

Follow-Up Internal Audit of Papua New Guinea Office

April 2020

Office of Internal Audit
and Investigations



Report 2020/04

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted a follow-up audit of the Papua New Guinea (PNG) Country Office. The follow-up audit, which was conducted remotely, covered the period from October 2018 to December 2019. The original audit was conducted from April to May 2018, and the audit report (2018/06) was finalized in September 2018. It recorded an 'Adverse' rating, as the audit had found significant weaknesses in governance, risk management and control processes. Actions were agreed with management to address these.

The objective of the follow-up audit was to provide assurance that the remedial actions had been implemented and to assess the risk of not implementing any previously agreed actions. The 2018-2022 country programme is comprised of five outcome areas, in health, nutrition, education, child protection and WASH (water, sanitation and hygiene). These contribute to all five goals of the UNICEF Strategic Plan 2018-2021. The UNICEF country programme primarily contributes to the UNDAF 2018-2022 "People" outcome, which envisages that "by 2022, people in Papua New Guinea, especially the most marginalized and vulnerable, have enhanced and sustained utilization of quality and equitable services, food security and social protection". The office fully utilized budgeted funds of US\$ 20 million in 2018 and US \$21 million in 2019.

The PNG country office is in the capital, Port Moresby. There are no zone offices. As of January 2020, the office had 49 approved posts.

Results of the follow-up audit, and actions agreed

The audit noted that all 11 previously agreed actions in the original audit report had been implemented by the office and closed by OIAI. However, the office took longer than originally planned to implement these actions. For instance, due to other competing priorities related to the need to respond to polio outbreak, the closure of the six high-priority agreed actions took between three and eight months after the planned closure dates. Additionally, two actions (rated as high priority) previously reported as implemented by the office had in fact not been consistently implemented. In one case, the office had not implemented a fully risk-based assurance plan or followed up with implementing partners to make sure high-priority recommendations arising from assurance activities had been implemented. In the second case, the results described in donor reports were not supported with enough evidence.

The follow-up audit also reviewed implementation of two further agreed actions that were not included in the original report, but were transmitted to you at the time in a confidential memo. This was done because they concerned safety and security, and it was not thought to be in the interest of the PNG staff to disclose them publicly. They related to *Safety and security of staff and assets* (high priority) and *Programme criticality* (medium priority).

As they have now been addressed, OIAI regards them as no longer sensitive. The audit found that these two agreed actions had been fully implemented and generally sustained. The medium-priority observation was closed on time by the office, but the high-priority observation took 12 months longer than originally planned. However, both are now closed, and no further action need be agreed. They are therefore not discussed in the body of the report.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the follow-up audit that the agreed actions arising from the 2018 PNG country Office audit had been generally implemented.

Audit objectives

The objective of this follow-up audit was to provide assurance on the extent to which the remedial actions identified in the 2018 internal audit (report 2018/06) had been implemented, and help focus management attention on any action that remained outstanding or had not been fully sustained. The follow-up audit covered the period from October 2018 to December 2019, with the audit team starting their work in late November 2019 and ending in mid-January 2020.

The follow-up audit was carried out remotely. The audit team used various techniques including interviews (staff and implementing partners), tests of controls, reviews, and analysis as appropriate. Where the audit found delays in implementing the actions from the 2018 audit, root causes were identified and analysed with management, and measures agreed accordingly.

Status of previously agreed actions

The audit report issued in September 2018 (2018/06) identified 11 agreed actions. Six were rated as high priority, as the audit had found significant weaknesses in governance, risk management and control processes. The audit report recorded an 'Adverse' rating. Actions were agreed with management to address the weaknesses found.

This follow-up audit found that all 11 previously agreed actions in the original audit report had been implemented by the office and closed by OIAI. However, 10 of those actions had taken longer than anticipated. For instance, the closure of the six high-priority agreed actions took between three and eight months after the planned closure dates. However, this was understandable as the office needed to respond to, and prioritize, the nationwide polio outbreaks that started in July 2018. UNICEF is a leading Emergency Agency in the UN Country Team, and was asked by the Government to assist with the response. The office diverted significant resources to this effort.

Since the closure of the 11 previously agreed actions by OIAI, the office had continued to implement nine (including four rated as high priority) by the end of December 2019. However, the remaining two rated as high priority had not been fully implemented. These related to assurance on the use of direct cash transfers and to reporting to donors. They are discussed below.

Assurance on use of direct cash transfers (Agreed action 9)

In 2019 the office transferred US\$ 8.4 million to 36 partners. To obtain assurance that cash transfers to partners have been used as agreed, 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 risk involved in working with a particular partner; the type and number of assurance activities will be set accordingly. They include programmatic visits, to verify that activities are proceeding as planned; spot checks of financial records; and audits. There is also a macro-assessment of the host country's public financial system (UNICEF does not currently require this, but in the case of PNG a macro-assessment had been done).

In the original 2018 audit, OIAI made some observations on the way the office assessed partners and its implementation of assurance activities. In response, the office agreed to strengthen oversight of assurance controls on the use of funds by implementing partners, and to take the following specific steps:

- i. Review the results of macro-assessment to determine the specific implications for UNICEF

- assurance activities of the significant weaknesses reported.
- ii. Ensure that micro-assessments and assurance activities are risk-based and are adequately planned, implemented and monitored.
 - iii. Build staff capacity, and develop a strategy and a plan, for supporting and guiding selected implementing partners on cash-transfer processes.

The original planned completion date for these agreed actions was December 2018.

The office had reviewed the results of the macro-assessment and identified specific implications regarding the assurance activities and risk ratings assigned to Government partners. The office engaged audit firms to conduct assurance activities and micro-assessments. It had also established a standard operating procedure on cash transfers and trained partners and staff on the harmonized approach to cash transfers (HACT) standards and processes.

However, the office had not updated the assurance plan to increase the number of spot checks for partners that had significant control weaknesses identified through assurance activities. As a result, the assurance plan was still not fully risk-based. Further, the office did not follow up on implementation of high-priority recommendations arising from assurance activities and micro-assessments.

The office told the audit that it had prioritized the completion of minimum assurance activities during 2019. It also stated that the Financial Assurance Module in eTools¹ scheduled to be adopted in February 2020 would replace the office's HACT Assurance Activities Tracker, which was maintained manually.

The audit concluded that the previous agreed action in this area had been partially sustained. A recommendation is made below to address the outstanding issues.

Follow-up agreed action 1 (medium priority): The office agrees to:

- i. Strengthen controls to ensure regular monitoring of the implementation of high-priority recommendations arising from micro-assessments and assurance activities, so that outstanding risks are dealt with promptly.
- ii. Ensure the assurance plan is fully risk-based, by increasing the frequency of assurance activities for partners with significant outstanding recommendations arising from assurance work.

Responsible staff members: Deputy Representative – Programme, Deputy Representative – Operations, Programme Section Chiefs and HACT focal point

Date by which action will be taken: 31 August 2020

Reporting to donors (Agreed action 11)

In the 2018 audit, OIAI was critical of the office's donor reporting. That audit had tested a sample of eight results/achievements in four donor reports to see if they were supported with sufficient appropriate evidence. It found that seven lacked sufficient supporting documentation. The audit also commented on several elements that could have improved the reports.

¹ UNICEF's eTools is a suite of applications designed to help country offices monitor and organize various functions, including assurance activities and other HACT operations.

In response, the office agreed to increase oversight of the quality of donor reports, and to take the following specific steps:

- i. Reinforce the guidance to staff on the quality assurance process for donor reporting and ensure donor reports are supported with sufficient appropriate evidence. (Original planned completion date: September 2018.)
- ii. Implement a feedback mechanism for soliciting and receiving feedback from donors. (This was reported as completed in July 2018.)

The office had drawn up a quality assurance checklist for the preparation, review and clearance of donor reports with programme sections. The checklist included a step to ensure that result statements given in donor reports were supported with sufficient appropriate evidence.

However, the checklist did not include a methodology for ensuring result statements were evidence-based. In six out of nine sampled reports issued from October 2018 to September 2019, the audit found that the office did not document its quality assurance review using the designated checklist. The audit reviewed six sampled result statements from two donor reports and found there was insufficient evidence to support the result statements. Further, no donor feedback forms had been attached to two out of the nine sampled reports.

The audit concluded that the previous agreed action in this area had been partially sustained. A recommendation is made below to address the outstanding issues described above.

Follow-up agreed action 2 (medium priority): The office agrees to:

- i. Reinforce oversight over the use of the quality assurance checklist for the preparation, review and clearance of donor reports.
- ii. Update the quality assurance checklist to include a methodology for ensuring result statements are evidence-based.
- iii. Systematically seek feedback from donors using a donor feedback form or other mechanism.

Responsible staff members: Deputy Representative – Programme

Date by which action will be taken: 31 August 2020

Annex A: Follow up methodology, and definitions of priorities and conclusions

The audit team assessed the timeliness, appropriateness and sustainability of corrective actions of the previous audit, which had resulted in an adverse opinion (audit report 2018/06). This was done through various techniques including interviews (staff and implementing partners), tests of controls, reviews, and analysis as appropriate. In case of delays in implementing corrective actions, root causes were identified and analysed with management so as to establish measures to reinforce implementation.

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 follow up report. The Representative and their staff then work with the audit team on agreed action plans to address the follow up observations. These plans are presented in the report together with the follow up observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented.

The follow-up audit looked for areas where internal controls could be strengthened to reduce exposure to fraud or irregularities. It was 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 a follow-up or other audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The follow-up 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 following categories were used for the overall conclusion in the follow up audit report:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the follow-up audit that the actions agreed as a result of the previous audit had been generally implemented and sustained by

management during the period covered by the follow-up.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the follow-up audit that, subject to implementation of the actions agreed, the agreed actions were generally implemented and sustained by management during the period covered by the follow-up.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over the implementation of previous audit agreed actions needed improvement to be adequately implemented and sustained.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over the implementation of previous agreed actions needed **significant** improvement to be adequately implemented and sustained.