

Report on the Internal Audit of the
Republic of Peru Country Office

DECEMBER 2023

Report 2023/22

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EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the UNICEF Republic of Peru Country Office (the office) covering the period from the end of January 2022 to August 2023. The audit was conducted from 18 to 28 September 2023 in conformance with the Code of Ethics and 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 Peru Country Office, including programming and monitoring, advocacy and communication, resource mobilization including private sector fundraising, procurement and partnership management. The descriptions of the specific risks identified during the engagement planning process are provided in the Audit Objectives, Scope and Approach section of this report.

The Peru Country Office works with the government at the central and subnational levels and with civil society organizations (CSOs), mainly at the subnational level, on the implementation of the programmes. During the period audited, the country office transferred approximately US\$11.7 million (approximately 29 per cent of its expenditure) for expenses related to staff costs. According to the World Bank, macroeconomic stability, trade openness and a favourable international environment have allowed Peru to become an upper-middle-income economy. Amid the positive economic outlook, Peru is going through a period of political changes, which have necessitated adapting UNICEF programming. Thus, the country programme for 2022–2026 requires the office to seek complementarity between downstream interventions, such as improving access to education and health services and promoting participation, and upstream interventions, such as strengthening national policies and systems. As a result, the office was implementing visible solutions to ensure changes in the lives of the most vulnerable children and adolescents in the prioritized territories of Ucayali, Huancavelica, Loreto and Lima Norte. The country office had the additional responsibility of helping the response to the refugee situation stemming from the crises in Venezuela and implementing emergency response activities related to flooding in some parts of the country.

Overall Conclusion

Based on the audit work performed, OIAI concluded that the assessed governance, risk management and control processes were **Partially Satisfactory, Improvement Needed**, meaning that assessed governance, risk management or control processes were generally adequate and functioning but needed improvement (see the Appendix for [definitions of the conclusion ratings](#).)

	Satisfactory
➔	Partially Satisfactory, Improvement Needed
	Partially Satisfactory, Major Improvement Needed
	Unsatisfactory

Summary of Observations and Recommended Actions

OIAI noted several areas where the country office's controls were adequately established and functioning well. For example, controls over the establishment of CSO implementing partnerships, management of individual consulting services, solicitation and evaluation of bids, award of institutional contracts, and results reporting were assessed as adequate and, based on review of samples, functioning well. The audit team also made a number of [observations](#) related to the management of the key risks evaluated. Some of these observations are summarized below.

- **Office structure and staffing:** While the country programme document (CPD) requires focus on targeted territories, nearly two years into the five-year country programme for 2022–2026, the office had yet to make a final decision on its field presence, including staffing capacities and contracting modalities. Such decisions would require a clear business case including affordability analysis, cost-benefit analyses of alternative approaches to programming in the targeted territories, and an accountabilities framework. The outposts were staffed mainly with United Nations Volunteers (UNVs), and to a lesser extent with temporary staff, with no formal delegation of authority to specific staff in respect of UNICEF representation in the territories. The audit team also noted that the roles and responsibilities of staff in the outposts had not been formalized vis-à-vis the roles and responsibilities of the staff at the headquarters in Lima.
- **Resource mobilization:** The office lacked a comprehensive resource mobilization strategy and plan as well as an adequate mechanism for effective monitoring to enable generation of the resources needed to fund immediate commitments and to scale up its programmatic activities as well as to maximize flexible funding.
- **Advocacy and communication:** The country office’s advocacy activities were carried out mostly on an ad hoc basis, with no strategy or plan. There was thus the possibility that the office might be unable to objectively assess the effectiveness of its advocacy approach and enhance the impact of its advocacy and communication activities.
- **Planning for results and working with government:** There was insufficient focus on results in the implementation of the country programmes, and some indicators to measure the achievement of planned results appeared to be irrelevant or unrelated to those results. Additionally, work planning with government partners needed strengthening.
- **Cash transfers and assurance activities:** To obtain assurance that partners effectively and efficiently implement activities assigned to them, the country office mainly relies on its programmatic visits. The quality of these programmatic visits, however, needs improvement to obtain reliable evidence that activities have been implemented as planned.

The table below summarizes the key actions management has agreed to 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 Agreed Action	Rating
Governance	Office structure and staffing (Observation 1): Take appropriate steps, including affordability analysis and cost-benefit analyses of alternative approaches to programming in the targeted territories, to finalize the establishment of the country office’s field presence with appropriate staffing capacities.	Medium

	<p>Planning for results and working with implementing partners (Observation 2): Take appropriate measures to ensure focus on results (outputs); implement a parallel process, as part of the country office's work planning with government partners, to confirm the effective implementation of the work plans agreed with government partners; and implement appropriate processes that will adequately mitigate risks related to the use of vendors and service providers working for government partners and paid by UNICEF.</p>	Medium
	<p>Resource mobilization (Observation 3): Develop an office-wide resource mobilization strategy and plan to implement that strategy as well as a plan to generate the resources needed to fund immediate commitments and to scale up programmatic activities.</p>	Medium
	<p>Advocacy and communication (Observation 4): Develop an office-wide advocacy and communications strategy and implementation plan to objectively assess the results of advocacy and communication activities.</p>	Medium
Risk management	<p>Managing risk to private sector fundraising (Observation 4): Implement steps that will increase protection of donor information against unauthorized access and utilization for nefarious purposes.</p>	Medium
Control processes	<p>Cash transfers and assurance activities (Observation 8): Take specific steps to improve the quality of programme monitoring. Establish a release strategy and implementation plan that includes a review of the Table of Authorities. In addition, take steps that will ensure that all required spot checks are completed in a timely manner and according to the harmonized approach to cash transfers (HACT) assurance plan, strengthen the follow-up of assurance activity recommendations, and ensure that activity reports are received along with each liquidation.</p>	High

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

According to the World Bank, Peru made remarkable progress in economic growth and poverty reduction in the two decades prior to the COVID-19 pandemic. Macroeconomic stability, trade openness and a favourable international environment allowed the country to become an upper-middle-income economy. Amid the positive economic outlook, Peru is going through a period of political changes, which have necessitated adapting UNICEF programming. Thus, the country programme for 2022–2026 requires the country office to seek complementarity between downstream interventions, such as improving access to education and health services and promoting participation, and upstream interventions, such as strengthening national policies and systems. As a result, the office was implementing visible solutions to ensure changes in the lives of the most vulnerable children and adolescents in the prioritized territories of Ucayali, Huancavelica, Loreto and Lima Norte.



The country programme for 2022–2026 is built around five components:

- Every child and adolescent survives and thrives: children and adolescents will have access to early child development, comprehensive health and nutrition, and water, sanitation and hygiene services.
- Every child and adolescent learns: children and adolescents will benefit from inclusive primary and secondary education policies and programmes that recognize them as rights-holders and agents of change.
- Every child is protected: children and adolescents will be protected against physical, psychological, sexual and gender-based violence and have access to services that guarantee their protection and access to justice, including in the context of an emergency.
- Poverty and social protection: children and adolescents will have access to a comprehensive social protection system and programmes that reduce poverty through a multidimensional approach and promote resilience to stress and external shocks.
- Engagement of citizens and the private sector: Peruvian society and the private sector recognize, respect, promote and demand fulfilment of the rights of the child and climate action.

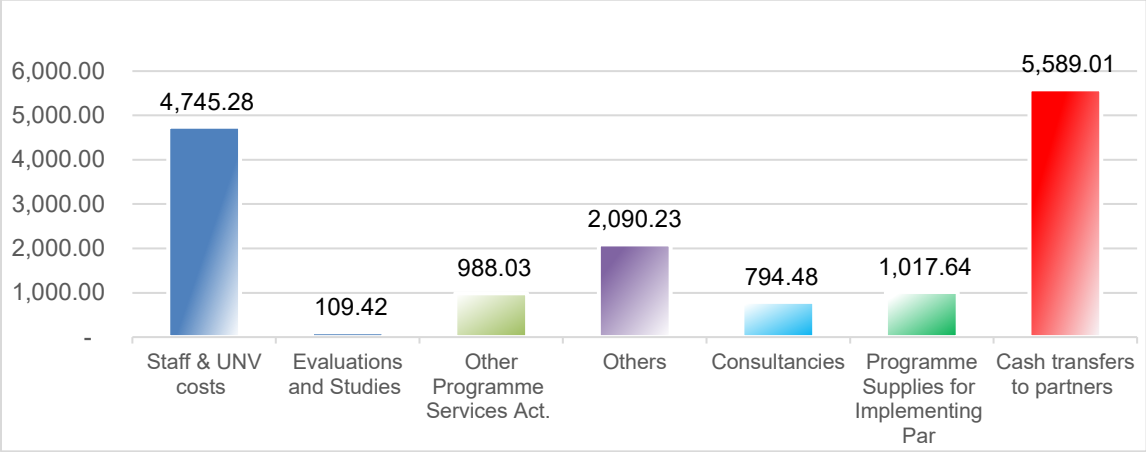
Peru hosts the second-largest population of Venezuelan migrants after Colombia, estimated at 1.5 million people. Approximately 70 per cent of Venezuelan families have settled in the peri-urban area of Lima.¹ In March 2023, flooding and landslides caused by Cyclone Yaku severely affected the regions of Tumbes, Piura and Lambayeque, and 148,000 children were estimated to

¹ Peru Country Office Annual Report 2022

be in need of humanitarian assistance.² As a result, the Country Office had the additional responsibility of implementing emergency response activities.

In 2022, 36 per cent of total expenses were cash transfers to partner beneficiaries, 31 per cent costs of staff and UNVs, 7 per cent programme supplies and 5 per cent consultancies.

Figure1: Main expense items of Peru Country Office for 2022 (in US\$1,000)



Source: UNICEF ERP System, VISION

The Peru Country Office representative was assigned in January 2023. The country office has a total workforce of 66 posts, all based in the main office in Lima, with six outposts located in Huancavelica, Lima Norte, Loreto, Tumbes, Ucayali and Piura staffed with temporary staff and mainly UNVs.

² Flash-note N° 3 - Iluvias intensas 31.03.23 eng

AUDIT OBJECTIVES, SCOPE AND APPROACH

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, including programming and monitoring, advocacy and communication, resource mobilization, private sector fundraising, procurement and partnerships, including cash transfers to partners. The audit scope included key areas, set out in the following table, that were selected during the audit planning process based on an assessment of inherent risks.³

RISK AREA	KEY INHERENT RISKS EVALUATED DURING THE AUDIT
Office structure and staffing	Lack of appropriate office structure and inadequate staffing may result in an inability to effectively and efficiently implement the country programme approved by the UNICEF Executive Board.
Planning for results and working with implementing partners	Failure to assign relevant activities to implementing partners may result in an inability to implement the country programme effectively, and a lack of appropriate indicators limits ability to objectively assess achievement of results as set out in the country programmes.
Resource mobilization	The lack of a robust resource mobilization strategy and plan and an adequate mechanism for effective monitoring may result in inadequate resources to fund immediate commitments, scale up programmatic activities and maximize flexible funding.
Advocacy and communications	The office lacks a robust advocacy and communication strategy and plan as well as an adequate mechanism for effective monitoring. As a result, it may be unable to objectively assess the effectiveness of advocacy and communications approaches and, if needed, adjust those approaches to scale up their impact on children to a national level.
Private sector fundraising	While the office was still developing its capacities for private sector fundraising, it reported significant growth in revenues generated from these activities. his progress in fundraising may not be sustained if donors' credit card and banking information is accessed by unauthorized individuals and utilized for nefarious purposes.
Procurement and management of institutional service contracts	During the audit period, the office established a total of 42 service contracts valued at US\$2.9 million. Most of these contracts were used for private sector fundraising activities. Related to the use of institutional contractors were the risks of selecting the wrong vendors or failing to obtain the desired value.
Individual service contracts	Upstream interventions are foundational to the country programme and involve the use of individual contractors to undertake research and generate data. Related to the use of individuals contractors were the risks of selecting the wrong individuals or failing to obtain the desired value.

The audit was conducted in person from 18 to 28 September 2023 in accordance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. For the purpose of audit testing, the audit covered the period from January 2022 to August 2023. It involved a combination of methods, tools and techniques, including interviews, data analytics, document review, tests of transactions, evaluations and validation of preliminary observations.

³ 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. Office structure and staffing

Medium

While the Peru CPD requires focus on targeted territories, nearly two years into the five-year country programme for 2022–2026, the office had yet to make a final decision on its field presence, including staffing capacities and contracting modalities.

In accordance with the country programme for 2022–2026, the UNICEF Peru Country Office seeks to provide technical assistance and strengthen national and subnational governmental institutional capacities, support the gender-responsive training of state professionals and promote awareness of the rights of children and adolescents. The office seeks to implement visible solutions to ensure changes in the lives of the most vulnerable children and adolescents in the prioritized territories of Ucayali, Huancavelica, Loreto and Lima Norte. To achieve this goal, UNICEF aims to seek complementarity between downstream interventions, such as improving access to education and health services and promoting participation, and upstream interventions, such as strengthening national policies and systems.

The audit team noted that the office was utilizing the UNICEF's programme budget review process⁴ to determine a structure and staffing that are fit for the purposes set out in the CPD and are affordable. Prior to the start of the new programme cycle, the office held a series of meetings to reflect on its territorial presence, the interventions that would be implemented, the roles and responsibilities of staff, and the capacities in those territories. These meetings resulted in recommendations to inform the office and staffing structure. While the CPD requires focus on targeted territories, however, nearly two years into the five-year country programme, a final decision had not been made regarding the office field presence nor about related staffing capacities and contracting modalities, e.g., international staff, national officers, and UNVs. Such decisions would require a clear business case that would include an affordability analysis, cost-benefit analyses of alternative approaches to programming in the targeted territories, and an accountabilities framework.

Meanwhile, the office continues to maintain outposts in the same six locations as before the new CPD. Two of these locations, Tumbes and Piura, are not among the four priority territories identified in the CPD but these two outposts focused mainly on UNICEF's response to the ongoing emergencies and therefore may not be needed after the emergency response ends.

The outposts were staffed mainly with UNVs, and to a lesser extent with temporary staff, with no formal delegation of authority to specific staff in respect of UNICEF representation in the territories. The audit team also noted that the roles and responsibilities of staff in the outposts had not been formalized vis-à-vis the roles and responsibilities of the staff at the headquarters in Lima.

AGREED ACTION 1

The country office agrees to in collaboration with the Latin America and the Caribbean Regional Office take appropriate steps, including affordability analysis and cost-benefit analyses of

⁴ The Regional Programme and Budget Review is a strategic advisory body convened by the regional director to support and facilitate the review of the country office submissions. The Regional Programme and Budget Review facilitates the alignment of resources, structures and strategies to ensure successful implementation of the UNICEF strategic plans.

alternative approaches to programming in the targeted territories, to finalize the establishment of its field presence with appropriate staffing capacities.

Staff Responsible: Deputy Representative Programmes, Operations Manager

Implementation Date: 30 June 2024

2. Planning for results and working with government partners

Medium

The office's programming needs to be better oriented towards tangible results. Work planning with government partners and oversight of the selection of consultants paid by the office to execute activities on behalf of government partners require strengthening.

Results-based planning: The country programme for 2022–2026, approved by the UNICEF Executive Board, sets out outcomes to be achieved, key indicators of the achievement of those outcomes, and indicative outputs. Related to the country programme, the country office had developed a Theory of Change – that is, an explanation of how UNICEF's interventions under the programme would lead to specific outputs, such as “adolescents have access to integral healthcare” and “adolescents have access to specific secondary school approaches”, as well as contribute to specific outcomes, such as systemic changes (e.g., changes in national policies). As part of their programming, the country offices typically identify, review and adjust the activities and related indicators of achievement of outputs set out in the country programme.

The audit noted insufficient focused on results (outputs) by the country office during the office's actual implementation of the programme. As required by UNICEF, the office had defined indicators of achievement of the outputs set out in the country programme, but some of those indicators appeared to be irrelevant or unrelated to the outputs. Thus, even if the office successfully implements its planned activities, the indicators may not be appropriate measures for the achievement of the planned outputs.

Working with government partners: UNICEF requires country offices to develop and agree on work plans with implementing partners that articulate what the partners are expected to do to achieve the results identified in their CPD. The Peru Country Office had developed and signed work plans with government implementing partners (line ministries and regional governments); however, those plans were generic, describing only areas of common interest for the government and UNICEF but not the specific activities that the partners were expected to implement. The audit team noted that this unique approach to work planning with government partners was helpful to manage the risks inherent in the operating environment and to create scope for agility in programming with the government. However, it meant that UNICEF would be unable to objectively assess the effective implementation of those work plans and hence provide assurance to stakeholders in respect of the achievement of the results set out in the CPD.

Consultants used by government partners and paid by country office: The audit team noted that the country office did not have a process in place to obtain adequate assurance that the most qualified consultants were utilized to implement activities assigned to government partners and that the consultants effectively and efficiently implemented those activities. While the office was directly paying the consultants, this was insufficient to manage risk associated with the use of consultants and to ensure their competence, which is critical to the effective implementation of UNICEF interventions.

AGREED ACTION 2

The country office agrees to:

- i. Identify and take appropriate measures or enforce any existing ones to ensure focus on results (outputs) – that is, measures that will identify relevant indicators of achievement of the outputs set out in the country programme for 2022–2026 as well as relevant activities for the delivery of those outputs.
- ii. Implement a parallel process, as part of its work planning with government partners, that includes tools that will confirm the effective implementation of the work plans agreed with government partners and hence support generation of assurance to stakeholders on the achievement of the results set out in the CPD.
- iii. Implement processes that will adequately mitigate risks related to the use of vendors and service providers by government partners, including assuring that such consultants are competent and fit for purpose and are not compensated until there is confirmation of adequate delivery of services.

Staff Responsible: Deputy Representative Programmes

Implementation Date: 31 March 2024

3. Resource mobilization

Medium

The office lacked a comprehensive resource mobilization strategy and plan and an adequate monitoring mechanism to enable generation of the resources needed to fund immediate commitments and to scale up its programmatic activities as well as to maximize flexible funding.

The UNICEF 2022–2025 Strategic Plan requires accelerated resource mobilization for UNICEF programmes that focus on maximizing flexible and predictable incomes from private and public sector partners as well as public-private sources, including governments, bilateral and multilateral partners, individuals, and businesses.

The audit team noted that the office had funding gaps for its planned outcomes and outputs. Furthermore, the unpredictability of the funding stream was affecting the extension of contracts of United Nations Volunteers (UNVs) and consultants. These funding issues highlighted the need for an office-wide resource mobilization strategy and plan.

The office had a private sector fundraising strategy and plan, although its implementation needed to be formally assessed with the aim of revising it to reflect the impact of recent changes in the macroeconomic landscape on the existing revenue forecast and strategies. Like other UNICEF country offices engaging in private sector fundraising activities, the Peru Country Office has benefited from guidance and support from the UNICEF Private Fundraising and Partnerships Division regarding the development of a fundraising strategy and plan, forecasting, training, and execution of the strategy and plan.

Nevertheless, public sector fundraising activities were not properly structured. There was no concrete strategy or plan for public donors. The audit team noted that programme sections routinely developed proposals to mobilize public funding and presented these to potential donors in silos, without consideration for the funding needs related to other outcomes and outputs. The

absence of a concrete strategy meant that the office lacked a sufficient basis to objectively assess the effectiveness of its resource mobilization activities and adjust those activities as needed. The audit team was informed that there is a fundraising committee that discusses the proposals to be developed; due to the absence of the terms of reference for the committee and records of its meetings, however, an objective assessment of its effectiveness could not be performed.

The office stated that some of the shortcomings identified by the audit team stem from a lack of capacity for management partnerships.

AGREED ACTION 3

The country office agrees to develop an office-wide resource mobilization strategy and implementation plan in consultation with the Latin America and Caribbean Regional Office and relevant headquarters offices like Public Partnerships Division and Private Fundraising and Partnerships Division to enable generation of the resources needed to fund immediate commitments and to scale up its programmatic activities as well as to maximize flexible funding. It should also put in place a formal monitoring process by senior management that will confirm implementation of the office-wide resource mobilization strategy and plan.

Staff Responsible: Representative, Deputy Representative Programmes, Fundraising Specialist

Implementation Date: 31 July 2024

4. Managing risks to effective private sector fundraising

Medium

The country office requires additional measures to manage risk to effective private sector fundraising, specifically related to the handling of donors' personal information.

Donor credit card information obtained through face-to-face (F2F) campaigns: The country office has engaged with two F2F companies to sign up potential individual donors. In a meeting with two F2F campaigners, the audit team obtained reasonable assurance that the campaigners were adequately trained in a professional manner. Such competency is critical to ensuring that UNICEF values are represented during the campaigns. The audit team also noted that while the campaigners were keenly aware of the need to protect the credit card information of potential donors, the handling of such information by the campaigners, their employer and UNICEF created risk. The handling of credit card information under these arrangements was not considered PCI compliant. At the time of the audit, the country office was taking appropriate steps to have campaigners use technological devices to obtain credit card information, but it had not acted with respect to the paper forms containing donor credit card information. The audit team noted that it was unlikely this project would be rolled out any time soon. Meanwhile, campaigners will continue collecting credit card information using paper forms, and the information will continue to be handled in the current manner.

Bank reconciliation: The UNICEF Donor Perfect Online (DPO) system was used by the office and its fundraisers to record pledges from donors. On the other hand, payment platforms of banks and call centres with which the office has contracts to collect pledges were the original points of entry for individual donations received by them. From those payment platforms, the donations are deposited in UNICEF bank accounts, whose amounts are reported as UNICEF revenue. The

office manually reconciled the payment platforms and the DPO system to determine any differences between what donors pledged and what the payment platforms reported. No reconciliation was being performed, however, between UNICEF bank accounts and DPO to confirm that all pledges were indeed received by UNICEF. There was also no reconciliation between UNICEF bank accounts and the payment platforms. The office explained that this was due to technical challenges such as poor transaction taxonomy by banks and payment platforms, or mismatched reporting periods. The private sector fundraising and operations teams had been working on how to address this control gap. The lack of three-way reconciliation increases the risk of inaccurate income recognition, incorrect payments to providers and weak control over donor proceeds.

AGREED ACTION 4

The country office agrees to:

- i. Develop and implement a formal process to confirm that all data received by call centres on behalf of UNICEF are adequately protected and discarded.
- ii. Expedite roll-out of the digitalization of its F2F operation so F2F contractors can avoid collecting donor credit information on paper forms. Meanwhile, the office should implement robust controls over the information that has been and continues to be obtained.
- iii. Discard information that has been obtained, in compliance with the UNICEF records retention policy.
- iv. Establish a process to reconcile UNICEF bank accounts with the systems that hold information on donor contributions in consultation with the Latin America and Caribbean Regional Office and the Private Fundraising and Partnerships Division. Records of these reconciliations should be reviewed by the chief of operations.

Staff Responsible: Fundraising Specialist

Implementation Date: 31 July 2024

5. Advocacy and communication

Medium

The country office's advocacy activities were carried out mostly on an ad hoc basis, with no strategy or plan, undermining the potential to objectively assess the effectiveness of its advocacy approach or enhance the impact of its advocacy activities.

Identification, prioritization and execution of appropriate activities to influence decision-makers at national and subnational level and others to take positive action to advance children's rights and development are particularly critical to the achievement of UNICEF's strategic objectives for advocacy and communication. The UNICEF 2022–2025 Strategic Plan states that UNICEF will enhance its evidenced-based advocacy using a range of approaches, including policy dialogue, strategic influencing, engaging with children and young people, and working in partnerships and coalitions. In high and middle-income countries, advocacy and communications are typically used as tools for positively changing the lives of underprivileged and vulnerable children.

The audit noted that the country office conducted advocacy campaigns. The country office pointed to the presence of indicators used to assess the achievement of individual advocacy campaigns and also reported that it routinely implemented advocacy and communication activities to

influence authorities at the national and subnational levels to adopt child-friendly policies and plans. Those advocacy activities, however, appeared to be conducted on an ad hoc basis and sometimes following specific child-related incidents that warranted changes in policy or social norms. The audit also noted that there was no strategy or plan with specific, measurable, achievable, relevant, time-bound (SMART) indicators for systematic identification and generation of insights and the utilization of such insights to influence others to take positive action like changing public policies, national legislations, social norms and potentially harmful practices to advance children's rights and development opportunities. As a result, there was insufficient basis for the country office to objectively assess the effectiveness of its advocacy approaches and, if needed, adjust those approaches to scale up their impact to national level.

AGREED ACTION 5

The country office agrees to develop its advocacy and communications strategy and implementation plan with SMART indicators to enable objective assessment of the results of advocacy and communication activities in consultation with the Latin America and Caribbean Regional Office and relevant headquarters offices like Global Communication and Advocacy Division.

Staff Responsible: Representative, Deputy Representative Programmes, Fundraising Specialist

Implementation Date: 30 April 2024

6. Procurement of institutional services

Medium

Although the office adequately managed the solicitation, submission and evaluation of offers, risks were identified in the process for storing bids, which could lead to fraud.

During the audit period, the office established a total of 42 service contracts valued at US\$2.9 million. Most of these contracts were used for private sector fundraising activities and were therefore essential to increasing flexible funding for its programmes.

The audit team sought to assess the adequacy of controls in place to ensure the Contracts Review Committee (CRC)⁵ process was not disregarded by business owners initially establishing lower-value contracts and subsequently raising the values of those contracts through cost amendments. The audit also sought to verify whether adequate controls were in place to effectively manage risk of fraud related to bid handling and the selection of the right vendors at the right price. This involved a review of eight contracts, of which four were valued at \$100,000, thus requiring additional review of the CRC, and four were valued at less than \$100,000 and therefore did not require CRC review. The review of the sample covered the entire procurement process, including approval of the relevant terms of reference by management requisitioners, solicitation, bid control and evaluation, CRC review, and the award of the contracts. Except for the following issues, nothing came to the audit team's attention to indicate that the established processes and controls – which the team assessed as adequate – were not complied with.

⁵ The CRC mechanism is mandated by UNICEF Financial Rule 112.31 and supports the implementation of the UNICEF Policy on Disbursements.

Solicitation and the bidding process: Solicitation is the process of obtaining bids or quotations from potential vendors and safeguarding bids from their receipt to opening. The audit team noted that controls related to the receipt and handling of bids up to the time of their opening were inadequate to prevent or detect fraud in the bidding process. While the office made the right decision to move away from a paper-based solicitation process since the COVID-19 pandemic and began requiring potential vendors to submit their bids via email, it had not established a secured process for the receipt and safeguarding of bids before they were publicly opened. This creates the risk of unauthorized access to bids, which may result in alteration and substitution of bids prior to the public opening process.

Bid evaluation and the CRC process: During the audit period, the country office processed five institutional contracts, together valued at US\$1.6 million, that reached the threshold of \$100,000 for the CRC to review. Nothing came to the attention of the audit team that would suggest that the CRC review was intentionally avoided. The audit team's review of the bid evaluation and CRC processes for the sample contracts also found nothing to suggest that the evaluation and CRC processes were inadequate or ineffective to ensure the identification and selection of vendors that would best support the requirements of the country office in a cost-effective manner. Specifically, the audit team noted that all bids related to the sampled contracts were initially evaluated by a selection of staff with technical knowledge against the criteria set out in the relevant requests for bids. Subsequently, the bids and evaluation documentation were subjected to the review of the CRC, which then made recommendations to country representation. The contracts were awarded to vendors that were identified as the most qualified to support the requirements of the country office in a cost-effective manner. The composition of the CRC conformed to UNICEF requirements, there was a quorum for proceedings of the CRC, and the audit team found nothing to suggest the relevant processes were not observed by the CRC.

Contracts management: The audit team noted that one of the two long-term agreements (LTAs) for face-to-face (F2F) fundraising reviewed and approved by the CRC⁶ was amended five times, significantly increasing the initial value by 36 per cent, from US\$688,809 to US\$1.1 million.⁷ The audit team noted that the amendments were necessary: whereas the UNICEF payment system requires commitment of available funds when a contract is being established, the country office did not always have funds available to commit on a long-term basis and took the appropriate action of linking further commitments to the performance of the contractor in respect of its revenue-generating activities under the contract.

Notwithstanding the fact that the amendments significantly increased the value of the contracts, they were not reviewed by the CRC, and the office did not undertake additional controls to effectively manage any associated risks. The absence of such controls was due to the current regulatory framework, which does not appear to require any risk mitigation measures after an LTA has been reviewed and approved by the CRC. The current regulatory framework requires CRC review when the value of a contract is increased beyond the approved CRC financial limit or when the overall value of the revised contract increases by 10 per cent or more. OIAI noted that these requirements apply to legally binding contracts and do not apply to LTAs, which are not binding. Under the current regulatory framework, the country office would also not need CRC review if it chose to issue contracts or purchase orders based on the LTA.

⁶ A time-bound LTA that is expected to exceed the CRC limits must be reviewed by the CRC ex ante and not when expenditure is expected to be exceeded. The LTA does not create an obligation for UNICEF to purchase goods or services; rather, a legally binding obligation is created when a purchase order or a contract is issued under an LTA.

⁷ Once an LTA has been reviewed and approved, subsequent contracts or purchase orders placed under the LTA need not be submitted to the CRC.

AGREED ACTION 6

The country office agrees to:

- i. Put in place a secure process for electronic receipt of bids and the handling of bids up to the public bid opening process.
- ii. Involve senior management staff in frequent and evidence-based assessment of the performance of fundraising contractors and use the results of such assessments in deciding whether to significantly increase the value of the long-term agreements for face-to-face fundraising.
- iii.

Staff Responsible: Operations Manager

Implementation Date: 31 March 2024

7. Emergency preparedness

Medium

Although the office identified the actions for its emergency response, key components of the office's preparedness plan were long outdated. This might affect the ability of the office to respond to a sudden emergency related to natural disasters effectively and efficiently.

Since January 2023, moderate and heavy rains in different areas of Peru have caused a number of emergencies due to flooding and landslides. In March 2023, exceptional moderate to intense rainfalls have been reported on the north and central coast as well as in the central and northern mountains, leading the government to twice declare a state of emergency. In several areas of these regions, casualties and severe damage were reported. On 1 March 2023, a multi-sectoral committee for the study of El Niño upgraded the alert status from "Not Active" to "Monitoring the El Niño phenomenon".

The UNICEF Emergency Preparedness Platform is used to monitor offices' preparedness to respond to emergencies. It is also used as repository of actions stemming from offices' response plans. Although the office developed a comprehensive emergency response preparedness plan, the audit noted delays in updating key components of the preparedness plan, such as preposition stock, contingency programme documents and its standing capacity. The last update was in 2021. These documents had been outdated since November 2021. Without these key elements up to date, the country office risked inadequate or inefficient response when needed. The office informed the audit team that it was in the process of developing a response plan for floods.

AGREED ACTION 7

The country office agrees to regularly review and update its emergency response preparedness plan and appropriately update the UNICEF Emergency Preparedness Platform. Lessons learned from recent emergencies should be also considered in updating the plan.

Staff Responsible: Representative, Deputy Representative Programmes

Implementation Date: 30 June 2024

8. Cash transfer to partners and assurance activities

High

Programme monitoring did not provide enough assurance as to the programmatic progress made, the adequacy or potential gaps in partners' provision and distribution of quality supplies, or how prevention of sexual exploitation and abuse (PSEA) was effectively operationalized. The country office needs to strengthen the implementation and oversight of HACT assurance activities to ensure that identified gaps are addressed, thus reducing the risk of funds not being used for their intended purpose.

Cash transfer to partners: Disbursements of cash to partners and their subsequent liquidation six months later were approved by programme managers. The audit identified that certain Funding Authorization and Certificate of Expenditures (FACE) forms for high-value cash disbursements had been approved by staff who did not have the relevant the financial authority to approve such large amounts. The audit also noted that, for certain staff, there were no financial limits in the Table of Authorities. Moreover, there was no evidence that the release strategy, which establishes spending limits for office roles, was based on an assessment of programme size and risk level (i.e., the office's risk self-assessment, its volume of institutional budget, level of HACT and procurement activity, programme size, the country's corruption index, staffing structures and historical knowledge of the office).

Programme monitoring: During the audit period, the country office worked with 25 CSO partners and transferred approximately US\$11.7 million in cash and US\$1.2 million in supplies to these partners, representing approximately 46 per cent and 4.3 per cent, respectively, of the office's total expenses. The primary objective of a programmatic visit is for a country office to assess progress towards the implementation of activities and achievement of results by partners. Programme monitoring in the Peru Country Office was mainly performed through programmatic visits. The audit noted, however, that the quality of the programmatic visits to assess progress and adequacy of the partners' activities needed improvement.

As of 25 September 2023, the office had completed 30 of the 58 programmatic visits in its 2023 HACT assurance plan. The audit team's review of the reports of a sample of 10 activities classified by the office as monitoring activities noted:

- Seven of the 10 sampled programmatic visits were performed via virtual meetings and not with a physical visit to inspect the activities. Examples in which physical presence would have been required included distribution of kits for new-borns and trainings for community leaders. It was also unclear from the reports of those meetings what specific evidence was reviewed during the virtual meetings to objectively assess the implementation of the activities under review. Furthermore, the priority levels of findings stemming from the virtual meetings were not indicated in the reports; such levels are typically needed for decisions on the nature and timing of actions that should be taken.
- In another situation of a sample of a programmatic visit report related to a government partner, the activities that were inspected had been implemented in the previous country programme cycle, which was completed a year before the programmatic visits took place.
- Some of the CSO partners implemented activities that required direct contact with beneficiaries, especially those related to the emergency response of Venezuelan migrants. None of the reports sampled covered PSEA activities. This means that partners' capacities

on PSEA were not monitored, as the office indicated that it opted for monitoring PSEA through programmatic visits.

- During the audit period, the office transferred a total of US\$1.2 million in supplies to CSO partners, such as hygiene kits, laptops and educational kits. None of the programmatic visit reports sampled covered partners' management of programme supplies. In the absence of supply end user monitoring, it was unclear how the country office was confirming whether the supplies delivered to partners reached the last mile or whether they were effectively distributed to the intended beneficiaries.

Liquidations of partner expenditures: Liquidation describes the process in which partners report on the utilization of funds previously advanced by the office. Partners typically submit a FACE form along with a progress report, which is used by the office to assess the progress towards planned results and to approve the liquidation of expenditures. The audit reviewed a representative sample of FACE forms of liquidations and found several gaps. For example, the audit identified that, in one case, a progress report covering the period of liquidation of expenses was received after the approval of the liquidation. The country office mentioned that because the progress of activities was being monitored monthly in meetings and programmatic visits, the reports were not required to be presented together with the liquidations. As such, there is a chance that key information on programme implementation is not verified to allow for corrective actions. In another instance, the audit team came across a FACE form that did not specify the activities being liquidated. This could result in an inaccurate liquidation of the partner's expenses.

Spot checks: Spots checks are a review of financial records to obtain reasonable assurance that amounts reported by implementing partners are accurate. At the time of the audit, the office had not completed any of the 18 spot checks that were in the assurance plan for the 2023 calendar year. The country office attributed the non-completion of the spot checks to the late contracting of the audit firm that would eventually perform them in Q4 of 2023. Failure to complete planned spot checks on time exposes the office to the risk of mismanagement of funds by partners or of funds not being used for their intended purpose. This is especially the case for partners assessed as high risk. Further, the office was unable to identify significant gaps in the use of funds by partners and take timely corrective actions.

AGREED ACTION 8

The country office agrees to:

- i. Implement a revised release strategy that is based on an assessment of programme size and risk level and update the Table of Authorities accordingly.
- ii. Identify and implement appropriate activities to improve quality and reporting with respect to programme monitoring.
- iii. Ensure activity reports are received along with each liquidation as a means of verifying that the activities are carried out in the period of the transfer of funds and that FACE forms include implemented activities.
- iv. Ensure that all required spot checks are completed in a timely manner and according to the HACT assurance plan.

Staff Responsible: Deputy Representative Programmes, Operations Manager

Implementation Date: 30 June 2024

9. Procurement services provided to the government

Medium

The Peru Country Office signed a memorandum of understanding (MoU) with the government of Peru in 2008 by which the UNICEF Supply Division procures supplies on demand. According to the terms of the MoU, the Supply Division conducts the procurement of requested supplies and delivers to the port of entry. After the supplies are delivered, UNICEF accountability ends. There is a view that there is a reputational risk associated with how the government handles the supplies after they are delivered. This risk, however, was not part of the office risk assessment, and therefore the residual risk to the UNICEF brand in Peru, the risk response and the mitigating controls remain unassessed. As such, if UNICEF confirms that such risk does indeed exist, it must identify the necessary controls and additional resources to manage the risk if it decides not to tolerate it. It is recommended that the country office engage with the Supply Division to determine whether there is a significant risk that needs to be managed and to identify the resources for managing such risk.

AGREED ACTION 9

The country office agrees to undertake further assessment of the risk associated with UNICEF's procurement services to the government and take appropriate mitigating actions in collaboration with the Supply Division.

Staff Responsible: Representative, Operations Manager

Implementation Date: 31 March 2024

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.

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