

Internal Audit of the Indonesia Country Office

December 2020

Office of Internal Audit
and Investigations



Report 2020/18

Contents

Audit objective and scope	3
Summary	3
Background	4
Audit observations	5
Management of pilot initiatives	5
Preparedness for emergency response	5
Programme results formulation	6
Emergency programming at sub-national level	6
Management of civil society partnerships	7
Cash-based assistance programme	7
Evidence to support use of direct cash transfers	8
Quality of HACT assurance activities	9
Management of private sector fundraising	9
Technology for Development innovations	10
Information availability and security	11
Annex A: Methodology, and definition of priorities and conclusions	12

Audit objectives and scope

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Indonesia Country Office. The objective of the audit was to provide reasonable assurance as to whether the office's governance, risk management and internal control processes over key activities were adequate and effective. The audit was conducted in October and November 2020. It covered the period from January 2019 to August 2020.

The audit sought to evaluate risks to the achievement of the office's outcomes. These risks would manifest if the office failed to establish and maintain productive working relationships with key officials at the national and subnational levels — put in place a sound staffing structure reflecting a clear understanding of the risks entailed in environment within which it works — hire and retain skilled personnel — and hire competent implementing partners and consultants and effectively oversee their work.

The audit was conducted remotely in October and November 2020 due to the COVID-19 pandemic-related global travel restrictions. Therefore, OIAI was unable to have direct interactions with the communities or inspect projects supported by the office. To reach the audit conclusions, we relied entirely on our analyses, data available in corporate systems, review of the office's monitoring processes and related reports, scanned copies of documents provided by the client and representations made to the audit team during a series of meetings held with staff, key government officials and selected implementing partners.

Summary

The audit noted several areas that worked well. The office had maintained productive working relationships with key officials at the national and subnational levels. Overall, the office had made good efforts to scale up, through pilot projects, learning derived from studies/research. The pilot projects had been properly planned, and efficiently and effectively executed. There was a good process for allocating, tracking, and accounting for COVID-19 funds. Where necessary, the office had used the UNICEF global COVID-19 response procedures. This had contributed to rapid support to relevant authorities and procurement of needed supplies.

The office had put in place a sound staffing structure that reflected a clear understanding of the risks entailed in the environment within which it works. A proper review had been undertaken by the office and the East Asia and Pacific Regional Office (EAPRO) to put in place the staffing structure.

Consultancy contracts were awarded to vendors / individuals that possess relevant capacities to deliver set results and they had been properly vetted by the Contracts Review Committee. The contracts contained specific, measurable, achievable, relevant and timebound indicators that were used to assess the performance of the consultants. A review of the relevant documents for partnerships established with 11 CSOs noted that overall, the outcomes / outputs in the documents were aligned with the office's results framework and work plan. This provided reasonable assurance that the partnerships were required to achieve the office's outcomes.

However, the audit identified a number of areas where further action was needed to better

manage risks to UNICEF's activities. The audit did not classify any of these as high-priority — none are considered imperative to ensure that the audited entity is not exposed to high risks — failure to take any of the actions would not result in major consequences and issues. However, it did classify all seven actions identified as medium priority, meaning that they were considered necessary to avoid exposure to significant risks.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the country office's governance, risk management and internal controls were generally established and functioning during the period under audit. The country office, with the support of the EAPRO, and OIAI intend to work together to monitor implementation of the measures that have been agreed.

Background

The UNICEF country programme

Indonesia being an upper middle-income country, the Executive Board approved the 2016-2020 programme of work for the office with a focus on upstream activities – these were activities carried out and supported by the office to generate and use appropriate evidence to help steer public policies, strategies and financing towards the progressive realization of children's rights in the outcomes in the table below. The approved budget for the programme was US\$ 146 million of which \$26 million was regular resources. The office raised more than 80 percent of the approved budget or \$120 million from its own public and private sector fundraising operations. In 2019, the office raised US\$9.4 million (2020 estimate US\$9 million) from its private sector fundraising operations -the balance was raised from governments and other non-private sector sources.

In addition to implementing the 2016-2020 country programme, the office had mobilized resources and helped the country respond to and cope with the aftermath of the earthquakes that took place in 2018. These earthquakes in Central Sulawesi¹ had affected more than 130,000 people and caused material damage of property estimated at \$910 million. At the time of the audit, it had received approximately US\$25 million (more than 90 percent) of US\$ 26 million Humanitarian appeals for Children in Central Sulawesi and Lombok. The office had also identified a separate funding requirement of 26.3 million for COVID-19 response, of which 17.3 million (66 percent) had been received at the time of the audit.

The country office is in Jakarta. It had seven zone offices and a total of 166 posts (28 international professionals, 86 national officers, 52 general service posts). To deliver its programme of work during the period (2019-2020) covered by the audit, the office had incurred expenditures as shown in the table below.

¹ <https://www.humanitarianresponse.info/en/operations/indonesia/document/hct-sitrep-10-dec-2018>

Outcome	Implementing partners (US\$)	Staff cost (US\$)	Service contracts (US\$)	Supplies (US\$)	Others (US\$)	Total (US\$)
Child survival and development	9.5	8.9	7.9	7.1	1.9	35.3
Early childhood & adolescent development	5.8	2.8	2.5	2.1	0.4	13.7
Child protection	4.4	2.1	1.4	0.1	0.4	8.4
Programme effectiveness	0.4	2.7	0.8	0.1	2.6	6.5
Special purpose -private sector fundraising	0	1.6	2.4	0.2	0.7	5.0
Emergency preparedness & DRR	3.7	0.4	0.6	0	0.2	4.9
Com & public advocacy	0.7	1.6	1.7	0	0.6	4.7
Social policy	0.8	2.3	2.0	0.1	1.0	6.2
Total expenditure	25.3	22.4	19.4	9.7	7.9	84.8
% of total expenditure	30%	26%	23%	12%	9%	100%

Audit observations

Management of pilot initiatives

Studies and research that result in pilot projects which are then scaled up are crucial if UNICEF is to realize its strategic objective of being a global knowledge leader on children. The office had completed 48 studies and research between 2016-2020 to generate evidence, some of which were designed to result in pilot projects, or to inform scale-up of such projects. The large majority of studies and research were to establish current knowledge around specific topics, inform programming / programme priorities or development of policy. The audit sought to determine whether pilot projects were properly planned and efficiently executed and whether there was sufficient evidence of efforts made to scale up the learning derived.

Overall, the office had made good efforts at the national and sub-national levels to scale up the learning derived from studies/research and pilot projects, which were properly planned, and efficiently and effectively executed. The office had maintained productive contacts and working relationships with relevant authorities at national and subnational levels with respect to the 12 pilot projects it had promoted in the areas of Nutrition, Education, WASH, Health and Child Protection during the 2016 –2020 country programme. In general, the pilot initiatives reviewed were reflected in sufficient detail in the workplans signed by relevant government partners. The office was keenly aware that maintaining productive contacts and working relationships with relevant authorities at national and subnational levels was crucial to securing the authorities' buy-in and support, without which the office would be unable to achieve set outcomes.

Preparedness for emergency response

The audit sought to establish whether the office had put in place appropriate preparedness actions as required by UNICEF standards to provide timely support to relevant authorities during emergencies.

The office's risk assessment in 2020 had highlighted the risk of natural hazards as high, considering the increasing number of hazards that have occurred recently. However, the office had not assessed its emergency preparedness against the Minimum Preparedness Standards and had not identified actions to address any constraints identified. The office's risk analysis on the UNICEF emergency preparedness platform (EPP) had expired on 21 April 2020 and its preparedness plan had expired on 23 October 2020; thus, they were out of date. For each hazard identified in the risk assessment, the office had not updated the EPP with its likely humanitarian implications, the capacities and constraints of the government to respond.

The office had been selected by UNICEF New York Headquarters as one of the countries to pilot the new emergency preparedness platform to be rolled out. The audit also noted that office had been without an emergency specialist since mid-February 2020 when the EPP lapsed, but a new emergency specialist had been recruited following approval of the new office structure in September by the Executive Board, and the incumbent started in her new role in the Country Office in early November 2020.

Inadequate preparedness may result in delayed, insufficient support to relevant authorities in relieving the suffering of children and their families in case emergency events were to occur.

Agreed action 1 (medium risk): The office agrees to update the emergency preparedness platform and plan, ensuring that it conforms to Minimum Preparedness Standards.

Responsible staff members: Emergency Specialist

Target date: December 2021

Programme results formulation

The audit sought to establish whether the office formulated its planned results and indicators to be measurable and appropriately disaggregated.

In four out of eight outcomes reviewed by the audit, the primary sources of information such as Government systems, surveys, monitoring trips, and evaluations that would be used to assess the achievement of planned results were not included in the Results Assessment Module (RAM). There was also a limited number and quality of indicators for some outcomes (such as outcomes 1, 4, 6 and 7). Additionally, the necessary gender disaggregation data was not incorporated in a Child Protection outcome.

The absence of information about the primary sources of information that would be used to assess the achievement of planned results creates the risk that planned results may not be measurable. The absence of adequate, appropriate indicators may reduce the office's ability to accurately measure and report on the achievement of its planned outcomes. Failure to disaggregate data creates the risk that some vulnerable children may not benefit from programme interventions.

Agreed action 2 (medium risk): The office agrees to, for the country programme starting in 2021, take appropriate measures to ensure the sources of information that would be used to assess the achievement of planned results are identified and provided in the Results Assessment Module and there are sufficient, appropriate indicators to assess achievement of all planned results.

Responsible staff members: Chief of Planning

Target date: December 2020

Emergency programming at sub-national level

The audit sought to establish the extent to which the office had effectively communicated and involved relevant stakeholders, including its own staff and partners, in planning its work at sub-national level.

The Office had developed its 2019-2020 work plan in respect of its regular programme with input from appropriate authorities such as the Ministry of Planning and the Ministry of Home

Affairs. The office had worked very closely with sub-national authorities in non-humanitarian contexts in the areas of planning, implementation, and monitoring. It had worked very well with relevant sub-national authorities to address specific requests for support and when the emergency event occurred in one of its focus provinces. This level of collaboration had been crucial to the effectiveness of the office in contributing to child-friendly policies and strategies. The office was aware of this and continued to maintain a solid relationship with sub-national authorities while looking into opportunities to further improve the relationship. Regarding the latter, the office told the audit team that Standard Operating Procedures related to consultation and coordination with subnational authorities by field office staff, with the support of CO, would be specifically included in emergency preparedness and response-related documents and reflected under the Emergency Preparedness Portal's Minimum Preparedness Standard on Humanitarian Coordination.

Management of civil society partnerships

Partnerships between UNICEF Indonesia Country Office and Civil Society Organizations (CSOs) had been critical to achieving results for children in both development and humanitarian contexts. In 2019, UNICEF had 103 implementing partners of which 86 were CSO partners and 17 were government implementing partners. The office had established a Partnership Review Committee (PRC) that was responsible to review proposals from relevant staff and make informed, objective recommendations to the Representative for approval before signing relevant Programme Documents (PDs). The audit sought to establish the adequacy and quality of oversight of CSO partnerships and related documents.

The audit team's review of the relevant documents for partnerships established with 11 CSOs noted that overall, the outcomes / outputs in the relevant PDs were aligned with the results framework and MYWP. However, in 10 instances, the office had opted for direct selection instead of an open, complete selection process.

Due to the use of direct selection process, the office missed the opportunity to increase chances for the selection of the most qualified partners and allow other partners to develop relationships and skills that could potentially benefit future UNICEF operations.

Agreed action 3 (medium risk): The office agrees to routinely use the open, competitive selection process to increase the scope for the selection of most qualified partners and allow other partners to develop skills that would benefit future UNICEF operations.

Responsible staff members: PRC Chair and PRC Secretary

Target date: January 2021

Cash-based assistance programme

In partnership with two international non-governmental organizations (NGOs), the office had implemented three cash-based assistance CBA programmes following the earthquakes that took place at Lombok and Central Sulawesi in 2018. The budget for these CBA programmes was approximately US\$2.8 million for one NGO and approximately US\$ 0.3 million for the other NGO. The objective of the audit was to assess the management of partnerships, identification and verification of eligible beneficiaries for CBA programmes supported by the office, distribution of cash to the beneficiaries and reconciliation of the payments.

The audit found insufficient evidence of the office's direct role in ensuring that the list of beneficiaries for CBA programmes was accurate and that the office was independently

confirming beneficiaries' receipt of the assistance. Under the CBA programme, the office was transferring cash to a principal partner who was in turn using its own partners – one to generate/vet beneficiaries' lists – and the other to disburse cash to the beneficiaries and also reconcile the records (signed by the beneficiaries) of actual payments to the approved list of beneficiaries.

Under the CBA programme, funds for beneficiaries were channeled through implementing partners. Therefore, the office had relied on HACT²-related financial audits to obtain assurance that beneficiaries were indeed receiving the assistance. However, a review of the terms of reference for the HACT-related audits showed the absence of any specific requirement for the auditors to confirm the accuracy of beneficiary lists and that the authorized beneficiaries had indeed received the correct amount of assistance intended for them. It was also noted that because the HACT-related audits were often conducted up to a year after the office had transferred cash to the principal partners, the office was not obtaining timely assurance on use of funds transferred to the partners.

OIAI noted that HACT-related audits only covered the principal partners and the requirement did not extend to sub-implementing partners. While the principal partners had required audits of the sub-partners, there was no evidence that the office was making sure the sub-partners had, in fact, been audited.

Failure to obtain timely and adequate assurance in respect of cash-based assistance creates the risk that the office may be unable to timely detect and take appropriate corrective action in respect of inappropriate or fraudulent use of cash-based assistance. This may also create a reputational risk for the organization if eligible beneficiaries did not receive their cash assistance or cash assistance was diverted to ineligible persons.

Agreed action 4 (medium risk): The office agrees to conduct a comprehensive risk assessment and develop a risk mitigation plan for subsequent cash transfer initiatives, as well as carry out an end-to-end audit of the cash-based assistance programmes implemented in 2019 and 2020.

Responsible staff members: Chief of Social Policy, Chief of Kupang field office and Adaptive Social Protection Specialist

Target date: July 2021

Evidence to support intended use of cash transfers by partners

From January 2019 to September 2020, the office transferred U\$25 million to implementing partners, including U\$23 million in advances and U\$2 million in reimbursements for activities already implemented by the partners. Approximately, US\$21 million of the advances were made to CSOs and US\$4 million to government implementing partners. The audit sought to establish whether there was sufficient evidence that implementing partners had used the funds transferred to them for intended purposes as duly vetted and approved by the office.

UNICEF offices use Partnership Review Committees (PRCs) to vet programme documents and programme cooperation agreements developed by their staff in consultation with potential partners. These documents typically include the specific activities and related budgets to be implemented by the partners. Once established, partners submit requests for funds to

²To obtain assurance on the proper use of cash transfers to partners, UNICEF and some other UN offices use the Harmonized Approach to Cash Transfers (HACT). This is a risk-based approach.

implement specific activities and the financial reports on the use of the funds – the requests and financial reports are typically contained in UNICEF-specified form called FACE (Funding Authorization and Certification of Expenditure) forms.

In general, there was sufficient evidence that implementing partners had used the funds transferred to them for intended purposes as duly vetted and approved by the office. In reviewing a sample of 20 Face Forms, the audit noted only two isolated instances where the progress reports attached to the FACE Forms did not contain reasons why certain activities were not completed as planned. For example, in one instance, there were eight constrained activities; however, the report did not include analyses and explanation of the relevant challenges.

Quality of HACT assurance activities

To obtain assurance that partners had used resources for the intended purposes and implemented activities as agreed, offices conduct assurance activities including spot checks and programmatic visits. Offices also do commission independent financial audits of certain partners. The objective of our audit was to verify that assurance activities were adequately planned and executed.

The office had complied with UNICEF requirement for scheduling a limited number of assurance activities using specific criteria. In accordance with these requirements, for 2020, the office had scheduled 52 spot checks – at the time of the audit, it had completed 22 and initiated an additional 21. The office had also complied with UNICEF COVID-19 procedures to conduct a limited number of assurance activities, with a focus on high-risk partners. However, a review of a sample of five out of 22 spot checks and nine out of 75 programmatic visit reports indicated the need for further improvement to ensure the adequacy of the assurance activities.

- In four programmatic visit reports, there was no evidence the office had confirmed the progress of the activities against the set targets.
- In four other reports, the office did not describe the specific challenges and opportunities to implementation of agreed activities even though the activities had been delayed.
- Two spot check reports reviewed were finalized at least 5 months after the check was conducted.

If the assessment of progress in the implementation of planned activities are not consistently reflected in the relevant monitoring reports, there is the risk that some planned activities may not be implemented as agreed. Further, if spot check reports are not promptly completed, there is the risk the office may fail to take prompt corrective actions. These would also result in waste of financial resources and reputation risk to UNICEF.

Agreed action 5 (medium risk): The office agrees to implement appropriate measures to ensure consistently high quality of assurance activities.

Responsible staff members: Chief, Planning and Finance Specialist

Target date: March 2021

Management of private sector fundraising

The Indonesia Private Sector Fundraising (PSFR) team reported increased gross revenue from PSFR activity from US\$7.2 million in 2017 to US\$ 8.0 million in 2018 and to US\$9.4 million in

2019. The main contributor was the steady increase in the number of pledge donors and new donors recruited through Face-to-Face (F2F) channel, followed by telemarketing and digital streams. The office had outsourced part of the F2F operation. It also had an in-house F2F team in 2020 to reduce any over-reliance on the F2F external agencies. The audit sought to review the office's PSFR operational processes and monitoring mechanism focusing on the F2F channel and noted the following.

The audit noted that the office awarded the contract to the most competitive bidder following the vetting and recommendation of the contract review committee. The contract contained specific, measurable, achievable, relevant and timebound (SMART) indicators that were used to assess the performance of the consultants. Overall, PSFR operations were well managed. As required by national banking regulations, the contractor had used a paper-based pledge form to collect credit card information and signatures of donors, which were then uploaded into UNICEF's corporate system, ensuring accurate recording of the revenue generated.

However, the audit noted that controls over the forms could be improved. For example, the office had allowed the contractor to retain the form up to six months and subsequently send them to an archiving company contracted by the office. The archiving company is supposed to dispose of the forms after five years which was to be witnessed by the office as per contract. In OIAI's view, this retention period is too long as it is not in line with good business practice which requires immediate destruction of such evidence after the relevant information had been recorded in a secure UNICEF system. The audit was provided with no business reason for maintaining the forms for an extended period. Neither did it provide the audit with evidence to show that the office had in fact witnessed the archiving company's disposal of the forms containing donors' personal information. The audit also noted that whereas each form had a unique serial number, there was no evidence that a completeness check was conducted when the office received pledges from the contractor. Neither was such a check performed before the forms were stored and subsequently sent to the archives by the contractor.

Lack of sequential check on paper forms used by the office and lack of evidence of disposal of paper forms by the archiving contractor creates the risk of unauthorized access to personally identifiable information of donors.

Agreed action 6 (medium risk): The office agrees to implement appropriate measures to strengthen controls over the form with donors' personal information it captures.

Responsible staff members: Chief of Private Sector Fundraising team

Target date: June 2021

Technology for development (T4D) innovations

Fostering innovation is a key change strategy of the UNICEF Strategic Plan. The office had taken full advantage of this, and had piloted, scaled-up, handed over to Government, and/or discontinued at least 45 innovative T4D initiatives during 2018 -2020. The audit sought to establish that the office had appropriate arrangements for the review and oversight of T4D innovations.

The office had not formalized the governance over T4D initiatives. Neither had it developed standard procedures that would be followed by programme sections implementing T4D initiatives. A good mechanism should include subject matter experts from the office's programme sections and ICT and implementing partners/consultants. A regional peer review mission in February 2020 had recommended a governance and socialization process for

innovative T4D initiatives in the office. It also recommended that the office raise funds for innovative T4D initiatives and integrate relevant innovations into work plans. It was still too early at the time of the audit for implementing the recommendations as OIAI noted that the office was dealing with the competing priorities related to COVID-19.

Information availability and security

Due to the Covid-19 pandemic, there has been an exponential increase in teleworking. This dramatic shift in work modality can create heightened vulnerabilities due to an increase in the remote accessing of sensitive information and communication systems. The audit sought to establish that the office had appropriate arrangements in place to protect the sensitive information and ensure uninterrupted availability of critical information to guide the effective delivery of results for children.

While the office was aware of the need to proactively secure sensitive information from unauthorized access, it was not generating and reviewing relevant reports about potential viruses on office computers/servers or unauthorized devices connected to its network. Further, the office had not performed scenario and stress tests of its disaster recovery plans and information security review of its fundraising website to reconfirm that it is robust enough to detect/address any unauthorized attempts to access the website. The Payment Card Industry (PCI) certificate needed by the Payment gateway vendor to obtain and process credit card information of donors expired in July 2018. The office had not obtained a valid certificate from the payment gateway vendor at the time of the audit.

An unauthorized device that is connected to the network can become the entry point for a virus that can spread very quickly and result in loss of critical information. Failure to test the disaster recovery plans may result in the office not taking appropriate corrective actions so that it is well prepared to promptly resume operations in the event of disasters. Unauthorized access to the fundraising website and failure to maintain / obtain up-to-date PCI certificate from payment gateway vendor may create a reputation risk or penalties, which may result in loss of revenue.

Proposed action 7 (medium risk): The office agrees to:

- i. Monitor the networks for any unauthorized devices, run anti-virus and other reports;
- ii. Prepare and test its disaster recovery plans and take appropriate corrective actions;
- iii. Perform periodic information security review of its fundraising website; and
- iv. Renew obtain a valid PCI certificate from the payment gateway vendor.

Responsible staff members: Chief of Private Sector Fundraising team and ICT Specialist

Target date: March 2021 and ongoing

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 auditees (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 auditing 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 in the Summary fall into one of 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 office 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 the office 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 the office needed improvement to be adequately established and functioning.

[Adverse conclusion]

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