 400,000 people from 400 communities would have increased access to WASH services from UNICEF supported-packaged interventions.

Rolling workplans: The office had developed the 2013-2014 rolling workplans (RWPs) jointly with implementing partners. The RWPs, which outlined the expected results and planned activities, budgets, timeframes and names of implementing partners for each activity, had been endorsed by the implementing partners. However, all were endorsed late – in March/April 2013, when it should have been at the start of the year. This meant that the planned activities had up to a quarter less time in which to be implemented. (The audit noted that the CPAP itself was not signed until even later, in May.⁴)

The audit reviewed the intermediate results (IRs) in the RWPs, and noted that 25 out of 32 sampled IRs were not specific and measurable and, in some cases, expressed an activity rather than a result. Moreover the IRs were generally broad, and included the use of words like “enhanced”, “strengthened” and “improved” that would be difficult to measure without quantifiable targets. In addition, while there were performance indicators for these IRs, some of them did not have baselines; again, this raised questions as to how the targets were set and whether the targets were realistic. Moreover, the workplans were not clear on the type of assistance to be provided to the implementing partners and the amounts agreed upon for each implementing partner.

At the time of the audit (March 2014), the 2014-2015 RWPs were being developed together with implementing partners and through consultation between the zone offices and the relevant programme sections in Khartoum.

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

- i. During the mid-term review, revisit and adjust the country programme – including key progress indicators, baselines and targets.
- ii. Establish a quality assurance mechanism and provide guidance to staff for the development of workplans to ensure that:
 - a. The expected results are specific, measurable, and describe the change expected to be brought about.
 - b. The workplans are concluded and signed early enough to start implementation on the planned start dates in accordance with UNICEF established standards.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: January 2015

⁴ Whereas the RWPs are signed with individual implementing partners, the CPAP is a formal agreement between a UNICEF office and the host Government itself 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.

Resource mobilization

Country offices are expected to develop a clear and comprehensive fundraising strategy for securing approved Other Resources (OR) in support of the country programme.

The 2013-2016 country programme had an approved budget of US\$ 284.4 million, of which the OR component was US\$ 243 million, or 85 percent of the approved budget. At the end of 2012, the office had an unspent OR allotment of about US\$ 85.7 million, which had been carried over to the new country programme starting in 2013.

Since 2013 and up to the time of audit (March 2014), the office had so far received only US\$ 31.8 million of additional OR funding (US\$ 26.9 million and US\$ 4.9 million in 2013 and 2014, respectively). The total amount of funding seemed to cover about 50 percent of the requirements for the country programme. However, analysis of the funding requirements by PCR indicated significant funding gaps in some programme areas that were jeopardizing the implementation of activities and achievement of planned results. The PCRs related to child protection, WASH, and nutrition under the programme component *Child rights and disparity reduction* were only 19, 26 and 30 percent funded respectively. There was therefore a risk that the activities under these programme components would not be implemented.

The office had developed a resource mobilization⁵ strategy for 2013-2016. However, it had not been implemented. The audit noted that, while the strategy presented the guiding principles and approaches, it did not provide an action plan with assigned responsibilities, planned funding activities, and timelines for implementation. At the time of audit (March 2014), the office was in the process of finalizing the strategy.

Agreed action 7 (high priority): The office should give priority to raising funds for the country programme, ensuring that:

- i. The revised resource mobilization strategy is completed and includes an action plan with assigned responsibilities, planned activities and timetable.
- ii. The revised strategy is implemented promptly, and its implementation is monitored regularly until it has been implemented in full.

Staff responsible for taking action: Chief of MER/Grant Management Specialist

Date by which action will be taken: September 2014

Harmonized Approach to Cash Transfers (HACT)

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

⁵ 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.

implementing partners that are either government entities or NGOs. 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 are expected to include spot checks, programme monitoring and special audits. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle.

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

During 2013-2014 (as of February 2014), the office's total cash transfers to implementing partners amounted to about US\$ 36 million, representing 36 percent of the total expenditures during the period. In addition, the office had outstanding direct cash transfers amounting to US\$ 24 million. After an unsuccessful attempt to implement HACT in 2009, the office, together with other UN agencies, had started implementation in 2013. The audit reviewed the implementation of HACT and noted the following.

Macro-assessment: In its initial attempt to implement HACT, the UN country team (UNCT) had conducted a macro-assessment of Sudan's public financial management system in 2009. However, for the current programme cycle (2013-2016), a macro-assessment had yet to be undertaken.

Micro-assessments: In 2013, the office together with the rest of the UNCT,⁶ had commissioned an accounting firm to perform micro-assessments of 29 non-governmental organisations (NGOs). Twenty-one of the 29 NGOs had partnerships with UNICEF. The audit visited three NGOs that received significant amounts in direct cash transfers (DCTs). One of the three NGOs had not been assessed; the two which that had, had been rated as low risk.

The audit noted that the records and the 2013 reported expenditures of one of the two NGOs rated as low risk could not be relied upon, because the system for tracking DCTs and the related expenditures was not properly maintained. The NGO was not able to show the reported expenditures in their audited books of accounts. Neither could it explain the journal entry for the receipt of the DCT. Further, the NGO was unable to generate a report of the expenditures pertaining to a previously liquidated DCT so that the audit could review it. The above weaknesses cast doubts on the reliability of the results of the micro-assessments.

At the time of the audit, the office had contracted the same accounting firm to conduct micro-assessments of 40 other NGOs, but had yet not taken action to micro-assess government implementing partners. Micro-assessment is, in fact, not mandatory; but if it is not done, the implementing partner must be categorized as high risk. Although the majority of the implementing partners had not been micro-assessed and were considered high risk, DCT was the sole procedure used (it would have been possible, for example, to use reimbursement

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 terms of reference, and the division of responsibilities between agencies, vary from country to country.

with full documentation of expenditure, which presents a lower risk when dealing with higher-risk partners).

Assurance activities: The office had developed an assurance plan covering spot checks, programme monitoring and audit in the last quarter of 2013. However, the assurance plan did not include all active implementing partners that had been recipients of significant cash transfers. Moreover, the office had only started the financial spot checks on the day before the audit in March 2014. Other than financial spot checks and programme monitoring, it had not implemented any other assurance activities.

The office had a checklist to serve as a guide for the programme staff who were assigned to conduct spot checks. However, the checklist was inadequate as it did not include the soundness of the internal controls and the accuracy of the financial records for cash transfers. In any case, the programme staff did not have the finance background or training needed to conduct financial spot checks. The office stated that it did not have sufficient finance staff to do them.

The above shortcomings had significantly reduced the office's capacity to obtain assurance that funds were used for intended purposes and that the office received good value for money spent.

Agreed action 8 (high priority): The office agrees to significantly improve management of the Harmonized Approach to Cash Transfers (HACT). In particular, it agrees to:

- i. Conduct, in coordination with United Nations country team, a macro-assessment of Sudan's public financial management system.
- ii. Identify implementing partners who are expected to receive more than US\$ 100,000 in the current programme cycle and, prior to initiating partnerships with them, determine whether to micro-assess them.
- iii. In the absence of a micro-assessment, consider the partners as high risk and increase the level of assurance activities accordingly.
- iv. Determine the most appropriate type of cash transfer for each implementing partner depending on risk level. If direct cash transfer is used in spite of a high risk level, the assurance activities should be adjusted accordingly.
- v. Develop and implement a comprehensive assurance plan that covers all implementing partners that receive cash assistance.
- vi. Develop a comprehensive checklist for financial spot checks.
- vii. Assign and train appropriate staff/resources to conduct spot checks.
- viii. Thoroughly review all the liquidations of cash transfers of the non-governmental organisation that was unable to systematically generate the report of expenditures, ensuring that the expenditures were recorded in its books of accounts and supported by appropriate documentation.
- ix. Include HACT implementation and assurance activities as standing agenda items in the Country Management Team meeting until HACT is fully implemented.

Staff responsible for taking action: Chief of Operations/Deputy Representative

Date by which action will be taken: October 2014

Alignment of inputs to workplans

The annual/rolling workplans that UNICEF offices draw up with their implementing partners are expected to describe the activities to be implemented, the type of assistance to be provided to the implementing partners, and the associated budgets. These workplans are the basis on which the implementing partners request cash transfers and programme supplies. The audit reviewed samples of requests for cash transfers and programme supplies, and identified the following shortcomings in the way the workplans were implemented.

Release of cash transfers: The request for cash transfer (or, if used, the FACE form⁷) used by the partner and UNICEF to request and liquidate cash transfers should mirror the workplans. However, 18 of the 27 requests for cash transfers sampled by the audit did not correspond to the activities in the agreed workplans. For instance, the request from an implementing partner indicated “construction of 13 water yards with network”, but the planned activity in the agreed workplan was “conduct State water quality assessment and WASH facilities’ functionality survey for five prioritized localities”. In a number of cases, the cost components or the budget items were presented in the requests instead of the activities for which the amounts were being requested.

The above shortcomings created a risk that activities implemented might be other than those approved in the workplan. They also made it harder to monitor implementation, as field monitoring is carried out against the activities and cash transfers listed in the FACE form – and these differed from those in the workplan.

Provision of programme supplies: Like cash transfers, the requisition and procurement of supplies should be consistent with the planned activities in the workplans. This was not the case for four of the nine sampled purchase orders raised. For example, for the activity “carry out Integrated Water Resource Management (IWRM) and groundwater monitoring”, jerry cans worth US\$ 140,000 were procured; this did not seem consistent with the stated activity, and the office could not explain why they were needed. This presented a risk that the procured supplies would not fit the planned activities, jeopardising implementation of the workplans.

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

- i. Train implementing partners and office staff on relevant aspects of cash transfers.
- ii. Strengthen supervision to ensure that requests for cash transfers and supply assistance submitted by implementing partners are in accordance with the agreed/approved workplans.
- iii. Institute periodic reviews of requests for cash transfers and supply assistance, to monitor adherence of implementation to the agreed workplans.

Staff responsible for taking action: Chief of Operations/Finance Officer

Date by which action will be taken: October 2014

⁷ 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.

Field monitoring

An office is expected to implement effective processes for monitoring use of inputs and achievement of results by implementing partners. Monitoring should include checking the use of inputs, and the progress of work against schedule and planned outputs. The Sudan office had a monitoring workflow chart showing areas to be monitored, including the situation of children and women, and monitoring of inputs, processes, outputs and outcomes; monitoring of achievements towards IRs and PCRs; and monitoring of bottlenecks and barriers.

The office had limited access to the field, but had nonetheless made considerable efforts to monitor – including joint programming monitoring visits with implementing partners and other stakeholders. Trip reports included recommendations, which were recorded in a tracking sheet by each section/zone office; the recommendations were ultimately compiled and consolidated for the whole office.

However, a number of recommendations were not practicable and/or SMART,⁸ and had therefore remained open for long periods, some for over a year. Several recommendations did not specify the persons responsible for, or the status of, their implementation. None of them specified the completion date or the implementation schedule. Finally, the major findings and recommendations from field-monitoring trips were not systematically discussed and reviewed either in programme or Country Management Team meetings.

At the time of the audit, the office had established a task force to review the field-monitoring process, from planning of monitoring trips to their implementation, reporting and follow-up of recommendations; and to identify gaps and areas for improvements. In addition, the office, with the assistance of the Information Technology Solutions and Services Division (ITSSD), had begun development of a monitoring database called iMonitor to replace the existing tracking sheet.

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

- i. Review field-monitoring processes and procedures to improve efficiency and effectiveness of field-monitoring trips.
- ii. Ensure recommendations and action points arising from field-monitoring trips are implemented and tracked.
- iii. Ensure the status of implementation of significant findings and recommendations stemming from field-monitoring trips is included as a standing agenda item in programme meetings, and submit significant unresolved issues to the Country Management Team for information and action.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: September 2014

Donor reporting

All 67 donor reports due in 2013 and 2014 were submitted on time. A dedicated staff was assigned to donor reports, and there was a process for their preparation and quality assurance.

The audit reviewed a sample of six donor reports submitted by the office during 2013 -2014

⁸ Specific, measurable, achievable, relevant and time-bound.

and noted some weaknesses. The financial utilization reports accompanying two of the three progress reports submitted directly to the donors were not accurate. The reported fund utilization varied from the financial utilization reports generated from the system by the audit, by sums exceeding US\$ 200,000 in one case and a million US dollars in the other. The office was unable to explain the discrepancies.

It was also noted that reported achievements were not adequately corroborated by supporting documentation. The audit tested a sample of eight reported achievements among the six sampled donor reports. It noted that the supporting documentation made available by the office was insufficient for three of the eight reported achievements.

The six sampled donor reports submitted did not include human interest stories to highlight the situation of children and the impact of donor funds on changes in their lives, and UNICEF's comparative advantage for implementing donor funds. Only one of the six reports included the lessons learnt during the implementation of donor funds.

Agreed action 11 (high priority): The office agrees to review the process for production of donor reports, including quality assurance, take the following steps:

- i. With assistance from the Division of Financial and Administrative Management and the Division of Information Technology Solutions and Services, reconcile the differences between the reported fund utilization in the sampled donor reports and the financial utilization reports generated from VISION; identify the root causes; and establish corrective measures to ensure accurate financial reporting.
- ii. Ensure that achievements reported in the donor reports are properly supported with sufficient appropriate evidence.
- iii. Ensure that donor reports cover the key attributes of reporting according to the guidance issued by UNICEF's Public Sector Alliances and Resource Mobilization Office, including human interest stories to highlight the situation of children and the impact of donor funds on their lives, and UNICEF's comparative advantage for implementation of donor funds.

Staff responsible for taking action: Deputy Representative/ Donor Reports Officer

Date by which action will be taken: July 2014

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, Regulations, policies and procedures. The scope of the audit in this area includes the following:

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. Bank reconciliation statements were prepared and approved on time and reconciling items properly analysed and cleared. There was an adequate business continuity plan (BCP) for the country office in Khartoum and the six zone offices. The BCP was continually updated to reflect changes in staff, location, security and systems.

The office had established a local learning and training committee for staff training and development. As a standard practice, the office provided an induction course and briefing on office functions to new staff members. It also required new staff to complete the basic and advanced security training as a precondition for the issue of staff identification cards.

However, the audit also noted the following.

Vendor master records

UNICEF's Supply Manual provides guidance for the creation, maintenance, and use of, and access to, vendor records in VISION. The creation of vendor master records should be done centrally by the designated staff member(s). The country office is also expected to ensure the completeness of the vendor's details in the master record – especially the payment transaction and the banking details, as this information is required for processing of payments.

A total of 3,095 vendor records had been created for Sudan country office as of the time of audit (March 2014). The office had assigned the role of maintaining vendor master records in VISION to three staff members. One of them had roles that were in conflict with the

maintenance of vendor master records, such as preparation of bank reconciliation statements and posting of journal entries. Also, in one case the office had yet to designate this critical function to the staff member in writing.

The office had a standard process and documentation for the maintenance of vendor master records. This included creation, deactivation and blocking of vendor accounts. However, while the process provided assurance on the existence and the legitimacy of the supply and service providers by securing their certificates of registration and/or incorporation, it did not offer similar assurance in the case of implementing partners. Neither did it include authentication of the bank accounts of the implementing partners, or of the supply and service providers.

The audit also found that vendor master records were duplicated for 160 vendors, totalling 369 of the 3,095 vendor accounts (12 percent). Of the 160, the duplicates of 34 vendors (involving 75 vendor master records) had been used for payments. Although the audit did not observe any duplicate payment due to the use of multiple master records, the risk of duplicate payment or incorrect charges existed and had not been mitigated.

The audit checked how the duplicate master records had been created and found that some had occurred during the migration of data to VISION when it was introduced in 2012, because the office had not adequately reviewed the vendor master records in the old system, ProMS, prior to migration. Others resulted from the creation of new master records without ascertaining whether one had already been created for that vendor in the system. Duplicates also arose from the lack of a naming convention for vendor master records or the creation of separate master records for similar vendors, such as those implementing partners within the same sector of government but in different states.

Duplicate vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or double payments. In some cases, implementing partners could receive DCTs despite having previous cash transfers outstanding for more than six months.

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

- i. Designate in writing the staff responsible for the maintenance of vendor master records, ensuring that this role is adequately segregated from incompatible other functions.
- ii. Revise the existing process for, and provide guidance on, requesting and creating vendor master records, to ensure that:
 - a. Adequate documentation is obtained to establish the legitimacy of the vendors and the validity of their bank accounts.
 - b. Before another vendor master record is created, there are checks to ensure there is no existing master record for that vendor in VISION.
- iii. Ascertain validity of vendors with multiple master records, and block and mark for deletion the master records which are considered invalid or duplicate.
- iv. Periodically review the vendor master records, in order to prevent duplications and ensure completeness and accuracy of records.

Staff responsible for taking action: Chief of Operations/Finance Officer

Date by which action will be taken: October 2014

Financial transaction processing

The audit reviewed whether financial transactions were performed accurately, promptly and completely and in accordance with UNICEF financial regulations and rules. It selected a sample of 102 financial transactions for review, and noted the following.

Release of cash transfers: DCTs to partners were not processed and released on time. The processing of the 27 sampled requests for cash transfers (with an aggregate value of US\$ 8.7 million) took an average of 23 days from the time of receipt of the requests to release of payments. The protracted processing exacerbated delays caused by the late submission of the requests by the implementing partners – an average of 27 days after the planned start dates of the activities. Consequently, 12 of the 27 DCTs sampled were provided after the planned start dates of the activities in the workplans.

Moreover, in 12 of the 27 cases sampled, the DCTs covered more than the maximum allowable period of three months' activities. Ten of the 12 requests were for six months' or a year's activities. This resulted in an accumulation of excess funds with the implementing partners, and prevented them liquidating the DCTs within six months as specified by UNICEF guidelines. Moreover, providing the implementing partners more than the maximum three-month requirement meant the DCTs might remain unutilized, since they were beyond the implementing partners' absorption capacity. For example, in two cases, the implementing partners refunded DCT advances of about US\$ 961,800 and US\$ 91,400 because they could not implement the activities. The office explained that the provision of DCT in excess of the three-month requirements was a transitional measure in 2013, during the change to new management; it was set to be discontinued in 2014.

The requests for cash transfer (or, where used, FACE forms⁹) were not properly and completely filled in. For example, the requests did not indicate the activities being implemented, the duration of the activities for which the cash transfers were being requested or the detailed budget. There was, therefore, no assurance that the requests were in accordance with the workplans (see also the observation *Alignment of inputs to workplans*, p15 above).

Liquidation of cash transfers: DCTs are meant to be liquidated within six months of their release. At the time of the audit in March 2014, the office had outstanding (unliquidated) DCTs worth approximately US\$ 20.5 million. About US\$ 3.14 million of this had been outstanding for over six months; of that, about US\$ 128,000 had remained unliquidated for over nine months.

The audit reviewed a sample of 15 liquidations of direct cash transfers. It noted that there was no assurance that the reported activities and expenditures were in accordance with those agreed and authorized. Thirteen of the 15 sampled liquidation transactions lacked the original request/FACE forms and/or the related budget details that detailed the agreed activities and expenditures.

It had taken the office an average of 22 days (in one case, 62 days) to approve and verify the liquidations following receipt of the liquidation documents from the implementing partners. The protracted process of approval and verification also affected subsequent releases, as

⁹ See footnote on p16.

UNICEF policy is not to release DCTs to partners with previous cash transfers outstanding for over six months; exceptions can be made, but should be approved by the Regional Director.

The office had the practice of liquidating two DCT advances with the documentation for one liquidation. This did not lend itself to proper matching of the advances against the liquidation documents. In one sampled case, a US\$ 94,600 DCT advance was liquidated as part of another DCT advance even though the liquidation documentation did not pertain to the activity for which it was released.

Discussions with government and NGO partners, and with the office staff, noted that the above shortcomings were due to an insufficient training on, and understanding of, the guidance on the Harmonized Approach to Cash Transfers (HACT), particularly on the use of the FACE form and the release and liquidation of cash transfers. (See also observation *Harmonized Approach to Cash Transfers*, p13).

Appropriateness of payments: In one case, in addition to UNICEF's share of the budget, the office paid about US\$ 27,000, which represented the implementing partner's share. When the audit noted this, the office agreed it was an overpayment and said it would be recovered in its subsequent instalment to the implementing partner. In another transaction, the office processed a sum of US\$ 380,000 that was to have been paid in three instalments, but paid it in one, even though the services had not yet been rendered. The office explained that it did so since the related grant was about to expire.

Supporting documentation: Fourteen out of a sample of 68 payment transactions reviewed were processed despite missing supporting documentation such as invoices, service certificates and evaluation reports.

Cash receipts: The audit checked 11 sampled refunds of unspent direct cash transfers and reimbursements for VAT and use of office facilities. Eight of these payments had not been deposited and recorded promptly. The delay ranged from five to 33 days.

Multiple bank accounts: Each zone office had operations staff who were responsible for, among other things, processing payment transactions within their respective locations. Each zone office had therefore maintained a bank account. Together with the local currency and US dollar bank accounts in Khartoum, the office had eight bank accounts. Such an arrangement may have made sense before 2012, when VISION was implemented. However, VISION now enables processing of payment transactions pertaining to the whole country or even globally at one location. The office should not now need eight bank accounts but only two, one for local currency and another for US dollar transactions. The office would not then need to prepare monthly bank reconciliation statements for six bank accounts.

Agreed action 13 (high priority): The office agrees to review the current processes and procedures for monitoring and supervising the processing of financial transactions. The office will ensure that:

- i. Lead times are established, monitored and complied with for implementing partners' submissions of requests for direct cash transfers (DCTs), liquidations of DCTs, and the office's release of DCTs, and approval and verification of their liquidation.
- ii. DCTs cover activities for a maximum period of three months.
- iii. Implementing partners and office staff are trained on the policy and procedures related to completion and review of DCT requests, including those made using the

- funding authorization and certificate of expenditure (FACE) form, and on the liquidation of the direct cash transfers.
- iv. Payments are properly processed and supported by appropriate documentation.
 - v. Cash receipts are promptly deposited and recorded in the books of accounts.
 - vi. All local-currency payments in Sudan are made through a single bank account.

Staff responsible for taking action: Chief of Operation / Finance Officer

Date by which action will be taken: October 2014

Local procurement

The office procured US\$ 8.6 million of supplies locally in 2013.

The office had a Contract Review Committee (CRC) that reviewed contracts and provided recommendations to the Representative. The office also used the results of the market surveys conducted by other UN agencies in Sudan to update its supplier list, and took advantage of long term arrangements (LTAs) concluded by other UN agencies.

The audit reviewed a sample of eight local procurements. It noted that the office had not established a procedure for pre-delivery inspection of locally procured office supplies and programme supplies. None of the supplies – including those for (for example) therapeutic feeding, which would require pre-delivery inspection – were inspected before delivery.

The performance of the suppliers was not evaluated. One supplier was not recommended for an LTA valued at US\$ 450,000 on the basis of poor performance, but there was no evaluation to support the assertion of poor performance made during the contract review committee (CRC) meeting. Also, the supplier who *was* awarded the LTA (in spite of a higher bid) did not execute it well. It was supposed to deliver 56 generators by May 2013, but at the time of audit (March 2014) it had so far delivered only 11.

The audit also noted that another LTA, with a value of US\$ 4.5 million, had been awarded to a supplier on the basis of a CRC recommendation in a meeting that lacked the required quorum.

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

- i. Establish country-specific guidance for pre-delivery inspection that should include, among other things, the criteria for pre-delivery inspection (such as the nature and quantity of supplies ordered).
- ii. Assign oversight responsibilities to ensure periodic evaluation of suppliers' performance.
- iii. Implement oversight measures to ensure that CRC recommendations are only acted upon when it has met with the required quorum.

Staff responsible for taking action: Chief of Supply and Logistics

Date by which action will be taken: September 2014

Human resources management

Country offices are expected to ensure that staff have adequate capacity, knowledge and skills required to support the implementation of the country programme and achievement of

planned results. Effective, efficient, fair and transparent staff selection is a critical function that has a significant impact on UNICEF's ability to deliver results for children. UNICEF's executive directive CF/EXD/2009-008 (updated with CF/EXD/2013-004) sets out the requirements for recruitment that places the right person in the right job in the quickest possible time. UNICEF Sudan had established a work process on recruitment and had set a standard duration for its completion (two months for local staff and three months for international staff). Selection panel members were appointed and there was a Central Review Body (CRB).

For the new country programme 2013-2016, the office had reorganized its structure, resulting in the abolition of 91 posts and the establishment of 53 new ones. In 2013, it completed the recruitment of 114 positions (32 international posts and 82 national posts).

The audit reviewed a sample of 13 of the 82 recruitment processes for national posts (the international posts were dealt with by the Division of Human Resources, DHR, in HQ). The audit noted that due process was generally followed in the recruitment of general service and national staff. However, there were some shortcomings, due to a combination of weak oversight, poor planning and the difficulties in attracting suitable candidates. For example:

- The job descriptions upon which selection criteria and vacancy advertisements were based on were not updated and had not been approved by the responsible officers (the supervisor in question and the Representative).
- Eighty percent of the selection panel members had not undergone training in UNICEF competency-based interviewing.
- Recruitment files containing personal and confidential information on candidates were filed in open cabinets without locks.
- The office did not arrange talent groups where applicable, although they would have expedited the recruitment process.
- The recruitment process was protracted. It took an average of more than five months to complete the recruitment process, ranging from four to nine months. This greatly exceeded the office's own standard of two months.

It was also noted that the office had no process for verifying academic qualifications. There was no UNICEF guidance with specific criteria on how and when to do this and, in answer to an enquiry from the audit, DHR confirmed that it did not require country offices to conduct such verification. However, there is a risk that candidates may misrepresent their academic attainments or professional certification and may not have the required qualifications.

At the time of the audit, a total of 14 posts (five international professionals, five national officers, and four general service staff) were still vacant. A number of these vacancies were in key posts that had been vacant from three months to over a year. These were the education specialist (NOC), the WASH cluster coordinator (P4), health officer in El Geneina (NOB), chief planning, monitoring & evaluation (P5) and human resources officer (P2). The general service posts were temporarily frozen due to the impending establishment of a global service centre.

The above shortcomings, including delays in filling vacant positions, risked weakening the office's capacity to achieve programme and operational objectives.

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

- i. Identify the causes of delays in recruiting staff and implement corrective

- measures to ensure recruitment is completed within the established timeline.
- ii. Establish a local talent group from suitable candidates endorsed by the central review body (CRB) in order to expedite the recruitment process.
 - iii. Establish measures to verify the veracity of academic qualifications of candidates.
 - iv. Update and approve job descriptions prior to vacancy announcements.
 - v. Prioritize filling of the vacant posts, including identification of barriers to attracting qualified candidates and measures to overcome them.
 - vi. Provide competency-based interview training to staff and ensure that only those who have attended the training can sit on selection panels.
 - vii. Restrict access to recruitment files.

Staff responsible for taking action: Chief of Human Resources

Date by which action will be taken: September 2014

Agreed action 16 (medium priority): The Division of Human Resources should issue a procedure and guidance with specific criteria on how and when to verify the authenticity of academic qualifications of selected candidates.

Staff responsible for taking action: Chief, Mobility and Staffing Section and Chief, Policy and Administrative Law Section

Date by which action will be taken: December 2015

Inventory management

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

The office maintained programme supplies in six rented warehouses, in Khartoum, El Geneina, Kassala, El Fasher, Nyala and Kadugli. It had completed a physical inventory count of the supplies in November 2013. As of the audit (March 2014), the programme supplies in the warehouses amounted to US\$ 5.7 million.

The audit visited the warehouse in Khartoum, which had US\$ 4.4 million-worth of programme supplies (about 78 percent of the total by value). There were security guards and a generator was on standby in case of power failure. The warehouse was fenced and was equipped with fire extinguishers. However, there were the following shortcomings in inventory management.

- Health and nutrition supplies such as therapeutic milk, and pharmaceutical drugs valued at US\$ 752,000, were stored in areas above the temperature level specified by the manufacturer.
- Twenty solar-powered vaccine refrigerators valued at US\$ 201,000 were left in the open, exposed to dust, rain and sun.
- Programme supplies valued at US\$ 547,800 that had been damaged by fire in August 2013 were still at the warehouse, awaiting Comptroller approval for write-off.
- Programme supplies valued at US\$ 900,000 that had been intended for direct delivery from the suppliers to the implementing partners/beneficiaries had been kept at the warehouse for three to over 12 months. It was not clear why.

- Programme supplies valued at US\$ 2 million that were intended for programme implementation had yet to be distributed to the beneficiaries – again, it was not clear why. About US\$ 300,000-worth of this had been in the warehouse for over a year.

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

At the time of audit, the Sudan account had a balance of US\$ 3.2 million, with 164 line items. Pending delivery to a UNICEF warehouse or receipt by the partners, these 164 items would not be cleared, the account balance would not be reduced, and they would not be recorded as inventory or expenditures.

An analysis of the ages of these open items indicated that about 2 percent (US\$ 58,700) of them pertained to 2012 and 8 percent (US\$ 243,400) to the first half of 2013. The 2013 account closure instruction issued by DFAM required the country office to review a report from VISION through the material management (MM) module to ensure that the outstanding items were indeed “in transit”, and to follow up those long outstanding. While the outstanding items in the report from MM module were reviewed by the country office in accordance with the instruction, they were not reconciled with goods-in-transit general ledger accounts.

Discussion with DFAM established that the country office was responsible for monitoring goods in transit and ensuring that supplies were handed over to the implementing partners, or received into warehouse inventory, in a timely manner. The office was also responsible for ensuring that these transactions were reflected in VISION – particularly in the MM module, as communicated to all country offices in the 2013 accounts closure instructions. DFAM stated that it was responsible for reconciling the entries in MM module with the goods-in-transit general ledger account, and for pursuing the clearance of open items that were not cleared through the automated clearing process.

Agreed action 17 (high priority): The office agrees to take the following steps, and to establish oversight mechanisms to ensure their implementation:

- i. Store supplies according to the conditions specified by the manufacturer.
- ii. Take immediate measures to dispose of supplies damaged by fire, first obtaining approval from the Comptroller.
- iii. Have the health and nutrition supplies that have been subjected to extreme temperatures tested to ensure that they are fit for human consumption.
- iv. Review the supplies at the warehouse, draw up a distribution plan and deliver the supplies in accordance with the workplans on the basis of which they were procured in the first place.
- v. Train staff on inventory management.

Staff responsible for taking action: Chief of Supply and Logistics

Date by which action will be taken: December 2014

Agreed action 18 (medium priority): The Division of Financial and Administrative Management (DFAM) agrees to complete the reconciliation of the outstanding items “in transit” with goods-in-transit general ledger accounts and to clearly state, in the accounts

closure instructions, the responsibilities of the country office; and in the HQ accounts closure instructions, the responsibilities of DFAM pertaining to goods in transit.

Staff responsible for taking action: Financial Reporting Manager

Date by which action will be taken: September 2014

Access to ICT resources

The office had established a procedure for providing users with access to core UNICEF information and communication technology (ICT) resources, such as the network, email, Intranet and VISION transaction management system components. It had correctly assigned provisioning and de-provisioning of access to ICT resources to the human resources unit, as it maintained the employment records of staff members and consultants.

However, a review of the access of all 277 users in Sudan country office at the time of the audit noted that 25 of them had access to the ICT resources beyond their contract expiry dates. On the other hand, 49 users had their access rights set to expire before their contracts. Also, seven users who were no longer employed by the office or were not employees of UNICEF still had access to the ICT resources at the time of the audit. Finally, the names of some staff members registered as system users were not consistent with their names as written in their employment contracts. In an isolated case, the contract expiry year of a staff member was erroneously registered in VISION as 2204.

These errors were caused by a lack of assigned responsibilities and by weak oversight. They created a risk of unauthorized access and/or inappropriate transactions, resulting in potential loss of resources and data integrity.

Agreed action 19 (medium priority): The office agrees to establish oversight mechanisms to:

- i. Review the accuracy of the names of staff and consultants, together with their respective contract expiry dates, and ensure that they are appropriately registered in VISION and in the system for provisioning and de-provisioning of access to ICT resources.
- ii. Grant access only to individuals with valid contractual relationships with UNICEF.
- iii. Ensure the access rights of users are terminated as soon they leave the office.
- iv. Establish a periodic review of the validity of the users' access rights to ICT resources to ensure that they are consistent with the expiry dates of their contracts.

Staff responsible for taking action: Chief of Human Resources/Chief of IT

Date by which action will be taken: Done

Operations support: Conclusion

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

Annex A: Methodology, and 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.