

Internal Audit of the Nepal Country Office

June 2019

Office of Internal Audit
and Investigations



Report 2019/07

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Nepal Country Office. The audit covered the period from January 2018 to 9 April 2019, and the audit team visited the office from 18 March to 9 April 2019.

Nepal has a population of 28.5 million. It remains one of the poorest countries in the world, and continues to cope with the effects of a decade-long insurgency that ended in 2006. Located in the Himalayan mountain range, the country is vulnerable to global climate change, and struggles with water scarcity in some areas and increased flooding in others. It was severely affected by earthquakes in 2015 and floods in 2017. The mortality rate for children under five is 33.7 per 1,000 live births, down from 140 per 1,000 live births in 1990. On the Multidimensional Poverty Index¹ (MPI) published in 2018, Nepal is at 28.6 percent, a significant reduction of about 50 percent between 2006 and 2014. However, the MPI for children remains high, at 41.6 percent.

Nepal underwent substantial political and structural changes during 2017 and 2018. As a result, it has seven provinces and 753 local government units; of the latter, there are 460 rural units, called Gaunpalikas, and 293 urban municipalities. Both the Gaunpalikas and urban municipalities are commonly referred to as Palikas. The UNICEF country office aims to operate in 484 of these Palikas in the current country programme, which runs from 2018-2022.

There are six main components in the country programme: *Health; Nutrition; Education; Child Protection; Water, Sanitation and Hygiene (WASH); and Social Policy and Economic Analysis*. There is also a cross-sectoral component that covers various functions, including communications, disaster risk reduction, planning and monitoring, and Communications for Development (C4D). The total budget for the country programme was US\$ 150.26 million, of which \$36 million was regular resources (RR) and \$114.26 million was other resources (OR).² The budget for the period covered by the audit was \$40.8 million. The office is in the capital, Kathmandu, with three zone offices; these cover five of the seven provinces of Nepal where the level and scale of overall child deprivation is highest. There are 174 established posts.

The audit noted several areas that were functioning well. The office maintained good relationships with other United Nations bodies in-country, and was perceived as a key player; it was very active within the Government-led clusters. The office had adapted quickly to the structural changes in Government, and had signed agreements with Palikas that defined the framework of partnership with them. The office had also successfully advocated the retention of the procurement of vaccines at the central Government level, to avoid disruption.

¹ The MPI is issued by the Government's National Planning Commission in collaboration with the Oxford Poverty and Human Development Initiative. It has been designed to provide data that is internationally comparable, and can be found at https://www.npc.gov.np/images/category/Nepal_MPI.pdf.

² RR are core resources that are not earmarked. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be otherwise used without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget.

Action agreed following the audit

The audit identified a number of areas where further actions were needed to better manage risks to UNICEF's activities. In discussion with the audit team, the country office and regional office have agreed to take a number of measures to address these risks and issues.

One of the actions is being implemented as high priority – that is, to address issues requiring immediate management attention. This action is that the office agrees to, during field-monitoring visits, assess the results achieved against those called for in the results framework in the Country Programme Action Plan (CPAP).³ It will explain, in the relevant field-monitoring trip reports, the reasons why the planned results have not been achieved; and it will implement an action plan to ensure future achievement of results and implementation of action points from field-monitoring visits.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the country office's governance, risk management and internal controls were generally established and functioning during the period under audit.

The Nepal Country Office, the Regional Office for South Asia (ROSA) and OIAI intend to work together to monitor implementation of the measures that have been agreed.

³ The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

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Objectives

The objective of the audit was to provide reasonable assurance that there were adequate and effective governance, risk management and control processes to ensure: achievement of the office's objectives; reliability and integrity of financial and operational reporting; effectiveness; efficiency of operations and economic acquisition of resources; safeguarding of assets; and compliance with relevant policies. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

This report presents the more important risks and issues found by the audit and the measures agreed with the client to address them. It does not include lower-level risks, which have been communicated to the client in the process of the audit.

Audit observations

Monitoring and evaluation

The office had various programme monitoring mechanisms to track the progress of the country programme. Like other UNICEF offices, it uses the Harmonized Approach to Cash Transfers (HACT) to obtain assurance that cash transfers to partners have been spent as agreed; this is discussed in the observation *Cash transfers to implementing partners*, later in this report. However, the present observation focuses on the mechanisms used for monitoring the programme's results. These are crucial both to monitor the progress of the programme, and to ensure accuracy of reported results. Monitoring was raised as a high-priority issue in the previous internal audit report on the office, in 2014.

Offices should also evaluate the main programme components during a programme cycle, and that is also reviewed in this observation.

Results monitoring: The programme sections should use data from a number of sources for the results they report in the results assessment module (RAM).⁴ These include government sources, surveys and results of field-monitoring trips designed to assess achievement of results against the results framework in the Country Programme Action Plan (CPAP).

The audit noted that only three of six programme sections (Nutrition, Social Policy and WASH) used field-monitoring trip reports to verify results reported in RAM, and not for all results. For example, Nutrition and Social Policy each used field-trip reports for only one out of 13 indicators, while WASH used the reports for only three out of 13 indicators. The other programme sections (Health, Child Protection and Education) did not use any of the monitoring reports to verify the result indicators. This was mostly because the reports did not always state the planned result against which the field-monitoring trip was measuring progress. In general, the audit also noted that field-trip reports did not always specifically assess the results achieved against the results framework in the CPAP.

⁴ This is an online portal in which UNICEF offices report their results; it allows for easy comparison across the organization's offices and programmes.

This meant that the results reported in RAM, and ultimately in the office's annual report, were not adequately supported by the results of field monitoring. This occurred despite the fact that in the annual Programme Review meeting in December 2018, one programme section highlighted the need to generate evidence through ongoing evaluation and regular monitoring, while another called for a solid plan for monitoring progress and quality assurance of activities.

Follow-up action: The findings/action points generated from programme monitoring were not being reviewed as part of programme management and/or other team meetings. For example, none of the five sample programmatic visit reports reviewed by the audit had follow-up action points on each output, with timeline and responsible person.

Community feedback: UNICEF's Results-Based Management (RBM) framework requires direct feedback from communities; that feedback should be used to assess and improve programme quality. Offices obtain feedback from communities in several ways, including focus-group discussions, interviews and surveys, and watch groups (e.g. groups in the community that will monitor a given subject). These mechanisms can give voice to the perspectives of primary stakeholders and beneficiaries. However, the audit did not see formal feedback mechanisms.

The office had a successful parenting education package for early childhood development (ECD) that could have been used for this purpose, but the audit's discussions with parents at a programme site visited showed that the ECD discussions did not include obtaining feedback from the parents on harmful social practices like child labour, child marriages and gender-based violence (GBV). One of the two donors interviewed by the audit commented that, to sustainably reduce school-related GBV, it was important to work towards preventing harmful social practices in families and communities by engaging parents.

Evaluations: The office sought to strengthen the evidence-based approach to programming by way of evaluations, studies and research. The office had spent about US\$ 3.5m on evaluations and studies. Besides providing evidence as to the appropriateness of programme interventions, evaluations and studies can serve as means of verification for the results reported in the RAM. All six programme sections had used an evaluation, a study or a research to verify the results reported in the RAM. Three of these sections had used at least two evaluations or an evaluation plus a study/research activity as means of verification.

However, the audit's review of the 2019-2020 Integrated Monitoring and Evaluation and Research Plan (IMERP) found that several of the activities planned had been delayed or had not yet taken place. For example, one out of six planned evaluations (an impact evaluation of the Multi-Sector Nutrition Plan) had been delayed. So were two out of nine planned research activities (perinatal care and the school sector development plan). The status for seven of 13 studies that had been planned had been left blank in IMEP. This was because the data and information that might have helped verify the results reported in RAM, and indeed support further results, were not yet available.

Agreed action 1 (high priority): The office agrees to assess results achieved against those called for in the results framework in the CPAP during field monitoring visits; explain, in the relevant field-monitoring visit reports, the reasons why the planned results have not been achieved; and implement an action plan to ensure future achievement and implementation of action points from field-monitoring visits; and improve the timeliness and quality of the evaluations managed by the office.

Responsible staff members: Chief of Planning and Monitoring, Chiefs of Sections and Field offices

Target date: February 2020

Agreed action 2 (medium priority): The office agrees to implement a formal stakeholders and beneficiaries feedback mechanism and use the feedback obtained to assess and to further inform its programming.

Responsible staff members: Chief of Planning and Monitoring and Chiefs of Sections

Target date: February 2020

Programme results structure

UNICEF practices results-based management (RBM), and requires that the results planned for in the country programme should be evidence-based and reported against defined indicators and baselines. The audit noted that the 2018-2022 Nepal country programme was aligned with UNICEF's strategic plan. The results matrix had been developed in close consultation with the regional office and included in the CPAP. The overall logic of the results framework was sound. However, the audit noted the following.

RAM results structure: On analysis of the data the office had uploaded to RAM, the audit noted that there was a need for a review of the indicators and the results structure. Some indicators/results were no longer relevant in terms of the desired outcomes/outputs. For example, one output-level⁵ indicator in Child Protection section was no longer relevant, as the GBV watch groups that it related to were discontinued in January 2019. One output result in water, sanitation and hygiene (WASH) was set at the central government level, and was not relevant in the federal context.

There were also some programme results that were not adequately supported by relevant data. For example, one education sector outcome on introducing out-of-school girls into formal education did not have a related output, although annual data was available. In contrast, there was a social policy output indicator for birth registration although in this case, the data was not available; the office could not update accurate birth registration data annually in RAM, since MICS and DHS⁶ were not conducted every year.

Zone office results: The audit review noted that some national-level targets were included in the zone office operational plans. For example, the target for the number of children in residential care, including faith-based institutions, was set at 23,000 children nationally; this target is appropriate at the country level, but not at zone-office level. The zone offices are responsible for the number of children placed in

⁵ UNICEF programmes plan for results on two levels. An outcome is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus, an output might include (say) the construction of a school or clinic, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

⁶ The Multiple Indicator Cluster Survey (MICS) is a survey technique developed by UNICEF to provide rigorous data across a range of fields from households, from women, from men and concerning under-fives. MICS is designed to provide internationally comparable data on the situation of children and women. The Demographic and Health Survey (DHS) programme is an international effort to collect accurate health and population data. It is funded by USAID but also receives contributions from other organizations, including UNICEF.

residential care in the Provinces that are covered by each of the zone offices. However, the zone offices are not accountable for country-level target (23,000 children) shown in the zone-office operational plan.

Agreed action 3 (medium priority): The office agrees to review the results, targets and indicators in the RAM results structure and revise them for appropriateness, and for relevance in terms of the desired outcomes/outputs.

Responsible staff members: Deputy Representative and Chief of Planning and Monitoring

Target date: December 2019

Donor reporting

Country offices are responsible for meeting donor requirements. The audit reviewed a sample of two donor reports (out of six reports), interviewed two major donors and analyzed the feedback they had given the office. The donors were generally satisfied with the timeliness of the reports. However, the audit noted the following.

Quality of reporting: There were issues with the quality of the reporting. The reports did not clarify the exact period in which the reported results were achieved; in their meetings with the audit, the donors expressed the need for the results achieved during the reporting period to be identifiable in the reports. The reports also did not adequately separate the results for the period being reported on from the cumulative results achieved. One of the donors met by the audit also stated that the report did not contain sufficient information to assess achievement of the visibility plan it had agreed with the office.

Timeliness of implementation: One donor also noted delays to implementation of donor-funded projects in some cases. It stressed the need for better project management, to ensure implementation within the agreed timeline. An example was the post-earthquake construction of Transitional Learning Centres (TLCs); these should have been completed by early 2018 at the latest, but the donor had agreed to an extension until June 2019 (this was done on a 'no cost' basis, which meant that the donor contributed no further money but extended the deadline for the original allotment to be spent). The audit visited a TLC and reviewed the TLC documentation; this indicated that there had indeed been delays in completion of the project, and that a further extension would be required until December 2019 to complete the post-construction certification requirement. (This certificate would indicate that the TLC constructed was defect-free during the six months after construction.)

The office stated that the delays occurred in the procurement process when the office transitioned from partnership cooperation agreements (PCAs) to institutional service contracts. The office said the delays could also be attributed to limited in-country capacity for construction, and the need for UNICEF to often pick up the hardest-to-reach communities as the provider of last resort in areas where it was playing the role of cluster co-lead. However, in view of the earthquake that has been predicted in Western Nepal,⁷ it is important for the office to continue to pay attention to timely completion of donor-funded projects.

⁷ While it is not possible to predict the date of any future event of this type, the strong possibility of a major earthquake in Western Nepal has been widely predicted since the 2015 quake. See for example *Past disasters foretold* (Nepal Times, 20 April 2018) and Zilio et al., *Bimodal seismicity in the Himalaya controlled by fault friction and geometry* (Nature Communications 10, January 2019).

Agreed action 4 (medium priority): The office agrees to further improve the timeliness of completion of donor-funded projects as well as the quality of reports to donors.

Responsible staff members: Deputy Representative, Section Chiefs, Reports Specialist, Representative/
Evaluation Specialist and Chief of Planning and Monitoring
Target date: March 2020

Shock-responsive social protection systems

UNICEF guidance on humanitarian cash transfers defines shock responsiveness as the ability of the social protection system to: anticipate shocks; scale up and be flexible, to accommodate new populations and needs after shocks; and contribute to building resilience to future shocks.

There is the continuing prospect of an earthquake in Western Nepal; worst-case scenario estimates that 280,000 people will be killed, 3.5 million people injured, and 7.8 million people displaced, with the affected population thus totalling 11.5 million. Identifying all of these and reaching them with cash transfers in such an emergency presents a serious challenge. The office noted that the Government's Social Security Allowance (SSA) registry would not currently be able to cover such significant numbers. The office stated that it was working to improve the capacity of local officials and banks to identify the most vulnerable members of the population, children; and pay cash grants to them respectively, in the event of a disaster/shock.

There had been an emergency cash transfer programme in Nepal 2015 earthquake. The lessons learned from this highlighted the need to develop a stronger social protection system that could meet the needs of vulnerable groups in normal times, as well as in times of crisis. The work to scale up these systems was ongoing at the time of audit. The UNICEF office had been working with the Department of National Identity Card and Civil Registration, Ministry of Home Affairs to identify various ways to reach the vulnerable groups in the event of a disaster. It was also working with the Government in drawing up a standard operating procedure for shock-responsive social protection, from the identification of the vulnerable groups to cash transfers to eligible members of the groups. However, there was no clear plan of action for the completion of preparations.

The office was aware of the need for further work on shock-responsive social protection systems, but this had been constrained by staffing. For example, the Chief of Social Policy, Evidence and Evaluation had taken up her post at the end of 2018, five months after her predecessor left the office. The office stated that they would continue this work with funding received from a donor.

Agreed action 5 (medium priority): The office agrees to draw up, implement, and mainstream in programming a concrete plan of action for appropriate shock-responsive social protection of the most vulnerable in the event of an emergency such as the predicted earthquake.

Responsible staff members: Chief, Social Policy Evidence and Evaluation
Target date: June 2020

Disaster response coordination

UNICEF's *Procedure on Preparedness for Emergency Response*⁸ supports the mainstreaming of preparedness into UNICEF programming so as to provide timely and effective response in humanitarian crises. Besides the possibility of another high-magnitude earthquake,⁹ Nepal faces frequent natural disasters such as floods, landslides and fires that impact lives, livelihoods and infrastructure. Disaster risk reduction (DRR) is therefore crucial, in particular the capacity to respond to any disaster that should occur. The Government's intention was to set up a central DRR management authority in the Ministry of Home Affairs (MoHA), but this had not yet been done at the time of audit. Meanwhile, the federal structure put local authorities in the frontline of DRR and also gave the responsibility for it to local governments.

The office had discussed this matter in a meeting with the Ministry of Federal Affairs and General Administration (MoFAGA) in January 2019. The minutes of this meeting stated that responsibilities lay with local-level authorities in the case of small-scale disasters, provincial level for medium-scale disasters, and federal level in case of large-scale disasters (the District level was not mentioned). In case of a major emergency, however, it was recognized that there was no capacity at local level for the clusters to be activated. The office therefore recognized that additional support would be needed in the event of disaster and had made DRR a priority across sectors. It was working with 16 local authorities in integrating the disaster risk into their risk profiles.

Meanwhile there was inadequate common understanding of the responsibilities for response and coordination among the various tiers of authorities, leading to *ad hoc* arrangements in some cases. This had become apparent during a recent disaster in Province 2. This was a windstorm that had taken place in Parsa and Baara districts on 31 March 2019. The response was seen by many stakeholders, including the cluster co-leads in the UN and international NGOs, as a test of the contingency plan for the humanitarian response under the new federal structure. The initial review of the response found insufficient clarity of roles and responsibilities.

This had led to a lack of effective coordination among different tiers of the administration. *Ad-hoc* coordination was noted among the municipalities involved, the District Disaster Management Committee (DDMC), and provincial and federal government. For example, coordination occurred at different levels for the education cluster (provincial level), WASH, Health and Nutrition (district level) and the protection cluster (municipality level). One of the reasons for this *ad-hoc* process was that the central authority to take care of the disasters in MoHA had yet to be named. There was a need for different levels of Government to work together and for the cluster co-leads to work with the Government in setting up a robust coordination mechanism.

The UNICEF Representative had asked the UN Resident Coordinator to, on behalf of the UN in the country, take this issue to a senior level of the Government and advocate systematic and effective coordination of disaster response, to avoid confusion in, and delay to, humanitarian action. The Representative believed that an analysis of the response to the windstorm would serve a basis UN dialogue with the concerned national and local authorities to further improve coordination mechanisms. Indeed, such analyses would provide lessons for UN responses to future disasters.

Agreed action 6 (medium priority): The office agrees to, in conjunction and consultation with the UN

⁸ EMOPS/PROCEDURE/2016/1, 29 March 2018.

⁹ See above, p8fn.

Country Team, analyze the response to the windstorm and advocate, at senior Government level, the establishment of a robust disaster coordination mechanism.

Responsible staff members: Representative and Chief of Emergency Section

Target date: September 2019

Adapting to the new federal system of government

Nepal underwent substantial political and structural changes during 2017 and 2018. Immediately after the current government took office on 15 February 2018, it decided to enforce the mandate of the 2015 constitution that required a federal structure comprising the central government, seven provincial governments and 753 local governments.

The UNICEF country office had anticipated that, during the current 2018-2022 country programme, it would gradually come to work with 484 of the local governments, starting with a small number. It had started working with 50 local governments from three provinces, in the areas of Nutrition, Health, Education, WASH and Child Protection. The office told the audit that a survey to determine the baseline of child-related issues in the 50 local governments was currently underway, and it was expected to conclude by late 2019. The office also told the audit that Government had asked it to expand operations to other local government units. This will be challenging to achieve in the foreseeable future. The office will need to be clear about what it wishes to achieve by expanding to other local government units. This may require a major change or modification in the original design of programme activities and allocation of resources.

In this regard, the audit's review of the 'Theory of Change'¹⁰ for the 2018-2022 country programme found that the office did not set out the change desired as a result of the programme, and how this was to be achieved within the federal context. The office needs to be very clear about how accountability will be achieved in the new federal structure, especially where Government implementing partners are involved. In this regard, the audit noted that, in the education sector, US\$ 446,852 – 49 percent of the funds transferred – had to be returned in 2017-18 by a government implementing partner mainly because the payment had originally been made to government payees that no longer existed in the same form as a result of the new federal structure.

Agreed action 7 (medium priority): The office agrees to review the Theories of Change, and revise them as necessary to fully reflect the federal context of its operations.

Responsible staff members: Representative, Deputy Representative – Programme, Chief of Planning and Monitoring, and Section Chiefs

Target date: June 2020

Agreed action 8 (medium priority): The office agrees to draw up a plan of action, informed by the baseline survey of the convergent Palikas, to address the key issues related to sustaining or scaling up the programme.

¹⁰ A ToC is simply an explanation of how an office expects a proposed change in the situation of children and women, or a programme achievement, is expected to occur.

Responsible staff members: Representative, Deputy Representative – Programme and Chief, Planning and Monitoring

Target date: October 2019

District cold-chain storage management

The UNICEF office had successfully argued against the decentralization of vaccine procurement, and cold-chain vaccine storage facilities continued to exist at the District level (an intermediary between the Provinces and Palikas).

However, when the audit team visited a vaccine cold-chain storage facility, it noted that the information the facility used to receive earlier from the Ministry of Health and Population, and the funding for supervising health-centre distributions, had stopped. This was because the role of the district-level cold-chain storage management was not well defined in the new federal structure. This made it harder for the office to obtain adequate assurance that the correct number and type of vaccines were available at various health centres and outposts. The audit also noted that many vaccines were being returned from health centres and outposts, since the vaccine dispatches exceeded the requirements for the current cycle of vaccinations at the health outposts. However, the records did not indicate where these returns came from so that the correct quantity of vaccines could be dispatched during the next cycle of vaccinations.

The vaccines were also transported to the district cold-chain centre from two cities in two different Provinces, posing logistics challenges. In addition, the facility visited by the audit had been experiencing frequent shortage of syringes. Further, the cold packs/boxes in which the vaccines were carried to the cold storage and the health facilities were old, and needed to be replaced; however, there was no contingency stock of such items at the facility.

In general, there was uncertainty about the existence of cold-storage facilities in the districts, given the new three-tier (central, provincial and Palika) federal structure, that currently has no place for districts.

Agreed action 9 (medium priority): The office agrees to improve the performance of the district-level cold-chain storage operations, and to work with the Government on the way forward for the district-level cold-chain storage system.

Responsible staff members: Deputy Representative, Programme and Chief, Health Section

Target date: December 2019

Office management

The audit reviewed aspects of the office's management and noted the following.

CMT minutes: An office's country management team (CMT) advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives. In 2018, the Nepal office held regular monthly CMT meetings, chaired by the Representative. The discussions at these CMT meetings were systematically minuted, and focused on action points.

However, decisions taken in the CMT meetings were in some cases not specific enough in linking the issues discussed and the action points. The office stated that the issues had been discussed in detail during the meetings and were understood by the participants, and that the gaps noted were mainly related to the quality of the minutes.

Zone offices: The office was operating three zone offices across Nepal, in line with the new provincial structure of the country. The locations and comparative sizes of the field offices had been decided based on the Child Deprivation Index, which considered both the level and scale of child deprivation in Nepal. The zone offices covered five of the seven provinces of Nepal (the remaining two were covered from Kathmandu). Each zone office was headed by a Chief, at NO3 level, who reported to the Representative. The total number of approved positions in the three zone offices was 66, just over a third of the total number of approved positions (which was 174). The office's 2018 Annual Management Plan (AMP) stated that the three zone offices were expected to develop their own workplans for activities to be implemented in their respective geographic areas, based on the overall sectoral workplans.

The zone offices were primarily responsible for the results assigned to the municipalities in their geographical area. Starting from 2019, the zone offices developed their sectoral workplans. For example, the estimated planned budget for the Nepalgunj office in 2019 was US\$ 3.1 million (excluding the funds transferred to the municipalities through the public Treasury). However, there were no provisions in the AMP that set out internal governance arrangements for the zone offices and their accountabilities for helping fulfill the national workplans. The zone office visited (Nepalgunj) said that such management plans were prepared in the past, but this practice had been stopped in 2012. However, the zone-office staff thought these provisions would clarify their governance arrangements and their accountabilities regarding the overall priorities of the country programme.

Agreed action 10 (medium priority): The office agrees to ensure that action points of the country management team meetings specifically address the issues noted, and to document the zone offices' governance arrangements and accountabilities in the country office's AMP.

Responsible staff members: Representative, CMT members and Senior Programme Associate

Target date: September 2019

Risk management

Country offices should manage risks to the implementation of programmes in a structured and systematic manner. UNICEF's Enterprise Risk Management (ERM) policy requires that offices perform an annual risk assessment to identify and assess their risks in line with the risk structure developed by HQ. The assessment must include a mitigation plan for each significant risk, and that plan should address the root causes of the risk in question.

The office had a Risk Committee, chaired by the Chief of Operations and consisting of programme, operations and zone office staff. This committee coordinated the update of the office's 2018 annual risk assessment and presented it to the March meeting of the CMT for endorsement (though this was not reflected in the minutes). In the assessment, 12 risks were identified, of which one (*Natural and manmade hazards*) was rated very high; seven were rated medium and four were rated low. Action plans were drawn up for all the risks.

The audit reviewed the 2018 risk assessment and noted that in many cases, the risks were not clearly formulated, making it difficult to understand the exact nature of these risks and to assess the adequacy of the related mitigating measures. Examples included “Financial and natural waste”, “Poor implementation of standards” and “Limited articulation of UNICEF position on negative impact on children during emergencies”.

Further, the process to rate the residual risk needed improvement.¹¹ For example, the residual risk of *Governance and accountability* was rated as medium, then downgraded to low during the year. The office had felt that the risk was being reduced as the new federal structure was operationalized. However, in the 2018 AMP, the new three-tier decentralized structure of the Government was assessed as being a significant risk, as was limited capacity of local governments. The 2018 country office annual report reported that the federal structure was a key constraint.

The audit also noted that there were inadequate explicit links between the risks identified and the risk drivers, and between the actions to further mitigate the risks and corresponding drivers, making it difficult to assess whether root causes were identified and mitigation measures matched to them.

Agreed action 11 (medium priority): The office agrees to improve the preparation of its risk assessment by ensuring that risks identified are clearly stated, that residual risks are systematically rated and that there are clear links between the risks, their root causes and the corresponding mitigating measures.

Responsible staff members: Deputy Representative, Operations

Target date: December 2019

Procurement

Procurement was the second largest input of the country programme, after direct cash transfers to implementing partners. In 2018, the total value was US\$ 6.1 million, of which 61 percent was procured locally. Of the total, goods (US\$ 2.7 million) represented 44 percent, and services (US\$ 3.4 million) represented 56 percent. The main categories of goods procured were nutrition supplies, medical devices, office equipment (computers and accessories) and education supplies. For services, key expenses were on research, surveys and evaluations. The audit noted the following.

Procurement planning: The office-wide procurement plan for 2018 was endorsed by the management on 31 March 2018. It included both goods and services. However, the audit review of this plan noted areas for improvement. The supply plan was inaccurate and incomplete; it included the requirement for prepositioning without consideration of the remaining stocks in the warehouses. There was also missing information such as the link to the relevant activity in the annual workplan (for example in the Education and Nutrition programmes), freight costs, transport mode and consignees. Many items included in the initial supply plan were not requested, or were cancelled (176 item lines were acted upon against 310 item lines in total, i.e. 56 percent only). The supply plan was not adjusted for request cancellations.

Contracts management: In 2018, the Nepal country office issued 153 institutional service contracts, of which 146 were corporate contracts and seven were pre-payment orders. As of 24 February 2019, there were 16 contracts with a total balance of US\$ 188,714 that remained open beyond their validity date, in

¹¹ Residual risk is the level of risk that is still present once mitigation measures have been taken.

some cases for periods of more than 70 days and with the open balance exceeding 70 percent of the contract total value. There was a need to close completed contracts on time.

Agreed action 12 (medium priority): The office agrees to strengthen the quality assurance process over the preparation of the procurement plan, adjust it for request cancellations, and close completed contracts promptly.

Responsible staff members: Supply and Logistics Specialist

Target date: December 2019

Cash transfers to implementing partners

In 2018, the office made direct cash transfers (DCTs) worth US\$ 18.2 million to 274 implementing partners. Of this, US\$ 9.8 million (54 percent) went to 181 Government partners and US\$ 8.4 million (46 percent) to 93 NGOs. DCTs were the largest input of the country programme, and comprised 46 percent of total expenditure in 2018. The audit noted the following.

Decentralization: In line with the procedure established by the Government for the transfer of funds to Government implementing partners, UNICEF and other agencies' contributions to national programmes need first to be registered in the national treasury's Line Ministries Budget Information System (LMBIS) based on budget ceilings established for the Palikas by the Ministry of Finance, and in line with the signed workplans. The corresponding DCT intended for the municipalities are to be channelled through the Government financial system based on requests received from relevant Ministries and within the LMBIS ceiling.

The audit reviewed a sample of these requests and noted that the FACE forms¹² on which they were made were accompanied by lists that showed the distributions of aggregate amounts to municipalities, but without the Itemized Cost Estimates required to be provided with the FACE form. In fact, the information available to programme staff to assess the FACE requests varied from one programme section to another. For example, for the Multi-Sectoral Nutrition Plan, the action plans prepared by the municipalities were available, but did not contain sufficient information to enable programme staff to verify the details of the funded activities.

Assurance activities: To provide reasonable assurance that funds disbursed to implementing partners are used for the intended purposes, UNICEF and some other UN agencies have implemented the Harmonized Approach to Cash Transfers (HACT). This is a risk-based framework under which offices assess the risk attached to a specific partner (a "micro-assessment"), and determine the most suitable type of cash transfer to be used with that partner, and the amount and frequency of assurance activities. The latter can include programmatic visits that assess progress of activities, and report any constraints; spot checks of the partner's financial management; and audits.

The office had established a HACT team, a HACT working group and standard operating procedures (SOPs)

¹² The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent.

for HACT. The plan for HACT assurance activities was drawn up on an annual basis in line with UNICEF's organizational guidance. The status of implementation of the HACT assurance plan was monitored by the CMT. In 2018, the office completed nine micro-assessments, 385 programmatic visits, 111 spot-checks, 13 scheduled audits and one special audit.¹³ The rate of implementation of the programmatic visits, spot-checks and scheduled audits was 115 percent, 106 percent and 100 percent respectively.

The audit noted that a number of CMT meetings in 2018 had raised the need to focus on the quality of HACT assurance activities, and to establish clear guidance on how to follow up on their results. The office had started to address these issues by issuing an updated HACT assurance standard operating procedure (SOP) in March 2019; this included detailed steps for follow-up of assurance-activity recommendations. The office had also recently recruited a consultant to follow up on all the pending recommendations of completed spot checks and audits. Meanwhile, the office had in 2018 held a one-time internal review of the quality of programmatic visits, and this had identified areas for attention.

The quality of the programmatic visit reports still needed improvement. In the five sample programmatic visit reports sampled by audit, only two (40 percent) had a reference to the results framework and none of the five had follow-up action points on each output/activity with timeline and responsible person, if any. The audit also reviewed a sample of three spot checks and three audit reports that were completed for the office by third parties. It found they were of sub-standard quality. Among the weaknesses in the spot checks were verification of expenditures, which was in some cases done against the output results and not against budget lines. Some recommendations were formulated as criteria and not as action points, and where actions were agreed, they were not always specific. UNICEF follow-up actions were not always clear.

Regarding the audits, the overall opinion given did not always seem appropriate. For example, an unqualified opinion was issued despite significant gaps in financial controls, such as NGO staff without the required professional experience and certificates, payments made for services without a service contract, and procurement of goods and services without quotations. In addition, the auditors did not indicate the root causes for the issues raised, making it hard to assess whether the proposed corrective actions were adequate.

The office had yet to establish an SOP for assessment of the quality of the assurance activities reports. This would have provided a more robust basis for the follow-up of findings from assurance activities, which could also have been used to assess the performance of the vendors contracted for these activities.

HACT training: The audit met a key partner that was managing an important programme that was active in 308 Palikas, with support from UNICEF. This partner did not demonstrate a good understanding of HACT and was not aware of any HACT training or briefing done by the office. Upon review, it appeared that the practice in the office was that HACT team provided training to counterparts upon request from relevant programme sections. Such requests had yet to be submitted by two programmes (Health and Nutrition).

Agreed action 13 (medium priority): The office agrees to:

- i. Assess the basis on which different programme sections analyze the DCT requests intended for

¹³ HACT requires scheduled audits of partners receiving more than a certain sum. Special audits are implemented if an office has concerns, about a partner's financial management or other matters.

local government, and where needed, take corrective action to ensure that sufficient information is available to programme staff to review these requests.

- ii. Implement a quality assurance process over HACT assurance-activity reports.
- iii. Revise its approach to providing HACT training to ensure that all key implementing partners are covered.

Responsible staff members: Deputy Representatives and Chief of Planning and Monitoring

Target date: December 2019

Partnership with NGOs

NGOs were key implementing partners of the country programme in Nepal. In 2018, the office issued 36 small-scale funding agreements (SSFAs) and 66 programme cooperation agreements (PCAs). The total inputs released to these NGOs amounted to US\$ 8.4 million. The audit noted the following.

Partner selection: UNICEF procedure encourages the use of open (competitive) selection¹⁴ to identify NGO partners that provide the best comparative advantage in achieving particular results. This approach enables a more transparent selection process, and supports the identification of new partners or approaches. However, the procedure also recognizes that direct selection may be more appropriate to identify a partner for a specific proposal or in certain situations; for example, if the NGO identified is the only one available with the required expertise or geographical presence – or if the intervention is time-critical, as open selection generally takes longer.

The office was mostly using the direct selection method. Out of 46 NGOs that were active at the time of the audit, 39 had been chosen this way. The audit found that, out of a sample of five of these, the justification given was relevant in only one case. In all the other four cases, the selection was based on previous good performance, without any other justification.

Evaluation of completed agreements: There were also issues noted with the evaluation of previously-completed agreements. This is especially important where good previous performance has been used as justification for direct selection. In the sample tested, the audit noted that the office generally conducted a joint performance review at the end of the project. However, the results achieved were not systematically assessed against planned targets, and the recommendations did not always address the issues noted, particularly when the targets were partially achieved or not achieved.

Value for money: The audit also noted issues with regard to value for money in the partnerships sampled. In the sample of partnerships reviewed, the NGO contribution compared to the total value of the project varied between one and 39 percent, and the UNICEF contribution to support costs compared to the total UNICEF cash contribution varied between nine and 19 percent. Current UNICEF practice is that when the proportion of the programme support is more than 25 percent of UNICEF total cash contribution, the programme section concerned is required to provide a justification.

¹⁴ A country office can choose implementing partners through open selection, in which more than one partner can compete for the activity, and direct selection, in which the office approaches its choice of partner without a competitive process. The latter can be justified under some circumstances, but offices are encouraged to practice open selection where possible in order to obtain the best value for money.

The office had not established a formal set of performance indicators to assess NGO partnerships. The partnerships unit monitored only the expiry dates of the agreements. The contribution committed to by the partner in the signed agreement was also not being verified by the office.

Agreed action 14 (medium priority): The office agrees to:

- i. Establish a set of partnership key performance indicators with context-based benchmarks to assess its partnership with NGOs, including the percentage selected using the open method, and value-for-money indicators.
- ii. Strengthen its quality assurance over the joint partnership reviews to ensure that results achieved are assessed against planned targets, and that the recommendations address the shortfalls noted.

Responsible staff members: Deputy Representative – Programme, and Chief of Planning and Monitoring

Target date: July 2019

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews and testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with clients and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the client's own (for example, a regional office or headquarters division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal auditing practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

- High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
- Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
- Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented in the Summary fall into one of four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the office were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

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

[Adverse conclusion]

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