Office of Internal Audit and Investigations

Internal Audit of the

NEPAL COUNTRY OFFICE

APRIL 2023

Report 2023/03

CONTENTS

EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the UNICEF Country Office in Nepal, covering the period from January 2021 to August 2022. The audit was conducted in person from 5 September to 23 September 2022 in accordance with the International Standards for the Professional Practice of Internal Auditing. The overarching objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over a selection of significant risk areas of the Nepal Country Office, including implementing partnerships, assurance activities under the Harmonized Approach to Cash Transfers (HACT), programme planning, monitoring and reporting, Prevention of Sexual Exploitation and Abuse (PSEA) and supply chain management.

The Nepal Country Office works with government implementing partners and civil society organizations (CSOs) in the implementation of planned programme activities, often in arrangements that require a memorandum of understanding between UNICEF, the Nepalese Government and the CSOs. During the period audited, the Country Office transferred approximately US$20.2 million of cash and US$8.5 million of supplies to implementing partners, which represented 46 per cent of total expenditures. There were several risks identified around the use of partnerships, programme planning, monitoring of programme activities and reporting, cash transfers to implementing partners and human resources management. The audit team also sought to determine whether and how the Country Office managed sexual exploitation and abuse risks.

Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management or control processes were **Partially Satisfactory, Improvement Needed,** meaning that the weaknesses or deficiencies identified were unlikely to have a materially negative impact on the audited entity, area, activity or process. (See the Appendix for definitions of the conclusion ratings.)

	Satisfactory
→	***Partially Satisfactory, Improvement Needed***
	Partially Satisfactory, Major Improvement Needed
	Unsatisfactory

Summary of Observations and Agreed Actions

OIAI noted several areas where the Country Office's controls were adequate and functioned well:

- **Coordination between Kathmandu and field offices**: There was good coordination between Kathmandu and the field offices. The Country Office has established an accountability framework that is being followed by all the field offices and Kathmandu.

- **Adoption and use of eTools**: The Country Office has fully adopted eTools in managing partnerships and HACT assurance activities, which has facilitated review and approval of partnership agreements and assurance activity reports.

The audit team also made several observations related to the management of the key risks evaluated. OIAI noted that:

- Assurance activities over cash transfers had not been properly implemented. The Country Office had not obtained the required reasonable assurance that partners were using funds disbursed to them for their intended purpose, activities were implemented in accordance with the relevant programme documents, and the risk of fraud, waste, abuse and inefficiencies related to cash transferred to partners had been effectively managed.

- There were gaps in programme planning and monitoring of results. Programme monitoring tools used differed across the country and field offices, which made it difficult to consolidate monitoring information. Thirty-five per cent of field monitoring reports reviewed did not assess the status of supplies delivered to partners and thus there was a risk that supplies were not delivered to the beneficiaries in a timely manner. There was no information on the actual implementation of the monitoring plans and responsibility was not assigned to periodically report on the status of the planned monitoring activities. This posed risks around availability of information on the status of programme implementation and taking of corrective actions to address noted gaps.

- The Country Office did not have adequate processes in place to hire and manage contractors and consultants. This resulted in payment of higher management fees.

The table below summarizes the key recommended actions management should take to address the residual risks identified and the ratings of those risks and observations with respect to the assessed governance, risk management and control processes. (See the definitions of the observation ratings in the Appendix.)

OBSERVATION RATING		
Category of Process	**Area or Operation and Key Recommended Actions**	**Rating**
Risk management	**Programme monitoring (Observation 2)**: Strengthen results monitoring through establishment of a harmonized field monitoring process for the country and field offices. It also will ensure that field monitoring and programmatic visits encompass end-user monitoring of programme inputs and assessment of supplies.	**High**
	Partnership Management (Observation 3): Establish and implement a formal review process for identifying and addressing bottlenecks in completing partnership agreements.	**Medium**
Controls processes	**Cash Transfers and Assurance Activities (Observation 4)**: Strengthen cash transfer processes and ensure timely release of funds to implementing partners, that assurance activities (spot checks and programmatic visits), are planned and implemented in a timely manner, and timely follow up and closure of assurance activity recommendations.	**High**
	Management of consultants (Observation 5): Streamline and rationalize its recruitment process to ensure that vacant posts are filled in a timely manner, establish a clear criterion for hiring of consultants directly and through a human resource (HR) company, and review the management fees paid to the HR company. It also will ensure that staff managed through an HR company adhere to UNICEF's ethical conduct and are trained on prevention of sexual exploitation and abuse (PSEA).	**Medium**

Management is responsible for establishing and maintaining appropriate governance, risk management and control processes and for implementing the actions agreed to following this audit. The role of the OIAI is to provide an independent assessment of those governance, risk management and control processes.

CONTEXT

The 2015 Constitution of Nepal envisions a federal democratic republic with devolution of functions to seven provinces and 753 local municipalities (Palikas). Many government functions related to children are to be devolved to local and provincial levels of government, including health, nutrition, water, sanitation and hygiene, education and child and social protection. The related federalization process to achieve this desired decentralization and devolution of power and authority is yet to be fully written into national legislation and related legislation is pending across virtually all sectors and ministries. While advocacy to pass such legislation has been intense on the part of UNICEF and other development partners, the process has remained slow, thereby largely stalling government's roll-out of federalism and making it challenging for UNICEF and other development partners to support government activities.

With a population of 29.2 million, Nepal aspired to graduate from being a least developed country by 2022 and to a middle-income country by 2026. Nepal is the third poorest among 58 countries in Asia and has the sixth lowest human development ranking. There are significant disparities within the country by wealth, region, language, education, caste, ethnicity, gender and age. A total of 54 per cent of under-five deaths occur during the neonatal period. Early marriage and childbearing are significant issues, with 16 per cent of women aged 20 to 24 years having had a child before the age of 18 years. Child malnutrition rates have declined over the past two decades. The prevalence of stunting among children under five years of age decreased from 37 per cent in 2014 to 32 per cent in 2019. However, the current stunting rate is still high. Only 66 per cent of children aged 0 to 5 months are exclusively breastfed, and only 35 per cent of children aged 6 to 23 months receive a minimum acceptable diet. The COVID-19 pandemic resulted in country lockdowns in 2020 and 2021 that impacted children's lives in multiple ways, for example due to closure of schools.

The Nepal Country Programme, which was approved by the UNICEF Executive Board in September 2017, initially covered the period 2018-2022. In 2022 it was extended to February 2023. At the time of the audit, the Country Office was finalizing the realignment of its structure and capacity to the new 2023-2027 Country Programme. The current Country Programme Document consists of six key programme components (health, nutrition, water, sanitation and hygiene, education, child protection and Social Policy, Evidence and Evaluation, or SPEE) and one cross-sectoral component (programme effectiveness). Figure 1A below shows programme spending by outcome and by category for the audited period.

Figure 1A: Programme Spending by Outcome

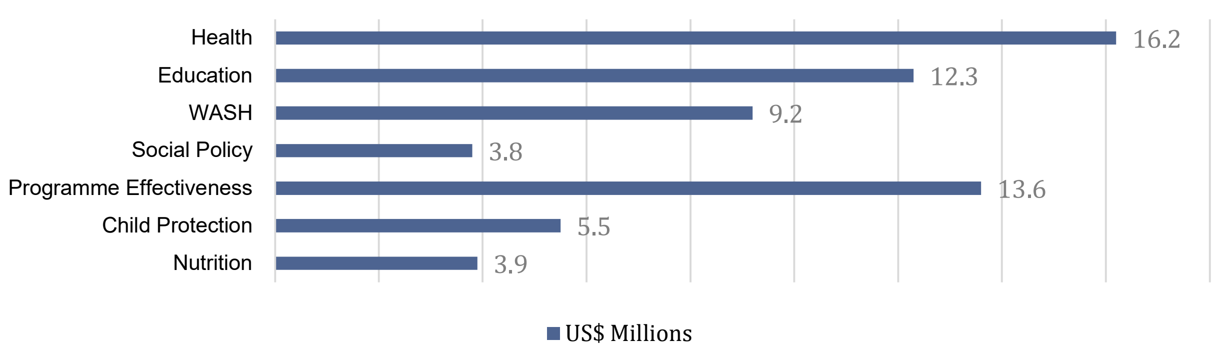

Figure 1A shows that most of the programme resources were spent on health and education. This included the purchase and delivery of life-saving COVID-19 health equipment, vaccination supplies, the development of alternative learning methods and the purchase and distribution of alternative learning kits. The US$13.6 million spent under programme effectiveness includes expenditures on emergency preparedness, disaster risk reduction and COVID-19 Risk Information and Community Engagement.

The UNICEF Nepal Country Office has four office locations: the Country Office in Kathmandu and three field offices (FOs) in Nepalgunj, Janakpur and Bhairahawa. The Country Office staff included 153 regular staff (58 General Staff, 17 International Professionals and 78 National Officers) and 58 individual consultants.

AUDIT OBJECTIVES AND SCOPE

The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over a selection of significant risk areas of the Nepal Country Office. Those areas, set out in the table below, were selected based on an assessment of inherent risks[1] during the planning of the audit engagement.

RISK AREA	Inherent (for audit planning purposes)
Governance and Risk Management	Responsibilities between Kathmandu and field offices are not defined or not clearly understood by both, leading to duplication of tasks; The Country Office may not effectively identify and assess the risks to the country programme and take effective measures to manage them
Programme Planning, Monitoring and Reporting	Programme activities may not be properly planned, implemented, and monitored, leading to potential misuse of funds
Prevention of Sexual Exploitation and Abuse	Adequate measures may not be taken to prevent sexual exploitation and abuse of children, women and staff
Partnership Management	Partners with the necessary capacity for effective programme interventions may not be selected and/or effectively managed, which may lead to poor programme implementation and failure to maximize partner contributions to the achievement of planned results
Cash Transfers	The Country Office may not carry out assurance activities effectively and efficiently, resulting in fraud, waste, abuse and inefficiencies related to cash transferred to partners; The Country Office may not properly follow-up and close recommendations from assurance activities
Procurement and warehousing	Supplies and services may not be procured competitively, resulting in higher costs; Supplies may not be distributed and used on planned programme activities, resulting in misuse and loss of resources

The audit was conducted in person from 5 September to 23 September 2022 in accordance with the International Standards for the Professional Practice of Internal Auditing. For the purpose of audit testing, the audit covered the period of January 2021 to August 2022. The audit involved a combination of methods, tools and techniques, including interviews, data analytics, document review, tests of transactions, evaluations and validation of preliminary observations.

[1] Inherent risk refers to the potential adverse event that could occur if management takes no actions, including internal control activities. The higher the likelihood of the event occurring and the more serious the impact would be should the adverse event occur, the stronger the need for adequate and effective risk management and control processes.

OBSERVATIONS AND MANAGEMENT ACTION PLAN

The key areas where actions are needed are summarized below.

1. Prevention of Sexual Exploitation and Abuse — Medium

The Nepal Country Office has put in place some measures to prevent sexual exploitation and abuse (SEA) by creating awareness among communities, implementing partners, and personnel. However, the audit team identified some gaps in managing the SEA risks. OIAI noted that PSEA assessment reports of 18 national CSOs were not documented in eTools (replaced by UN Common Assessment Tool). Based on the information in Vision, those CSOs were assessed for SEA risks between July 2020 and July 2022 but their assessment reports were not available. Therefore, the audit team could not review the results of the assessments and whether appropriate actions were taken to address gaps that may have been noted. Additionally, the audit team noted that the follow up action plans of six implementing partners were not updated in eTools. This occurred because the assessment reports and the action plans for those CSOs were maintained by different staff in various sections. This disaggregated record keeping created a situation where monitoring of SEA risks could be inefficient. This may create lapses in internal control over SEA risks, which could expose UNICEF to high reputational risks.

The audit team observed that the completion rate of the mandatory course on PSEA for consultants was 54 per cent. The PSEA course is one of the preventive controls that UNICEF has put in place to address SEA risks. The low completion rate of the course exposed the Country Office to SEA risks, especially because some of the consultants were seconded to government ministries and they also represented UNICEF in certain programme areas. This could result in reputational damage to UNICEF should SEA risks materialize.

The audit team also noted that partners' capacities to manage SEA risks were not monitored adequately. According to UNICEF's guidance, SEA risks should be part of programme monitoring (including programmatic visits) of CSOs with high SEA risks. This should include raising of awareness on PSEA at beneficiary level. For partners rated medium or low risk, monitoring of programme implementation should include reviewing the extent of compliance with and effectiveness and efficiency of the organization's PSEA policy, procedures and systems. Of the 20 programmatic visit reports reviewed, 11 did not have a section on monitoring SEA risks. Inadequate monitoring of SEA actions during field visits created a risk of failing to identify and address SEA risks in a timely manner.

AGREED ACTIONS

The Nepal Country Office agrees to:

i. Make proper use of the United Nations Common Assessment Tool in assessing and maintaining partners' PSEA assessments;
ii. Monitor the completion of PSEA mandatory courses by consultants; and
iii. Incorporate assessment of SEA risks during programme monitoring activities (programmatic visits) and for partners rated high risk, include beneficiary-level monitoring.

Staff Responsible: Chief PMU, Human Resources Specialist

Implementation Date: April 30, 2023

2. Programme Monitoring — High

Inconsistencies in programme monitoring activities and gaps in the quality of assurance processes related to field visits created a risk that the Country Office may not know the status of implementation of programme activities and progress made towards expected outputs and results.

The Country Office developed a monitoring framework that included HACT assurance tools (programmatic visits, spot checks), programme monitoring and situation analysis. Each of those elements of monitoring had different objectives and methods. The audit team noted that the programme monitoring tools were not uniformly used in the Country Office. While Kathmandu-based staff adopted the HACT assurance tools to monitor programme results, the staff in field offices developed diverse monitoring tools and formats apart from the HACT assurance plan. These included annual field monitoring plans, which outlined the total population of service points to be monitored, the data source, visit frequency, data collection methods and tools and formats of the field trip reports. With different tools being used by different staff, it was difficult to consolidate monitoring information to provide a clear status on each programme component (activity, output) monitored.

A review of 20 programmatic visits found that eight of the programmatic visits were conducted too late in the programme implementation cycle, which risked that they would not add much value in improving programme performance. Seven of the reports did not include an assessment of supplies received by partners, and 11 of the reports did not include a review of PSEA actions being implemented by partners, or key findings and action plans to be implemented by partners in situations where activities were not on track. A review of field office annual monitoring plans found that there was no information on the actual implementation of the monitoring plans and no designated staff member to periodically report on the status of the planned monitoring activities. This created a risk in that the Country Office lacked adequate information on the status of programme implementation and corrective action could not be taken to address implementation gaps.

As part of programme delivery, during programmatic visits or field monitoring, programme staff are responsible for monitoring supplies. A review of 25 programmatic visits to partners that received supplies found that 12 did not report on the use of supplies (status, distributed balances, etc.). The audit team found that only the Education programme conducted end-user monitoring (EUM) on the supplies received by partners. Without EUM, there is no way to confirm that supplies were received by end-users on a timely basis, that they were of correct quantities and quality, and that they were necessary to achieve programme results.

AGREED ACTIONS

The Nepal Country Office agrees to strengthen results monitoring by:

i. Establishing a harmonised monitoring framework that should be used in both the Kathmandu office and field offices;

ii. Ensuring that field monitoring and programmatic visits encompass end-user monitoring of programme inputs and assessment of supplies.

Staff Responsible: PMU Chief

Implementation Date: July 31, 2023

3. Partnership Management — Medium

Between January 2021 and August 2022, the Nepal Country Office transferred cash totalling US$20.2 million and supplies worth US$ 8.5 million to 262 implementing partners (81 civil society organizations [CSOs] and 181 government partners). The audit team's review of partnership management processes noted some areas for strengthening in implementing planned activities through CSO and government partnership as discussed below.

Timeliness of signing partnership agreements: UNICEF requires that a programme document should be finalized (i.e., signed by both parties) within 15 working days in humanitarian situations, and within 45 days for regular activities related to a country programme. This is to ensure timely availability of funds for implementation of UNICEF activities. The Office was aware of this requirement and the audit team found no reason to believe that the Office required a specific key performance indicator against which it could assess the processing of its programme documents. OIAI noted that of the 18 humanitarian partnerships completed during the audited period, agreements for 33 per cent of them were signed after more than 15 working days, with four of the agreements signed more than 49 working days after submission. For regular programme activity partnerships, 19 per cent of the agreements (9 out of 48) were signed in more than the benchmark of 45 working days, with three of the agreements signed more than 100 working days after submission. A lengthy partnership development process creates the risk of delaying life-saving interventions.

Implementing programmes through the Government Partners: The UNICEF Nepal Country Office had developed and signed its workplans at the federal level. Those workplans required the Government to implement certain activities at the federal, provincial and municipal levels. OIAI noted that due to the need to accommodate the unique requirements of individual entities at the federal level, there were inconsistencies in how cash and supplies were transferred for activities at the municipal levels. While supplies and cash for activities implemented at some municipal levels were transferred through the relevant federal entities, for others, the cash and supplies were transferred directly to the relevant municipal authorities which were, in many cases, the implementing partners for those activities. (There were 753 municipalities).

Primarily due to the small size of a typical activities at the municipal level, the value of supplies and amount of cash transferred was smaller - typically below the monetary threshold for HACT assurance activities such as spot checks, programmatic visits and audits. For example, for the period January 2021 to August 2022, the Country Office transferred US$1.6 million to 93 government partners (68 per cent of all government partners). On average, each of the 93 partners received US$17,000; an amount that was far less than the spot check threshold of US$50,000. Because these transfers were below the threshold, they were not subjected to typical activities to obtain appropriate assurance on the intended use of the funds. Transferring smaller amounts also increased the cost of transaction processing.

OIAI also noted that transferring smaller amounts of cash and supplies directly to municipalities to implement activities agreed at the central defuse accountability for results and intended use of the funds transferred. Some field offices of the Nepal Country Office had developed operational plans and others had established agreements with the relevant provincial authorities to implement certain activities; however, there was no process in place to ensure that there were linkages between the activities set out in operational plans and agreements with regional authorities.

Implementing programmes through international CSOs: International non-governmental organizations (INGOs) are allowed to register in Nepal but can only operate through local NGOs. The Country Office contracted an INGO to assist in implementing education programmes, and that INGO contracted four local NGOs to implement field operations. The audit team reviewed the partnership cost and found that for every dollar transferred to the INGO, 63 per cent was spent on non-programme costs (Headquarters indirect costs, payroll costs, in-country management costs, local NGO salaries and operations costs) and only 37 per cent went towards programme costs that directly benefit children. Thus, there was an inordinately high cost of implementing programme activities through the INGO.

AGREED ACTIONS

The Nepal Country Office agrees to:

i. Develop a government partners engagement strategy, ensuring accountability for results and intended use of resources are strengthened;
ii. Establish and implement a formal review process for identifying and addressing bottlenecks in completing partnership agreements;
iii. Conduct a cost-benefit analysis to decide whether to continue its partnership with the international non-governmental organization with high operating overheads that are applied against funds transferred from UNICEF.

Staff Responsible: Deputy Representative Programme, Partnership Specialist
Implementation Date: June 30, 2023

4. Cash transfers and assurance activities — High

Gaps in the implementation of cash transfer assurance activities create a risk that the funds may not be used as intended.

For the period January 2021 to August 2022, Nepal Country Office disbursed US$20.2 million to 202 implementing partners, 136 of which were government partners. OIAI reviewed the cash transfers and the implementation of assurance activities and noted the following:

Assurance activities did not fully manage the risks of misuse or loss of cash transfers

Processing of requests for direct cash transfers (DCTs): OIAI noted that for the period audited, US$1.9 million (10 percent of total DCT) was processed within less than 90 days to grant expiration. This provided a very short window to implement the planned activities and to account for all the funds released. The audit team noted that US$0.4 million of those transfers had not been liquidated as of August 30, 2022. Disbursement close to the grant expiration date reflects gaps in planning the use of programme funds and poses a risk that planned activities may not be implemented within the grant period agreed with donors. To mitigate such risks, UNICEF Financial and Administrative Policy 2: Budget states that the implementation of activities should be completed during the validity period of the budget allotment.

To ensure the implementation of activities as planned, cash transfer requests should be processed and released to implementing partners within 14 days of a cash request. A review of the processing of a sample of 50 requests for DCTs from partners found that 17 were not processed within the key performance indicator of 14 days, with an average of 31 days to complete processing. The audit team noted, for example, that DCT for the training of Government personnel was made 46 days after the Nepal Country Office received the request. The DCT for COVID-19 response was made 25 days after the request was received. Most of those delays were partly due partners' failure to properly complete the standard form for their requests, which resulted in the Office spending more time than necessary to ensure that requests were corrected. Delays in processing cash transfers meant that the programme activities were not implemented in timely manner.

Processing of low-value disbursement requests: Between January 2021 and August 2022, 613 requests for DCTs amounting to US$20.2 million were processed. The audit team noted that 203 of the DCTs (33 percent of the total number issued) were for amounts ranging from US$1,000 to US$10,000. Most of those disbursements were made to Government partners. A high number of low-value transactions increases transaction processing cost and staff workload and reduces the office capacity to control funds disbursement.

Ineligible expenses*:* The audit team found that ineligible expenses amount to US$1.5 million that were identified by the Office's assurance activities were not promptly resolved or recovered. Approximately US$0.3 million of the expenses were identified by between 2019 and 2021. Failure to promptly resolved or recover ineligible expenses creates a risk of financial loss. The Country Office undertook several actions to recover the expenses from the partners; however, these actions were not always effective.

Spot checks*:* The Country Office did not conduct spot checks for some high-risk partners, which created a risk that it did not get adequate assurance that such partners used and correctly accounted for cash transfers. For example, of the US$14.2 million cash liquidated, there were no spot checks for approximately US$3.9 million (27 percent), representing disbursements to approximately 52 partners, 13 of which had a high-risk rating.

A review of 20 spot checks conducted by third party audit firms found that on average, final spot check reports were produced 153 days from the date of field visits against the regional office benchmark of 99 days. For example, the final spot check report for one partner, conducted in February 2021, was submitted 279 days after field work. Delays in producing spot check reports delay the implementation of actions necessary to manage control breakdowns and/or recovery of ineligible expenses that may be identified through the spot checks.

Programmatic visits: Planned programmatic visits reflect the number of visits that would provide the Country Office with the assurance that risks related to transferring funds to implementing partners were mitigated. The audit team reviewed the details of programmatic visits per partner and noted that there had been no programmatic visits for 34 partners who received a total of US$1.2 million during the audited period. A total of 44 partners who received cash transfers totalling US$2.6 million, including 12 high risk partners, did not receive the minimum required number of programmatic visits as per 2018 HACT guidance. Therefore, the Country Office did not conduct adequate programmatic visits to mitigate risks of misuse of cash transfers.

A review of 20 programmatic visits found that some were happening too late in the programme implementation cycle. For example, the programmatic visit of a partner for planned activities on orientation of vaccine handling between March 2022 and July 2022 was conducted on 31 July 2022. The programmatic visit for Education's COVID-19 response that was to be implemented between January 2022 and August 2022 only occurred on June 24, 2022. Late or non-implementation of programmatic visits elevates the risk that errors or deviation from the programme scope and objectives are not detected and corrected.

Follow-up of assurance recommendations: OIAI reviewed the implementation of assurance recommendations for the period January 2021 to August 2022 and noted that 75 of them, including 27 with a 'high' rating, were overdue, with some of them dating back to January 2021. Thirty-five recommendations (47 percent of the total), including 27 with a 'high' rating, were overdue by more than six months. The audit team did not obtain clear justifications for why those recommendations were open for a long time. This lack of follow up on recommendations posed a risk that partners' financial management and achievement of programmatic activities would not be enhanced.

AGREED ACTIONS

The Nepal Country Office agrees to strengthen the management of cash transfers and assurance activities by identifying and implementing appropriate measures to:

i. Minimize delays in releasing of cash transfers to implementing partners as well as in resolving and recovering ineligible expenses;
ii. Ensure that assurance activities (spot checks and programmatic visits), particularly for high-risk partners, are planned and implemented in a timely manner to provide reasonable assurance that cash transfers are used for agreed purposes.; and
iii. Ensure timely follow-up and closure of assurance activity recommendations.

Staff Responsible: PM Chief, Finance Officer, Programme Chiefs, Field Offices

Implementation Date: April 30, 2023

5. Management of consultants — Medium

The Country Office supplemented its human resources capacity through the hiring of individual consultants. The consultants were hired either directly by UNICEF or through a Human Resources (HR) management company. The HR company had a long-term arrangement (LTA) to provide recruitment services and management of human resources. For a fee, the firm was responsible for recruiting the consultants based on UNICEF's terms of reference (ToRs) and for managing their contracts, including processing their salaries and benefits. The total purchase orders issued to the firm since establishment of the LTA in 2018 amounted to US$2.5 million. During the period under review, the Country Office spent US$1.9 million on consultants hired directly by UNICEF and US$1.4 million on consultants hired through the HR management company. The audit team identified some gaps in the management of risks related to consultants.

The Country Office spent approximately US$3.3 million on consultants hired either by the office or through an HR management company.

The Country Office did not clearly define the criteria for hiring consultants directly or through the HR company. This resulted in situations where there were a significant number of consultants directly hired by UNICEF (creating consultant staff posts in the office) and others that were hired through the HR management company. One programme had 18 consultants, half of which were hired through the HR management company and half of which were hired directly by UNICEF. The consultants had very similar ToRs and outputs. The audit team noted that the Country Office had 26 vacant posts that were filled by consultants; 14 of those posts had been vacant for more than one year. The audit team also noted that the Country Office experienced delays in the recruitment process, which on average took 124 days to complete.

The audit team reviewed a sample of seven contracts of consultants hired through the HR management company, totalling US$0.5 million. The ToRs issued for two contracts with a value of US$0.2 million omitted some tasks that were stipulated in the ToRs that were approved by the Country Office. There was no documented justification to explain this deviation. This exposed the Country Office to inadequate programme outputs due to poorly defined deliverables that did not address all the required tasks.

The audit team noted that the Country Office did not ensure that the correct management fees were paid to the HR management company, which resulted in overpayment of the management fees. For example, a sample of invoices reviewed by the audit team for the month of July 2022, indicated management fees were overpaid to the HR company by US$ 1,295 where the company was paid US$ 3,017 instead of US$ 1,722. This happened because the HR company used the wrong basis in computing management fees. Management fees were to be charged at rates of between 4 and 7 per cent of the disbursed amounts, with the higher rates being applied on low disbursements. Rather than raising invoices based on all consultants hired for UNICEF Nepal, the HR company raised invoices for each programme section, resulting in the application of the higher rates. The audit team observed that for one contract amounting to US$0.1 million, the HR company charged the management fees at 7 per cent instead of at 5 per cent as stipulated in agreement terms. This occurred because of the Country Office's inadequate review of billings made by the HR company, which created a risk that the Country Office would lose resources through overpayment.

The audit team also observed that the LTA and the contracts between UNICEF and the HR company had clauses requiring the company to maintain ethical standards and to comply with UNICEF's policy on Promoting the Protection and Safeguarding of Children. The HR company was responsible for ensuring that UNICEF's policy requirements were passed down to its personnel. However, the audit team did not find evidence that the Country Office ensured that the HR company and the staff it managed maintained the required ethical standards and that staff had attended training on prevention of sexual exploitation and abuse (PSEA). By failing to include consultants in UNICEF's trainings, the Country Office was exposed to reputational risks that could arise in case of any wrongdoing by the consultants.

AGREED ACTIONS

The Nepal Country Office agrees to:

i. Streamline its recruitment process and ensure vacant posts are filled in a timely manner;
ii. Establish clear criteria for hiring of consultants, both directly and through the use of an HR company;
iii. Undertake a detailed review of the management fees paid to the HR company to confirm the accuracy of those management fees;
iv. Ensure that the staff managed through human resources company adhere to UNICEF's ethical conduct and are trained on PSEA.

Staff Responsible: Human Resources Specialist, Finance Officer

Implementation Date: June 2023

6. Warehousing and logistics capacities of partners — Medium

From January 2021 to August 2022, the Nepal Country Office delivered supplies worth US$8.5 million to implementing partners. OIAI sought to obtain assurance that the partners properly handling the supplies delivered them.

The audit team noted significant weaknesses in supply storage conditions of the six partners visited during the audit. For example, some of the supplies were stored in dusty warehouses and, for some supplies, the packaging had been torn and the supplies were on warehouse floors (rather than on pallets). The audit team also noted at the time of audit field work in September 2022 that two partners had not distributed supplies amounting to US$ 0.7 million that they received in June 2022 to beneficiaries. This occurred because the Office did not ensure that appropriate warehousing and logistics handling capacities of the partners had been assessed and found suitable. As a result, there was an elevated risk that supplies may not be used for the intended purposes and of financial loss.

AGREED ACTIONS

The Nepal Country Office agrees to conduct warehouse and logistics capacity assessments of the implementing partners receiving significant quantities/value of supplies and ensure that appropriate arrangements are put in place.

Staff Responsible: Supply Specialist

Implementation Date: May 31, 2023

7. Management of evaluations — Medium

The country programme management plan included a multi-year integrated monitoring and costed evaluation plan(CEP). The CEP included eight evaluations that were to be conducted between 2018 and 2022. The audit team noted that some planned evaluations were not conducted on time, and some had not been conducted at all at the time of the audit field work. The audit team also noted that the Country Office did not have an adequate centralized monitoring process to ensure that accepted recommendations from the completed evaluations were indeed implemented. As a result, the country programme was not adequately informed by lessons learnt.

AGREED ACTION

The Nepal Country Office agrees to strengthen its evaluation process by:

i. Ensuring that evaluations included in the costed evaluation plan are implemented in a timely manner;
ii. Establishing a process for monitoring the implementation of the accepted actions recommended in evaluations.

Staff Responsible: SPEE Chief

Implementation Date: June 30, 2023

APPENDIX

Definitions of Audit Observation Ratings

To assist management in prioritizing the actions arising from the audit, OIAI ascribes a rating to each audit observation based on the potential consequence or residual risks to the audited entity, area, activity or process, or to UNICEF as a whole. Individual observations are rated as follows:

Low	The observation concerns a potential opportunity for improvement in the assessed governance, risk management or control processes. Low-priority observations are reported to management during the audit but are not included in the audit report. Action in response to the observation is desirable.
Medium	The observation relates to a weakness or deficiency in the assessed governance, risk management or control processes that requires resolution within a reasonable period of time to avoid adverse consequences for the audited entity, area, activity or process.
High	The observation concerns a fundamental weakness or deficiency in the assessed governance, risk management or control processes that requires prompt/immediate resolution to avoid severe/major adverse consequences for the audited entity, area, activity or process, or for UNICEF as a whole.

Definitions of Overall Audit Conclusions

The above ratings of audit observations are then used to support an overall audit conclusion for the area under review, as follows:

Satisfactory	The assessed governance, risk management or control processes were adequate and functioning well.
Partially Satisfactory, Improvement Needed	The assessed governance, risk management or control processes were generally adequate and functioning but needed improvement. The weaknesses or deficiencies identified were unlikely to have a materially negative impact on the performance of the audited entity, area, activity or process.
Partially Satisfactory, Major Improvement Needed	The assessed governance, risk management or control processes needed major improvement. The weaknesses or deficiencies identified could have a materially negative impact on the performance of the audited entity, area, activity or process.
Unsatisfactory	The assessed governance, risk management or control processes were not adequately established or not functioning well. The weaknesses or deficiencies identified could have a severely negative impact on the performance of the audited entity, area, activity or process.

Office of Internal Audit and Investigations

3 United Nations Plaza, East 44th St.
New York, NY 10017
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