

Internal Audit of the Kenya Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/01



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Kenya Country Office. The audit sought to assess the governance, programme management and administrative and operational support over the CO's activities. The audit team visited Kenya Country Office from 10 to 26 June 2012. The audit covered the period from January 2011 to June 2012.

In the past three years Kenya has witnessed several defining events that have shaped the country's development agenda. These include the post-election violence of 2007/2008, the drought crises of 2009 and 2011, the arrival of 150,000 refugees fleeing conflict and famine conditions in Somalia, and the approval by referendum of a new Constitution in August 2010. There is continuing chronic vulnerability and mounting insecurity in Northern and North-Eastern Kenya.

Significant progress has been made in reducing under-5 and infant mortality, which dropped by 36 percent and 32 percent respectively between 2003 and 2008. However, there are persistent regional disparities. The new Constitution has devolved political power, finances and planning and service delivery to 47 counties. Further detail on the country environment is given in Annex B.

In 2011, the office's total budget amounted to US\$ 91.8 million, of which US\$ 44.2 million was for the Horn of Africa emergency. Expenditure for the year was US\$ 69.7 million. At the time of audit in June, the country office's overall available budget for 2012 so far was US\$ 66.4 million, of which the office had spent US\$ 21 million.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. One of them is being implemented as a high priority.

- Changes are planned to the office's assurance plans, including its programme of micro-assessments, spot checks, and audits. This will enable the office to better confirm that the funds transferred to implementing partners have been used for the appropriate purpose.

Conclusion

Based on the audit work performed, OIAI concluded that the risk management and control processes were functioning well in the area of governance, but that there were opportunities for improvement in the areas of programme and the operations and administrative support. The measures to address the observations made are presented with each observation in the body of this report.

The Kenya country office and OIAI will work together to monitor implementation of these measures.

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Objectives and scope

The objective of country-office audits is to provide assurance as to whether there are adequate controls over a number of key areas in the office, and to inform management of the audit's conclusions. The areas reviewed include the economic acquisition and efficient use of resources, safeguarding of assets, accuracy and timeliness of financial and operating information, compliance with standard operating procedures for Level 3 Emergencies and other relevant UNICEF policies and procedures. The audit also reviews the office's measurement and reporting on whether objectives have been met, and assesses whether activities comply with UNICEF's and other applicable regulations, policies and procedures.

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.

Noteworthy practices

The audit draws attention to an example of good practice in this area that merit sharing with other country offices.

In 2011-2012 the office underwent a mid-term management review (MTMR). During this process, the country office, together with Government and other partners, reviewed progress towards achieving country programme results, and agreed on adjustments as appropriate. Such adjustments included a re-definition of the 2009-2013 staffing structure; this was done to ensure that the mix of skills and experience matched the programme's emphasis on influencing policy and budgets at national and county levels. Other steps taken as a result of the review included strengthening capacity of sub-national partners for analysis and use of data on equity and human rights, and capacity development for planning at country level and prioritization of resources.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following.

- The office also assessed its priorities and management results, and drew up a comprehensive outline of responsibilities within the office premised on the conclusions of the MTMR.
- The various management bodies functioned effectively, and there were mechanisms to enhance communication between management and staff.
- The staff appeared to have a good understanding of UNICEF's ethics-related policies and documentation.
- The office also had a low vacancy rate.
- The office was in the process of implementing a VISION Hub to strengthen the introduction of a new integrated management system.

The Kenya Country Office (KCO) Support Centre has been providing services related to human resources, financial management, information technology, supply and logistics, and asset management to the eastern and southern Africa Regional Office (ESARO) for over 10 years. The audit included an assessment of controls related to the provision of these services and found that they showed a marked improvement since the beginning of 2012 and were working well at the time of the audit.

Risk management

Staff members in an office are expected to be involved in the process of identifying, assessing and managing risks related to their area of work. This includes participation in a regular risk control and self-assessment exercise. In the Kenya office, this exercise was developed in two stages, in February 2010 and in September/October of the same year. Both covered the development of a risk library, and a review of selected work processes to make them risk-informed. About half the staff, representing all sections (programme, emergency, operations and finance), participated in this exercise.

During February to April 2012 the risk library was revised, largely to incorporate emerging changes in the country environment – especially the Horn of Africa emergency. As a result, the Risk Library had changed significantly. However, there was insufficient staff involvement in this later exercise, as there had been insufficient planning to ensure wide participation. This was due in part to staff changes at the top management level, but was also due to the demands of the Horn of Africa emergency.

Agreed action 1 (medium priority): The office agrees to increase staff involvement in risk assessment and mitigation, and intends to brief them on the current risk-management plan. It intends to finalize the Risk Profile and risk-management plan for 2012 and adopt specific action plans for five high-priority risks. The risk-management plan is to be reviewed by the Country Management Team. The office expects to complete these actions early in 2013, and review progress on both the risk profile and the risk-management plan in the first quarter. The responsible staff members are the Deputy Representative and Quality Assurance Specialist.

Governance area: Conclusion

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

All the areas above were covered in this audit, except for annual and donor reporting. These were omitted in order to concentrate on other areas thought to have higher priority in this case.

Satisfactory key controls

- The office gave particular emphasis to the importance of advocacy on behalf of children and this was backed up with factual evidence and data.
- The office pursued strategic partnerships to obtain more resources.
- There was a comprehensive integrated monitoring and evaluation plan for the current programme that was updated annually.

Availability of data for programme design

In UNICEF programmes, key indicators are used for the baselines against which expected results will be measured. The audit reviewed whether some of these indicators were evidence-based on appropriate date of relevant activities and conditions in the country. Offices are also expected to produce a situation analysis (SitAn) or equivalent research into the situation of children and women in a country and to base the country programme on appropriate data.

The office had developed a framework that laid particular emphasis on evidence-led advocacy and strategic partnerships. The framework aimed to leverage more resources and results, and accelerate progress in identified critical areas. It also envisaged the gradual

integration of all these in national planning documents and policies. A situation assessment of children in Kenya had been undertaken in 2008, and constituted the basis for the current country programme (2009-2013).

The office had undertaken, as input into the MTMR of 2011, an equity diagnostic review to guide any further adjustments needed to programme component results and intermediate results (PCRs/IRs) and programme strategies. Baseline and reasonably defined indicators had been established for some PCRs/IRs. The office was also supporting processes aimed at improving analysis and use of existing data and information on children, and harmonization of various indicators (especially in water and sanitation).

However, there were opportunities for greater consideration of data dissemination and use at the planning stage.

Missing indicators: The audit reviewed the availability of data for some of the key baseline indicators outlined within the consolidated results matrix. It was noted that indicators could be strengthened in some cases – especially in Water and Sanitation (six out of 12 indicators), Education (three out of 11 indicators), and Advocacy and Partnerships (four out of seven indicators). There were also room for improvement of indicators for some zone offices, where most sectoral components are emphasised. With the current country programme ending in 2013, analysis of progress towards achievement of results was bound to be constrained by these gaps.

Data availability: Government and NGO implementing partners and programme staff told the audit team that although there was generally sufficient data available, there was need for further disaggregation. Dissemination and use of data and information was problematic, and reliability could not always be assured. In Education, in particular, availability of data was constrained by inconsistent collection and dissemination. National systems for data collection still required improvement.

IMEP: The office had a comprehensive integrated monitoring and evaluation plan (IMEP) for the current programme which was updated annually. Although there was a generally adequate implementation rate of planned research, evaluation and related activities, there was no obvious emphasis on a thematic and/or convergent approach to research and evaluation; for example, five out of seven planned evaluation activities were project- or sector-specific. A more integrated research activities could be achieved by increasing the participation of the strategic planning, monitoring and evaluation section in identification of sectoral data and information requirements.

Agreed action 2 (medium priority): The office agrees to, by end of the second quarter 2013, assign responsibilities for establishing relevant baseline data and related means of verification for each of the indicators where they are lacking, and to enable realistic assessment of progress towards planned intermediate and programme component results.

Agreed action 3 (medium priority): The office agrees, through the Chief Social Policy Monitoring and Evaluation (SPME), to complete the following actions by 1 February 2013:

- i. Develop a quality-assurance mechanism and standard operating procedure to establish and verify a database for indicators. The procedure should include work processes and checklists, with clearly defined staff roles and responsibilities.
- ii. Form a Quality Assurance team for reviewing strategic data needs, research and

- analytical products.
- iii. Plan the adequate dissemination of data and analysis arising from research.
- iv. Put in place a training program for staff of sections on data required and its use in planning and policy advocacy. This training should take place over the next five months.
- v. Establish a relevant data base for each of the indicators where this is lacking,
- vi. Verify the accuracy of these indicators.

Planning and partnerships

The audit reviewed whether the office pursued a partnership strategy that reflected the relevant UNICEF guidance, as laid out in the 2009 Partnership strategy and the revised *Guidance for Collaboration with NGOs and CBOs in Country Programmes of Cooperation*. The office also reviewed whether the office fully involved the partners in the planning process.

Strategic partnerships: The audit reviewed whether Partnership Cooperation Agreements (PCAs) were signed promptly; were focused on results, and were based around realistic time-scales. In 2011, the office entered into partnerships worth a total of US\$ 19.9 million with 41 NGOs. Roughly half were to support the Horn of Africa emergency response.

NGO partners interviewed during the audit thought the office generally performed its convening role well. However, they mentioned that there was room for improvement regarding meaningful participation and engagement by NGOs in some fora pursued by UNICEF at a national level.

The office had an established Advocacy and Partnership (AP) section, responsible for overall country-level advocacy and strategic partnerships. The audit was informed that the linkages between the AP section and programme sections were weak, and its role was not well understood. The unit was not involved in substantive partnership development, as its emphasis has thus far been on corporate-sector engagement, and its relationships had been largely financial. The office is gradually re-establishing and enhancing inter-sectoral collaboration while also strengthening the skills of mostly new staff in this regard.

Partnership Cooperation Agreements: Most partnerships had a clear focus in terms of expected results, but several PCAs reviewed were ambitious for the short implementation periods stipulated. Some implementing partners also commented on the need to outline results that were measurable and achievable.

The process of planning and developing PCAs was lengthy, taking two to six months, and sometimes continuing during implementation. The office indicated that procedures for emergency-related transactions had been lightened up, but partners commented that they sometimes took as long as regular ones. In one case, disbursement was made after the stipulated duration of supported activities.

Partners mentioned, and the audit confirmed, a lack of clarity on the office's institutional mechanisms for the entire PCA development process—especially in cases of staff turnover. This made PCA processes very cumbersome, especially when arrangements already concluded were reversed. Also, the processes were not consistent across programme sectors. Updates related to changes in UNICEF's workflow were not always provided. One cause of the lengthy PCA process was that staff members assigned to negotiate and conclude PCAs did not have authority to make commitments, and so had to consult back and

forth, making the process longer. The high turnover of senior managers during this period exacerbated this constraint.

The office had recently made significant changes to its PCA process that included quality assurance of measurability and alignment of results, justification for choice of partner, cross-referencing across programme sections regarding a partner supporting more than one programme section, and a documented workflow of the entire process. It was too early to fully determine the effect of these changes.

Cash transfers: An office should also ensure prompt processing of cash transfers to support partners' activities. Several Government and NGO partners mentioned delays in cash transfers, especially but not only during VISION implementation.

Agreed action 4 (medium priority): Within its ongoing reforms to the PCA process, the office, through the Deputy Representative and the Quality-Assurance Specialist, agrees to take the following measures before 1 February 2013.

- Assign staff with appropriate authority to engage in programmatic commitments with external partners.
- Introduce a revised quality-assurance process for PCAs.
- Establish a section-level tracking mechanisms that define staff accountability in dealing with NGOs, and identify ways to assess partners' capacity-development needs.
- Review its current processes to ensure efficiency in effecting disbursements to implementing partners.

Supply and logistics: The audit reviewed the office's requisitioning of supply inputs, and whether it was done in time for prompt programme implementation. Supply assistance, whereby UNICEF procures various programme supplies on behalf of the government or implementing partners, accounted for 35 percent (US\$ 24 million) of total programme expenditures in 2011. Of this, US\$ 7.5 million-worth was procured locally. In supply management, the audit sample showed delays in emergency deliveries ranging from two to five months. The office attributed the delays to weaknesses amongst suppliers, including for packaging according to stipulated requirements.

The office's risk and control self-assessment mentions management of supplies and logistics as an area of high risk, where adequate controls had yet to be established, especially in the sourcing and identification of suppliers. The office had not done comprehensive market research, although requests for proposals (RFPs) had been invited from suppliers for some commonly procured items. There were also some limitations to ensuring integrated supply planning. For example, although supply plans were duly prepared, they did not systematically factor in logistics-related constraints in delivery periods and indicate these in planned activity dates. Further, although the office had contracted a transports/logistics company, it had not yet undertaken a thorough logistics assessment in the areas where most supplies were delivered, especially in the part of the country covered by the emergency.

Agreed action 5 (medium priority): The office agrees to conduct a country assessment of essential commodities (CAEC) and a logistics capacity assessment (LCA) in consultation with partners by the end of the second quarter 2013. The outcomes of these exercises are to be used in the preparation for a new Country Programme. The responsible staff member will be

the Chief of Supply.

Results-based monitoring

The audit reviewed whether the office monitored progress towards planned component programme and intermediate results (PCRs and IRs) as outlined in the annual workplans (AWPs). It also reviewed whether the office helped partners undertake focused monitoring, ensuring that planned interventions were implemented as agreed. It also verified whether the office, in collaboration with implementing partners, undertook sufficient monitoring of progress towards the achievement of programme results outlined in the multi-year workplans, including providing evidence on the efficient use of resources (cash and supply).

Results and monitoring tools: Rather than use a centralized or decentralized approach, the office maintained IR results-owners at the national level while zone offices implemented activities and controlled selected budgets. Under this mixed model, the zone offices report results to the IR-results owner at national level “off-line” and these are then entered into VISION.

The CO had identified strategic results areas within its annual management plan, and had introduced a component-level monitoring tool with each rolling workplan (RWP). At zone-office level, the monitoring tool outlined activities, indicators, targets, means of verification, and sources of information. The zone office RWPs (which were yet to be finalized) were to be a subset of the overall national PCR and IRs for each sector; hence no results were defined at this level. In addition, the office had just completed an introduction of the monitoring for results (MoRES) concept for programme staff, assisted by the Regional Office. Discussions with programme staff showed some analysis of bottlenecks was underway.

Discussions on systematic results-based monitoring showed variations, as zone office staff had not yet been exposed to results-based monitoring. Tools temporarily in use were more focused on monitoring activity implementation. These tools needed to be assessed in order to avoid burdensome monitoring and duplication. The office stated that it had developed results targets (revised mid-year) against which progress was reported every fortnight.

Implementing partners’ skills and systems for monitoring results: During interviews NGO implementing partners expressed the need for specific training on results-based monitoring. Six NGO partners interviewed indicated that guidance on monitoring visits, and tools to support such visits, needed strengthening to ensure results-based reporting. Partners also commented that UNICEF staff should be more involved in physical monitoring of activities, especially at the initial stage, to assess constraints and address them as they arise while also providing guidance to partners, as stipulated in the PCAs.

End-user monitoring: This function, which entails monitoring the relevance, appropriateness and effectiveness of provided supplies and equipment, needed to be strengthened, even though supply assistance in 2011 comprised approximately 35 percent of total programme throughput. This could be achieved by better prioritization by both programme and supply staff. Where supplies had been provided, there was a need for evidence of consistent end-use monitoring.

The office had limited capacity for systematic results-based monitoring because most resources were focused on the Horn of Africa emergency.

The many results-monitoring regimes required by various HQ divisions were mentioned as an additional constraint. For example, in addition to monitoring progress towards strategic results areas as set out in the RWPs (in which Disaster Risk Reduction and humanitarian action are mainstreamed), the office had had to report results for humanitarian programmes that were monitored and reported monthly through the Humanitarian situation reports, and at mid-year and year-end through the Inter-Agency Humanitarian Appeal and UNICEF Humanitarian Action for Children. In addition, monitoring of preparedness is undertaken through the Early Warning-Early Action Systems.

The office stated that, in 2012, in addition to introducing the concept of results-based monitoring to some programme staff, it had started to review its programme monitoring processes and was in the process of developing more relevant tools.

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

- monitor compliance with established standards for monitoring progress against planned results and undertaking end-user monitoring of supplies;
- ensure monitoring tools are adequate, understood, and are systematically used to track progress; and
- prioritize skills strengthening in results-based management and monitoring, for all programme staff, and implementing partners.

The responsible staff are the Planning Specialist and Monitoring Officer and the actions will be completed by the end of the first quarter 2013.

Assurance activities

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries.

HACT exchanges a system of rigid controls for a risk-management approach to cash transfers to implementing partners. It aims to reduce transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

HACT also requires assurance activities regarding appropriate use of cash transfers. These include spot checks of partner implementation, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Unfavourable findings from assurance activities should result in a review of the procedures used with that partner. A key component of HACT is that the risk assessments and assurance activities should be carried out in cooperation with the three other UN agencies that have also adopted HACT.

The office had been implementing HACT since 2009. The country office disbursed US\$ 19.9 million in 2011 to 41 implementing partners, representing approximately 30 percent of total expenditures. A total of 22 of these partnerships (US\$ 9.6m) were to support the Horn of Africa emergency response in the period June-December 2011. The office had commissioned an external firm to undertake micro-assessments of both Government and non-

Governmental partners in 2011-2012. A total of 66 Government and NGO partners were assessed during this period.

The office had made efforts to engage other UN agencies through the UNCT, to undertake inter-agency HACT activities; however, no concrete actions had as yet emerged from other agencies. The office had also shared micro-assessments of implementing partners with which other agencies had partnerships.

The office did not prepare an assurance plan for 2011 that included planned assurance activities, responsibilities, required resources and timelines. The audit team also noted the following.

Micro-assessments: Although the micro-assessments were used to determine the number of spot checks on each NGO implementing partner, they were not used to determine the type of cash transfer used, since direct cash transfers (DCTs) are used for all partners.

Seven of 18 NGO implementing partners interviewed by the audit team said that the micro-assessments had not been very well conducted or explained to them. Also, the assessments did not always include assessments of partners' programmatic capacities.

Spot checks: The spot-check work-papers were properly filled out in sampled spot-check reports; receipts and deposits had been confirmed, segregation of functions tested, and bank reconciliations reviewed. There was written guidance for staff on undertaking spot checks. However, the office needed to systematically follow up recommendations made during these spot checks. NGOs interviewed by the audit reported that there was no feedback or further communication from UNICEF after the spot checks or the basic training provided for HACT.

Audits: Under HACT, partners expected to receive project funds of more than US\$ 500,000 in a given year should be audited during the programme cycle. In 2011 there were 13 such partners and they received a total of US\$ 10.6 million. Five of these were rated as significant risk. However, the office did not carry out any audits in 2011, due to the focus on the Horn of Africa emergency.

In 2012 the office awarded a contract for carrying out audits and micro-assessments of implementing partners to a company, with emphasis on including programme implementation during these assessments. However, there was no specific requirement to audit partners above the threshold of \$500,000 (although some were included).

Constraints to HACT: Constraints to planning of both micro-assessments and assurance activities included the Horn of Africa emergency. However, there was also a need to strengthen understanding of the HACT concept. Other constraints included a need for clearly assigned responsibilities for quality-assurance review, realistic planning of spot checks, adequate oversight of spot-check reports, and complete guidance to staff on reporting results of spot checks. The office stated that, since April 2012, it had established some mechanisms to address these constraints. These included the award of the new contracts mentioned above, and use of micro-assessment results for subsequent planning of partnerships. It was not yet possible to assess the effectiveness of these mechanisms.

Agreed action 7 (high priority): The country office agrees to, by the end of the second quarter 2013, assign responsibilities for establishing and monitoring the implementation of a

realistic assurance plan, including all relevant assurance activities – namely spot checks, special audits, programmatic monitoring and scheduled audits.

The office plans to monitor the implementation of the assurance plan regularly through the Country Management Team, establishing a follow-up mechanism on the findings from audits and micro-assessments – including alignment of the payment type with the risk level identified.

These actions are planned for the first quarter of 2003. The office has also agreed to mount immediate audits of partners that have received US\$ 500,000 or more within the current programme cycle, and of any other partner deemed relevant for audit. The office intends to provide its newly hired audit company with a list of those partners affected. The responsible staff will be the Chief of Operations and the Quality-Assurance Specialist.

Programme management: Conclusion

Based on the audit work performed, OIA concluded that the controls and processes within programme management 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 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.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

- The country office's operating procedures related to financial controls were generally adequate.
- The office's cash forecasting mechanisms were effective.
- A Contract Review Committee (CRC) with appropriate membership met to review major contracts.
- The office's 2011 year-end accounts closure reports were processed and submitted to the Division of Financial Management and Administration on schedule.
- The office had effective processes for following up on outstanding direct cash transfers (DCTs).

Financial-transaction processing

The audit verified the systems in place to ensure that financial transactions are complete, correctly processed, and are promptly and accurately recorded. It noted the following shortcomings in the processing of financial transactions, and attributed them to the need for attention to detail and stronger supervision of compliance with organizational requirements. The implementation of VISION was also a factor.

- In eight out of 36 cases reviewed, the office did not secure acknowledgement for receipt of cash transfers from partners.

- There were four cases of inappropriate segregation of duties, wherein certification was not done in accordance with assigned authority. In one case, the functions of authorization, certification and approval were undertaken by the same staff member. Wrong general ledger coding was noted in 11 percent of transactions and 13 percent did not have proper supporting documentation. Most of the FACE¹ forms were not completed correctly. In another case, a payment to a UN organization from the regional office, under a joint programme for a research activity, was made and coded as a direct cash transfer to an NGO.
- Verification of supporting documentation to support sampled cash transfers to partners was not always accurate, and some had no activity reports that certify the completion of planned activities.
- Refunds for DCTs that were close to the six-month limit amounted US \$ 331,782. These funds were later re-advanced to implementing partners as new DCTs.

All 10 contracts in the sample tested were signed after the start date, with delays ranging from one to over 30 days. Use of long-term arrangements in lieu of formal contracts was also noted.

Agreed action 8 (medium priority): The country office agrees to do the following.

- i. Attach receipts to the relevant 2011 unliquidated transfers. Starting in January 2013, receipts will be attached to the Funds Commitment in VISION. All staff members are being reminded to comply with this.
- ii. Ensure proper segregation of duties and exercise of functions within authorized limits as per UNICEF Policy 1. To this end, all staff members will be trained on segregation of duties in addition to the Release Strategy issued by the Representative on 28 March 2012. The office will also revisit its role mapping in line with the segregation-of-duties violation report received from HQ.
- iii. Ensure proper recording of transactions in accordance with IPSAS, by providing training for all staff members (KCO and ESARO) on coding and proper documentation for different transactions.
- iv. Ensure proper documentation and authorization of advances and prepaid expenses in accordance with Policy 5, Supplement 2, by giving refresher training to all staff on new Financial Rules and Regulations which are effective 1 January 2012.
- v. Ask all staff members to comply with contractual arrangements (this has already been done). The office will make this an agenda item during Programme Coordination meetings and CMTs.

The responsible staff will be the Finance and Accounts Specialist (i, ii ,iii), and the Chief of Operations (ii, iii, iv).

Rental agreement

The office did not have a formal rental agreement. There was in fact no formal lease agreement between the landlord and any of the UN agencies, as a memorandum of understanding (MoU) drafted in 2007 and reviewed in 2008/09 had never been finalized. The Division of Financial and Administrative Management (DFAM) had been told on several occasions that there was no lease agreement. The office told the audit team that it was imperative to conclude one, and this could only be done with DFAM and Regional Office

¹ Funding Authorization and Certificate of Expenditures.

support.

Two advance payments were made against the office rent without authorization from UNICEF Comptroller or Deputy Executive Director for Management, although both payments were over the limit of US\$ 70,000 above which such authorization should be sought. The payments were not recorded as prepaid expenses, because the office did not have a formal rental agreement against which the payments and related terms could be assessed.

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

- i. With support from Eastern and Southern Africa Regional Office and DFAM, follow up with the United Nations Office in Nairobi (UNON), and with other tenants in the compound, to get the MoU and subsequent lease agreement finalized and signed within six months. The responsible staff member is the Chief of Operations.
- ii. Record the two advance payments as a prepaid expense.

Property, plant and equipment

Property, plant and equipment (PPE) includes assets such as property and vehicles, but also includes smaller and less valuable items considered “desirable” (for example, laptops or cameras). The audit team reviewed the management of PPE and noted the following.

Migration of records: The introduction of VISION in January 2012 required the office to migrate its PPE records into it from the Lotus Notes databases formerly used. The information in VISION included 423 instances where the inventory numbers were duplicated. The reconciliation of a sample of 51 of these with the Lotus Notes database showed that only 10 records were effectively duplications; 11 were not included in the database and 30 records had different information concerning location, serial number, asset description and original value for the same inventory number. Also, reconciliation of the amounts reported by ESARO and KCO respectively as of 31 December 2011 with the records available in VISION resulted in a difference of US\$ 1,886,815.

Property Survey Board (PSB): The audit reviewed the minutes issued for the three PSB meetings held in the office during 2011, and a sample of 148 items proposed for disposal. It found that no advice was forwarded to the Comptroller for recommendations by the PSB to write off NEP items that carried a value greater than US\$ 5,000. The office did not request advice from the Comptroller when writing off inventory items over US\$ 5,000.

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

- i. Review Lotus Notes records for KCO and ESARO and clean up double entries records in the first quarter of 2013.
- ii. Reconcile entries for PSB-considered items and adjust records accordingly.
- iii. Supply DFAM with an Excel file containing all items procured end 2011 to be uploaded into VISION
- iv. Create and share with DFAM AMR the 2012 procured items .
- v. Conduct a physical count of PPE and perform subsequent reconciliation with VISION records.
- vi. Obtain retroactively the agreement from the Comptroller to write off the items over US\$ 5,000 in the first quarter of 2013 and to obtain the agreement for future write offs over that amount.

The responsible staff will be the Admin Officer and Admin Specialist.

Inventory management

The term “inventory” in UNICEF is used to refer to supplies and equipment procured for use in UNICEF-supported programmes. They are not regarded as UNICEF assets. In Kenya, they were kept in a warehouse that was managed by a contractor.

The audit found adequate controls on receiving, issuing, recording and accounting for stock in the warehouse. The firm also issued weekly inventory reports and monthly consolidated in monthly reports to UNICEF. However, a review and reconciliation of a sample of 61 items in the monthly inventory reports between 31 December 2011 and 31 May 2012 revealed discrepancies with the office’s records of US\$ 96,978 as of 31 December, and US\$ 92,283 as of 31 May. There were items in the firm’s warehouse inventory that were not part of the UNICEF country office’s database; neither were these reported in the fixed-assets report in VISION. These included items such as eight soft-guyed masts; and 250 bales of Local Kanga size 320 x 114 cm, which according to the warehouse inventory report belonged to the Admin section and had a value of approximately US\$ 13,400.

The discrepancies were largely due to the existence of two different databases – one in the contracted firm and the other in the country office. The coding systems differed, as did the point at which inventory adjustments were effected. For example, in the case of a delivery, the contracted firm adjusted the inventory at the moment that goods were picked up by transporters at the warehouse, while the office adjusted its records once the final invoice was received. The lead time between these two events could be quite lengthy.

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

- i. Strengthen controls related to inventory management and ensure compliance with stipulated coding requirements.
- ii. Manage and control the inventory through VISION.
- iii. Have regular physical inventory counts and reconciliations.
- iv. Share regular stock and reconciliation reports during Programme Coordination Group (PCG) and CMT meetings.
- v. Seek approval from DFAM and Supply Division to use similar material coding as the contractor’s warehouse keeper, so as to assist management and control.

It is expected that these steps will be completed in the first quarter of 2013; the responsible staff member is the Supply and Logistics Manager.

Information and communication technology

The audit reviewed whether the office’s information and communications technology (ICT) equipment and back-up media were safeguarded against physical hazards, accidental damage and the impact of power loss. It reviewed measures taken against unauthorized access to programs, data and computer installations, and violation that may interfere with the continued provision of ICT services.

The audit review identified several areas for improvement. The location of servers and critical hardware in Kenya Country Office and in the Garissa zone office did not assure

adequate protection against physical hazards such as fire or flooding. The air-conditioning equipment was insufficient, and the room was not insulated.

The office's servers were located together with a third one that belongs to Somalia country office, limiting the available space. ICT equipment was therefore placed directly on the floor, increasing the risk of damage. The back-up function was undermined by the fact that both servers are located in the same room. In case of physical hazard, the risk of data loss was very high, as both servers would be affected.

These problems were attributed to UNON's reluctance or refusal to upgrade the existing facilities to IT standards. Both the regional and country offices were in a continuous engagement with UNON, which has the monopoly over rental of premises in the UN compound.

There were no updated ICT operations manuals or guidelines on ICT for users.

Access restriction: The audit reviewed a sample of 49 user names from staff who had left the office during 2011-2012. In five cases, the staff members retained access rights to the system.

User support: Analysis of the reports issued by the four zone offices revealed that during the period 1 January-18 June 2012 a total of 28 calls were received from the four zone offices, reporting interruptions in their communications and service-related constraints. In Dadaab, the audit was informed that there was inadequate accessibility – especially to offices's shared drives and other relevant information sources. The main cause of the interruptions to communications with the zone offices was the unreliable connectivity service offered by the local provider, which was beyond the control of the office.

Agreed action 12 (medium priority): The office agrees to take the following action by June 2013:

- i. arrange a suitable location for ICT equipment and ensure that the backup facility is in line with the Policy on the Physical and Environmental Security of ICT Resources;
- ii. clarify responsibilities for, and provide guidance on, the administration of ICT security and procedures that enhance an effective control over the system and data access; and,
- iii. In consultation with the Information Technology Solutions and Services division, NYHQ, review and improve the quality of service to zone offices through the helpdesk function.

The responsible staff are the Chief of Operations and the ICT Manager

Operations management: Conclusion

Based on the audit work performed, OIA concluded that the controls and processes within operations management needed improvement to be adequately established and functioning.

Annex A: Methodology, 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, OIA 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, OIA concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an **unqualified** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a **qualified** conclusion will be issued for the audit area.

An **adverse** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.

Annex B: Country background and role of office in Kenya

More than half of Kenya's 38.6 million people are children and young people (Census, 2009). About 46 percent of the population lives below the poverty line (Kenya Integrated Household Budget Survey, 2006).²

In the past three years Kenya has witnessed several defining events that have shaped the country's development agenda. These have included the post-election violence of 2007/2008, and the drought crises of 2009 and 2011 which affected 3.5 million and 3.75 million Kenyans respectively (Kenya Food Security Steering Group). The year 2011 also saw the arrival of 150,000 refugees fleeing conflict and famine conditions in Somalia. The security situation in North Eastern Province (NEP) deteriorated sharply in 2011; this continues to restrict the movement of UN, NGO and Government staff in these areas, and humanitarian partners lack access to the border areas of Mandera and Wajir. There are also ongoing threats to humanitarian staff around the Dadaab complex. The cumulative effects of the droughts, and chronic vulnerability and mounting insecurity in Northern and North-Eastern Kenya, continue to have an impact on the implementation of UNICEF's country programme.

Meanwhile, August 2010 saw the promulgation of the new Constitution — which is built on the foundation of human rights and equity in political, economic and social development. The new Constitution has devolved political power, finances and planning and service delivery to 47 counties, and has also created an 'equalization fund'. These provisions offer a credible framework for the establishment of new and stronger institutions for accountability.

Significant progress has been made in reducing under-5 mortality from 115 deaths per 1,000 in the 2003 KDHS³ to 74 deaths per 1,000 in the 2008-2009 KDHS, even though significant regional disparities persist. Similarly, the infant mortality has dropped from 77 deaths per 1,000 in the 2003 survey to 52 deaths per 1,000 in 2008-2009 KDHS. However, little progress has been made in reducing malnutrition, maternal and newborn mortality. As of 2010, access to improved water and sanitation was at 83 and 52 percent among urban and rural populations respectively.

The prevalence of HIV amongst adults is 6.3 percent, with about 1.45 million people living with HIV/AIDS. About 184,000 children were thought to be living with HIV as of 2009, out of which an estimated 117,000 were in need of treatment. With substantial funding from Government and partners, the Cash Transfer for Orphans and Vulnerable Children (CT-OVC) programme reached 85,000 households (about 300,000 children) as of December 2010.

Sexual and gender-based violence, both related and unrelated to the 2007/2008 post-election crisis, remains a serious concern; traditional practices, such as child/early marriage, discrimination in relation to property ownership/child custody and female genital mutilation/cutting (FGM/C), continue to be prevalent (*MTR Review of CP 2009-2013*).

The overall goal of the 2009-2013 country programme is to contribute to national efforts to ensure that all children in Kenya enjoy greater respect, protection and fulfillment of their

² The country background information in this section has not been audited by OIAI.

³ The *Kenya Demographic and Health Survey*, produced by the Kenya National Bureau of Statistics (KNBS).

rights as embodied in the Convention on the Rights of the Child and Convention on the Elimination of All Forms of Discrimination against Women. The equity review undertaken by the country office in 2011 identified some of the major disparities, assessed how equitable progress has been, and what strategies could be pursued for reduction of inequities. There is a recognized gap in information on inequality within urban areas.

In 2011, the Kenya Country Office's total budget amounted to US\$ 91.8 million, of which US\$ 44.2 million was for the Horn of Africa emergency; US\$ 32.8 was Other Resources (OR)⁴ and US\$ 11.2 million was Regular Resources (RR). Expenditure as of 31st December was US\$69.7 million. In 2012, the office's overall budget at the time of audit was US\$ 66.4 million, out of which OR was US\$ 23.5 million, RR was US\$ 12.6 million and OR was US\$ 47 million. At the time of audit in June 2012, the office had committed and spent US\$ 21 million, or 32 percent of the total available budget. A total of US\$ 28.8 million had been re-phased to 2012.

The Kenya Country Office (KCO), located in the UN compound in Nairobi, has three permanent zone offices, in Kisumu, Garissa and Dadaab. The latter was established as a result of the Horn of Africa crisis in 2011. A temporary (12 months) zone office in Lodwar, also established during the horn of Africa emergency, is shared with UNHCR.

As of 31 December 2011 the country office reported 152 approved posts, of which 40 were international professional (five were vacant), 44 were national officers (10 vacant), and 68 were general service (10 vacant). The office also provides financial and administrative common services to the Eastern and Southern Africa Regional Office.

⁴ Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. They include income from voluntary annual contributions from governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. Other Resources are contributions that have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not be used for other purposes without the donor's agreement.