

# Internal Audit of the Lebanon Country Office

May 2020

Office of Internal Audit  
and Investigations (OIAI)



Report 2020/05

# Contents

<b>Summary</b>	<b>3</b>
<b>Audit objectives and scope</b>	<b>6</b>
<b>Audit observations</b>	<b>6</b>
Funding the country programme	6
Risk management	7
Technical assistance	8
Programme assurance activities	9
Donor and annual reporting	11
Financial controls	12
Value added tax (VAT)	13
<b>Annex A: Methodology, and definition of priorities and conclusions</b>	<b>14</b>

# Summary

The Office of Internal Audit and Investigations has conducted an audit of the Lebanon country office. The audit team visited the country office between 30 September and 18 October 2019, and the audit covered the period from 1 January 2018 to 30 September 2019.

## The country programme

Lebanon had an estimated population of 6.8 million people in 2018,<sup>1</sup> with 42.5 percent being 18 or younger. Due to the protracted Syrian crisis, the country hosts 1.5 million refugees,<sup>2</sup> the highest number per capita of any country. The 2017-2020 country programme is designed to respond to the refugees' immediate humanitarian needs, whilst at the same time building national and sub-national systems that could adequately address these needs in the future. The main programme components are: *Child survival; Child development; Child protection; Youth development; and Social inclusion*. In the humanitarian response, UNICEF Lebanon led the sector coordination of Education, Water, and Child Protection. It also played key roles in Health and Gender-Based Violence sectors. The office reported challenges in transitioning programme leadership to the Government as well as political sensitivity over refugees.

The 2017-2020 Lebanon country programme was originally approved with a budget of about US\$ 4 million in regular resources (RR) and US\$ 125 million of other resources (OR). However, due to the ongoing Syrian crisis and fundraising efforts, the amount of other resources (OR) far exceeded the projected OR budget funding many times over; emergency funds (ORE) allocation from the Humanitarian Action for Children (HAC) appeals was US\$ 244.4 million and US\$ 227.7 million in 2018 and 2019 respectively.

The country office is in Beirut with sub-offices in Tripoli and Zahle, and out-posted staff in Tyre and Qobayat. The Representative assumed duties in July 2019, while the Deputy Representatives for programmes and operations joined the office in 2014 and 2017 respectively. As of September 2019, the country office had 175 posts.

## The key risks

The audit focused on key risks. The country office was selected for audit to assess how it was managing risks involved in the extended the Syrian crisis and an expected decrease in humanitarian funding. In addition, the audit sought to establish whether the office had adequate mechanisms to monitor and account for programme inputs and correctly report on how they were used. Also, given an environment where the office worked with many staff and diverse implementing partners, the audit reviewed how the office managed cultural issues around harassment and abuse of authority.

## Results of the audit and actions agreed

The audit noted areas where the office's controls were adequate and functioning well. The office transferred US\$ 18.6 million in 2018 and US\$ 7.4 million in 2019 as social cash transfers; these were to support beneficiaries' access to water services, improved education, social protection and for winterization assistance. The office partnered with other UN agencies to channel the assistance directly to the beneficiaries using electronic cards. The audit found adequate controls over beneficiary

---

<sup>1</sup> United Nations Population Division, *World Population Prospects: 2019 Revision*.

<sup>2</sup> Lebanon Crisis Response Plan 2017-2020.

registration, cash payment methods and reconciliations. There was also positive feedback from three UN agencies visited regarding UNICEF's lead role in sectors (clusters); its advocacy on equitable service provision; and municipality-level engagement.

Regarding organizational culture, the office had drawn up an office improvement plan to address priority issues from the Global Staff Survey and had established several mechanisms aimed at encouraging a "speak-up" culture and improving the working environment. These included supporting training in career development management skills, information sessions on staff rights and responsibilities, standards of conduct, staff wellbeing, ongoing human resources reforms, and improving communication and sharing knowledge.

However, there were also areas where action was needed to improve risk management. The audit report recommended seven actions, of which two are rated as high priority—that is, to address risks that require immediate management attention. The high-priority recommendations concerned donor reporting and cash transfers to a Government ministry. The country office has agreed to take measures to address all the risks identified. The key areas where actions are recommended are summarized below.

**Strategy:** To implement its strategy, the country programme required multi-year, flexible funding, but there were funding shortfalls in key programme areas that supported life-saving interventions, including water trucking and desludging in informal settlements. There were also funding shortfalls for core support functions such as operations, communications, monitoring and evaluation and humanitarian support costs. Although the office had identified measures to generate funds, the actions taken were not enough to meet all the funding requirements. Due to the funding gaps, the office may not achieve the planned results in priority programme areas.

**Office structure:** A mid-term review (MTR) in 2018 found the country programme as originally planned was still relevant but identified shifts that required attention. After the MTR, the field structure was modified from five to three zone offices, and two out-posted staff. Field staff numbers were also reduced, and their responsibilities were adjusted to support integrated programming. These changes included staff taking multiple roles, including sector coordination responsibilities at the field level. There was a need to better manage the increased scope of work and support to implementing partners with less staff.

**Technical assistance to Government:** To help sustain social services to vulnerable populations, the office provided technical assistance to the Government at the national and Governorate levels. The technical assistance was procured through cash transfers, direct UNICEF contracts and through contracted service providers. Within the Ministry of Education and Higher Education (MEHE), UNICEF supported the programme management unit (PMU), responsible for implementing the overall education activities of Syrian refugees. In 2019, the office paid the salaries of 55 personnel hired by the MEHE to provide technical support. In view of the protracted Syrian crisis, technical support is expected to continue for as long as there is funding. However, the availability of that funding is not guaranteed, and the office had not taken sufficient action to mitigate that risk. Multiple donors make cash transfers to cover costs for specific staff expenditure in the PMU, but there were no processes to mitigate the risk of multiple donors transferring cash to pay for the same expenditure.

**Cash transfers to MEHE:** Between 2018 and September 2019, the country office transferred US\$ 254.7 million to MEHE. However, no spot checks or audits were conducted during the period under review to support the use of disbursed funds for agreed purposes. The 2018 audit was delayed for various reasons external to the UNICEF office, including lengthy negotiations on the audit terms of reference. No audit

had been planned to cover 2019 transactions. It is recommended that, as a high-priority action, the office complete timely assurance activities to ensure that funds disbursed to Government partners have been used for the agreed purposes.

**Annual and donor reporting:** Donor reports were issued on time and annual reporting was properly supported. However, donor reports for some grants included results and activities that were not part of the donor agreements or proposals, and charges for activities that were not budgeted for in them. The office said that donors had been informed of some of these charges, but the agreements had not been amended, creating a risk that some charges might be regarded by donors as ineligible expenditure. As a high priority, the office should strengthen its quality control over information reported in donor reports so that reported information and charges to grants are consistent with the signed agreements and that any material revisions are documented.

**Value added tax (VAT):** Although UNICEF is exempt from taxes, the office had not been recovering VAT charged on funds disbursed to implementing partners. This occurred because the office had not informed partners that they could not use the cash transfers to pay VAT. In July 2019 the office had introduced a clause in the standard operating procedure for partnerships with NGOs stating that UNICEF cannot be charged for VAT paid; however, it had not as yet implemented this.

## 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, and were directed at effectively mitigating key risks that could prevent the achievement of its objectives.

## Audit objectives and scope

The objective of the audit was to provide independent assurance regarding the adequacy and effectiveness of the governance, risk management and control processes in the country office. The audit covered the period from January 2018 to June 2019. The audit team visited the office from 30 September to 18 October 2019.

This report presents the more important risks and issues found by the audit and the measures agreed with the Lebanon country office management to address them.

## Audit observations

### Funding the country programme

The office's 2017-2020 country programme was designed to respond to immediate humanitarian needs, whilst at the same time building national and sub-national systems that could address these needs in the future. To implement its strategy, the programme required multi-year, flexible funding. However, while there were ongoing humanitarian needs and vulnerabilities which UNICEF still needed to address, donors were decreasing their funds and/or shifting funding to specific areas. This meant that while the office appeared to be well funded overall, some programme areas had funding shortfalls. For example, child survival had a funding shortfall of US\$ 33 million in 2018 and US\$ 31 million 2019.

The risk was that priority programme activities might not be implemented, with the focus instead being primarily on project activities that were well-funded. The mid-term review (MTR) of the programme in 2018 noted that the office had faced funding shortfalls for life-saving interventions, including water trucking and desludging in informal settlements, and it had had to put all staff on six-month contracts. However, no specific actions had been undertaken to close these shortfalls through flexible funding.

Funding was also insufficient to cover programme support costs. The allocation of core funding (institutional budget and Regular Resources) was based on a formula that included criteria such as the total population, child population and GDP and country programme budget, but excluded emergency funding. Due to the Syrian crisis, the country had received over 1.5 million refugees and the country programme throughput increased significantly. In 2018 total Other Resources Emergency (ORE) allocated to programme areas was US\$ 244 million while in 2019, ORE was US\$ 267.8 million (as of 5 December).

There have been actions to mitigate the shortfalls. In 2018 and 2019, the Division of Financial and Administrative Management (DFAM) gave the office special Regular Resources (RR) allocations of US\$ 3.3 million each year to meet its cross-sectoral costs. Meanwhile the office's own mitigating actions included diversification of its donor base, increased communication and advocacy with major donors, and development of a private-partnership strategy. The office also scaled down on core staffing. A notable initiative was the 'RR for OR' initiative, in which the office and the regional office worked on a UNICEF funding process for country offices responding to protracted crises in a middle-income country. This was designed to address the problems that offices can have raising funds for countries of this type. Finally, the office told the audit that it had revised its calculation of support costs in its emergency appeals; this was expected to increase the percentage of donor contributions to operational support costs.

While these actions had helped, they were insufficient to ensure priority programme areas were sufficiently funded. The private-sector strategy had yet to be implemented; donor earmarking of funds was likely to continue, and additional support-budget funds from HQ and continued donor funding for support costs were not guaranteed.

**Agreed action 1: (medium priority):** The office agrees to, in consultation with the Regional Office and other HQ Divisions as necessary, review the extent to which planned strategies and results have been affected by the funding disruptions, and, based on lessons learned, develop strategies to ensure that key programme areas and programme support costs are adequately funded. The strategies could include continuation and expansion of the mitigation actions already in place, and implementation of the private-sector strategy.

Responsible staff member(s): Deputy representative and Chief of communication

Date by which action will be taken: April 2021

## Risk management

The audit's interviews with country office staff showed that senior staff and programme managers were aware of risks within their spheres of responsibility and actively engaged in risk mitigation. However, the audit noted the following.

**Mid-term review (MTR) and risks to the programme:** An MTR of the country programme was held in August 2018. It found that the country programme was still relevant but identified shifts in circumstances that required further effort in certain areas. The office incorporated these changes of emphasis within the general frame of the existing country programme, without major changes to the results structure. The audit reviewed these changes and thought that, though practical, there may not be adequate recognition that the strategic shifts increased the risk of not achieving the planned results. For example, as of November 2018, the office had reported 23 percent of outputs as being constrained. Thus, the risk of unavailability of sustained funding could affect achievement of planned results.

**Centralization:** The office had been careful to focus its activities within those municipalities that had demonstrated interest and willingness to participate. However, the Lebanese Government's operations are centralized, and thus the sub-national level structures have limited authority to ensure the medium to long-term continuity of interventions. The office told the audit that it had a two-pronged approach at the national and governorate, union and municipality level to mitigate this challenge. However, the risks to operations posed by a degree of centralization needs to be assessed.

**Staff resources:** Following the MTR, the field structure was modified from five to three zone offices, plus two out-posted staff. Field staff numbers were also reduced, and their responsibilities were adjusted to support the shift to integrated programming (e.g. programming so that different activities complement each other across sectors). These required staff taking on multiple roles, including sector coordination responsibilities at the field level. Implementing partners said that the decrease in staff capacity in field offices was felt acutely. Given that skills and structures at these levels are still fairly new, there may be an increased risk to operations such as staff burn out created by assuming the increased scope of work could be managed with less staff. The office commented that sustaining a large-scale emergency operation with fluctuating funds and consistent uncertainties is a challenge for the entire office and a risk for burn-out for all staff.

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

- i. Review the assumptions embodied in the implementation of the sub-national level engagement strategy, and their implication for current and future risk exposure (but the strategy should be continued if deemed necessary).
- ii. Identify areas within its field-office structure that could be enhanced so as to better support implementing partners in the field.
- iii. Identify possible changes in the field offices that could help avoid staff burnout.

Responsible staff member(s): Senior programme manager

Date by which action will be taken: September 2021

## Technical assistance

The office provided technical assistance (TA) to the Government at the national and governorate levels in various programme sectors. The audit assessed the office's risk management practices related to this and noted the following.

**Strengthening national capacities:** UNICEF provided capacity support to Government ministries and departments that were implementing key UNICEF programme activities. This was because there were high vacancy rates within those Government departments. For example, a ministry visited by the audit said it had a vacancy rate of 60 percent – mostly attributable to Government's freeze on hiring new staff.

Also, public-sector service delivery in the country has largely been undertaken by the private sector and/or civil society, and these did not cater to the needs of the large refugee population. Within the Ministry of Education and Higher Education (MEHE), UNICEF supported the programme management unit (PMU), responsible for implementing education activities for Syrian refugees. The staff in the unit were 100 percent paid out of funding from donors, including UNICEF. In 2019, the UNICEF office provided technical support to MEHE in the form of 55 personnel, of which 23 were for the PMU. Such support had been provided since the beginning of the current country programme.

Technical support was expected to continue for as long as there was funding. However, that funding was not guaranteed; the Syrian crisis was well into its eighth year, and there was a risk of donor fatigue and a possible drop in funding when it came to activities designed to strengthen national capacity. Thus, there was a need for strategies to mitigate the risk that donors might cease to support the cost of running the PMU. The country office had anticipated this and had developed a private-sector fundraising strategy aimed at domestic leveraging of funds. However, as noted earlier, the strategy had not been implemented.

**Contracting:** Technical support was provided through various channels – through third-party service providers, direct UNICEF contracts and through direct cash transfers (DCTs) to Government partners or NGOs. The monthly number of staff hired for technical support fluctuated from a high of 284 in January 2018 to a low of 73 (as of 30 September 2019). Terms of reference were defined by the relevant Government partner; the latter also assessed the performance of the contractors, and UNICEF made payments upon receiving certification from the department that the service had been provided as agreed.



UNICEF has made direct cash transfers to the PMU for staff expenditures for which the PMU has also received funds from other donors. While the PMU had charged all staff expenditures to one of the projects it was responsible for, there was no formal agreement with the donors regarding how the expenditure would be allocated to their projects. There was thus the risk that multiple donors could contribute more than the amounts required to cover specific staff expenditures and/or inequity in the allocation of the project costs. When donors contribute more than the amounts required to cover specific staff expenditures, there is risk that the excess contribution may be misused and misappropriated. An audit commissioned by a donor in 2018 had similar observations; however, the PMU had not completed actions to address the risks identified.

**Technical assistance procured through contractors:** The office had entered into two Long-Term Agreements (LTAs) with service providers to recruit consultants to fulfill specific technical assistance needs. The cost of technical assistance through such third parties in 2018-2019 (as of September 2019) amounted to US\$ 3.9 million. The audit noted that, under Lebanese laws, even though UNICEF had no direct contractual relationship with the individual consultants hired under the LTA, UNICEF was still exposed to legal liability that may result from claims made by the individual consultants related to their employment status. The office told OIAI that it was considering joining other UN agencies (UNDP, UNFPA, and UNHCR) in Lebanon in signing a memorandum agreement with the United Nations Office for Project Services (UNOPS) to hire and manage the service providers under its procedures. However, it was not clear however whether this arrangement would manage the legal risk.

**Agreed action 3 (medium priority):** The country office agrees to, with the input of the regional office as necessary:

- i. Continue to explore alternative forms of strengthening capacity of Government departments, so as to move towards greater use of national systems in place of external technical assistance to support programme activities that provides assistance to all children.
- ii. Take steps to mitigate risks of funds misuse or misappropriation related to the provision of funding for technical assistance to implementing partners from multiple donors.
- iii. Finalize arrangements to manage the legal risks related to the use of consultants to fulfill specific technical assistance needs.

Responsible staff member(s): Deputy Representatives for programme and operations

Date by which action will be taken: January 2021

### Programme assurance activities

To provide reasonable assurance that partners are using funds provided to them as intended, UNICEF (along with two other UN agencies) uses the Harmonized Approach to Cash Transfers. This is a risk-based framework that involves an assessment of the risks involved in working with a particular partner and tailoring the type and number of assurance activities accordingly. The office's HACT assurance plans for 2018 and 2019 included programmatic visits to verify that activities are proceeding as planned, spot checks of financial records, and special audits.

The following issues were noted.

**Assurance activities:** The UNICEF country office supports the Ministry of Education and Higher Education

(MEHE) to provide a framework for a coordinated, Government-led education response for Syrian refugee children and vulnerable Lebanese students, in addition to contributing to the longer-term development objectives of the Lebanese education system. The other significant implementing partner in the education sector is the Center for Educational Research and Development (CERD).

Between 2018 and September 2019 the office made cash transfers amounting to US\$ 259.4 million to five Government partners, of which US\$ 254.7 million was to MEHE. However, there had been few regular assurance activities since April 2017. The only assurance activities for MEHE had been two spot checks covering the periods January to April 2017, a joint audit with World Bank covering 2016, and a special audit/fiduciary risk assessment for 2016 at the request of a donor. It was therefore appeared that there may not have been adequate assurance activities to confirm that the funds disbursed to MEHE were used for the agreed purposes.

The office said the assurance activities on the 2018 MEHE accounts had been delayed for various reasons over which it did not have control, including lengthy negotiations of the audit terms of reference (ToRs) with the donors and MEHE. At the time of audit in October 2019, the office had finalized the ToRs and contracted a service provider to undertake assurance activities for a sample of transactions for the period January-December 2018. However, no audit to cover 2019 transactions had been planned. This is not in accordance with UNICEF procedures intended to ensure assure funds are used for their intended purposes.

**Risk assessments** of partners, known as micro-assessments, are conducted to determine the level of risk associated with a particular partner and the subsequent frequency of assurance activities needed to reach the adequate level of assurance for that partner. Two micro-assessments of two Government partners – the Ministry of Social Affairs and Ministry of Environment – that were done in 2015 and 2019 had identified significant weaknesses. However, they were both assigned an overall low risk rating by the external firm that had been hired to conduct the risk assessments.

The low risk rating was not consistent with other assessments of Government departments. For example, an assessment of the Government's public financial management (PFM) system commissioned by the UN in 2016 found several weaknesses, including the absence of a generalized internal audit system, and weak fiscal transparency and accountability at the Government level. Similarly, the 2017-2020 UN Strategic Framework for Lebanon also noted the need to support the strengthening of Government capacity to adhere to international principles of public financial management.

These assessments meant that the office was aware of the risks within its operating environment. It should therefore have adjusted upward the low risk rating assigned to the two Government implementing partners and should have implemented appropriate assurance activities. The audit noted that for one of the partners, 70 percent of the funds had to be re-programmed due to lengthy processing requirements in the Government system, while 15 percent remained unaccounted for (unliquidated) for over nine months.

**Agreed action 4 (high priority):** The office should obtain full assurance that funds disbursed to Government implementing partners are used for the agreed purposes through timely performance of assurance activities.

Responsible staff member(s): Deputy Representative for operations and Programme Officer HACT

Date by which action will be taken: December 2021

## Donor and annual reporting

Audit meetings and discussions with donor representatives established that the country office had a good working relationship with the donors and that the office had been able to generally meet their expectations regarding the programmes supported. For Lebanon, however, donors' information and reporting requirements were extensive and often exceeded those for other UNICEF offices. The office thus had to generate many donor reports more than the norm in other countries. For example, in 2018, it submitted over 70 reports including progress, final and consolidated emergency reports. Despite this, the audit found that the reports were generally issued on time.

The audit selected a sample of final and progress donor reports pertaining to 12 grants for review. It noted gaps in the information included in the reports and in charges made to the grants. These information gaps could create reputational risks to UNICEF and also create a risk that donors will request refunds. Also, shortcomings in donor reporting could result in cessation in funding and the quest to get flexible funding (see observation above on Funding the country programme) negatively impacting programme operations. The audit also noted that donor reports for some grants included outputs and activities that were not specifically required by the donor agreements/proposals. For example, two grants intended solely for activities benefiting Syrian refugee students were also used to support non-Syrian student activities. In another grant that was meant to support Pillar 1 of an Education project, the final donor report included an achievement related to a different Pillar. Use of donor funds for outputs and/or activities that were not agreed with in the agreements could result in donors questioning and not accepting related charges as legitimate use of the donated funds for agreed activities.

Donor reports pertaining to three grants showed inconsistencies in reporting of results and activities. For example, under one grant reviewed, a final donor report covering the period 20 August 2016 to 30 September 2018 asserted that a total of 154 schools implemented the retention programme over two rounds. However, the progress report immediately preceding it, covering the period from 20 August 2016 to 19 August 2017, stated a total of 246 schools had implemented the retention programme. The office explained that the difference was because some schools were visited twice. This means that, for reporting purposes, the office wrongly counted each school as many times as the number of visits made to the school. This called into question the accuracy of the report.

Transactions not covered by budgeted activities in the donor agreements were wrongly charged to five grants. For example, in one grant, funds were provided to support student enrolment fees. However, a cash transfer of US\$ 270,213 was made for personnel equipment that was not included in the donor agreement. In three other grants, expenses totalling US\$ 226,550 were charged to the grants although the costs were not included the relevant donor agreements.

The office said that in some cases the changes followed discussion and agreement with the donors. For the cases reviewed, however, variations from the signed agreements were not documented in amendments to the agreements or in other communications. Without documentation of agreement, there was a risk that related expenditure could be considered as ineligible under the signed grants.

The office had a quality review process over donor reports, but the gaps noted above suggested a need for the office to strengthen this process. These concerns also point to possible gaps in proposal writing, which should allow for budgeting that includes appropriate support and overhead budgets from the start of a project.

The audit also sampled information from the 2019 country office annual report and found that the information was verifiable and properly supported

**Agreed action 5 (high priority):** The office agrees to strengthen its quality review process for donor proposals and reporting to ensure that information in the donor reports and charges to the grants are accurate, consistent with the donor agreements and proposals; and that material changes to the donor agreements are documented.

Responsible staff member(s): Deputy Representative and Chief of PRIME

Date by which action will be complete: July 2020

## Financial controls

The audit reviewed financial controls related to social cash transfers and to direct cash transfers to implementing partners.

**Social cash transfers:** The office made social cash transfers to beneficiaries totalling US\$ 18.6 million in 2018 and US\$ 7.4 million in 2019. The funds were disbursed to support access to water services, improved access to education, social protection and winterization assistance. In 2016 the office had entered into arrangements with other UN agencies to provide the funds directly to beneficiaries using electronic cards for each household.

The audit assessed the country office's controls over beneficiary registration into the in-house management information system, cash payment through banks and reconciliation of the payments. It found the controls over these functions to be adequate.

**Cash transfers:** Direct cash transfers to implementing partners should be made to meet their immediate needs (three months' fund requirements). Disbursements to meet implementing partners' needs minimizes the risk of misuse and loss of funds by implementing partners. Requests for funds from implementing partners should therefore specify the implementation dates of the planned activities. Their omission from the requests could result in disbursement of unnecessary funds that will not be required to implement the planned activities.

In a sample of 15 tested transactions, the audit noted that in six instances, the partners did not include implementation dates for the planned activities in the cash transfer requests. This included a request for US\$ 110.7 million from the Government received in March 2018, for which the office had disbursed about US\$ 92 million. In four instances, the cash transfer requests and payments were for implementing activities beyond three months' cash requirements. This meant that some funds would remain unused in the accounts of the implementing partners—two of them had unaccounted (unliquidated) balances over nine months. This not only increases risk of misuse and/or loss of funds as noted above but could also minimize an office's opportunities to re-allocate unused funds to another partner with capacity to use the funds on a timely basis. Finally, in two instances, disbursements were made after the planned activities' start dates, which risked delays in the implementation of the planned activities.

The above weaknesses occurred because the staff involved in the review and approval of the cash transfer requests did not ensure that the cash requests specified the periods for which it was requested and that the disbursed amounts did not exceed the implementing partners' immediate disbursement needs.

**Agreed action 6 (medium priority):** The office agrees to strengthen its cash transfer processes by ensuring that funds are only released for immediate cash requirements (three months) and are disbursed in a timely manner before the planned activity start dates.

Responsible staff member(s): Deputy Representative

Date by which action will be complete: June 2020

### Value added tax (VAT)

The Basic Cooperation Agreement with the Government states that no VAT shall be levied on materials intended for the programme of cooperation with UNICEF.

An assurance activity report in August 2018 noted that an NGO reported VAT amounting to US\$ 1.4 million as programme expenditures. The charges were considered as ineligible expenditures and the NGO was requested to recover the sum from the Government and refund the amount to UNICEF. At the time of audit, the amount had not yet been recovered.

Similarly, in May 2019, another assurance activity noted that an implementing partner had reported US\$ 9,419 in VAT as programme expenditures. The payments for VAT contradicted the office's own controls as well as UNICEF's guidelines on approval of such expenditures. The guidelines state that when a partner has not obtained the relevant tax exemption, the office may determine whether modification of its arrangement with them is required and/or possible, to avoid the loss of resources.

The audit could not establish the total VAT expenditure incurred on the cash transfers made to the NGOs but potentially the payments could be in millions, given that in 2018 the office transferred close to US\$ 150 million to 85 NGO implementing partners. The office had introduced a standard operating procedure in July 2019 that stated that partners should not charge VAT expenditure on UNICEF funds, but this procedure had not been implemented at the time of the audit. Unrecovered VAT payments represent a reduction in programme funds.

**Agreed action 7 (medium priority):** The office agrees to ensure that implementing partners do not charge tax on UNICEF-related expenditure and that where such tax is paid, it is refunded to UNICEF in a timely manner.

Responsible staff member(s): Deputy Representative

Date by which action will be complete: 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 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 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 regional-office management but are not included in the final report.

### Conclusions

The overall conclusion presented in the summary falls 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.