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Report on the Internal Audit of the Serbia Country Office

Sections of this report have been redacted in accordance with paragraph 9 of Executive Board decision EB2012/12, which states that a report may be redacted if particularly sensitive (relating inter alia to third parties or a country, government or administration); or compromising to a pending action; or likely to endanger the safety or security of any individual, or violate his or her rights or invade his or her privacy.

UNICEF OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS

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Report 2026/21

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EXECUTIVE SUMMARY

The Office of Internal Audit and Investigations (OIAI) conducted an audit of the Serbia Country Office (the Country Office), covering the period from January 2024 to December 2025. The audit was conducted from February 2026 to March 2026 in conformance with the Institute of Internal Auditors' Global Internal Audit Standards. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes related to a selection of significant risk areas of the Country Office. The specific risks evaluated are set out in the Audit Objectives, Scope and Approach section of this report.

During the audited period, the Country Office transferred approximately US$6.3 million to implementing partners – civil society organizations (CSOs) and government entities – representing 38 per cent of total expenditure. In addition, the Country Office engaged various service providers for the implementation of programmatic activities. [redacted] The audit sought to determine whether and how the Country Office managed the risks related to management of cash transfers to partners, service contracts and PSFR. The Country Office conducted a significant restructuring exercise during the audited period, resulting in abolishment of some posts. The audit assessed how the Country Office was managing the related transition risks and the impact of this restructuring exercise on governance processes.

Overall Conclusion

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

Based on the audit work performed, OIAI concluded that the assessed governance, risk management or control processes were **Partially Satisfactory, Improvement Needed**, meaning that the assessed governance, risk management and 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.

Summary of Observations and Agreed Actions

OIAI noted the following practices that were innovative or exceeded expected levels of control:

- **Private sector fundraising:** [redacted]

- **Shared human resources associate role:** Following the abolishment of the human resources associate post, the Country Office found a cost-effective solution to support the People and Culture function. This entailed sharing the cost and time of the Croatia Country Office human resources associate. To operationalize the arrangement, the two country offices signed a memorandum of understanding for an initial period of six months starting in May 2026. However, with reduced capacity and on-site presence, this arrangement may create operational challenges, potentially affecting the level of support to programmes as well as staff well-being. To address these challenges and others that may be identified during the pilot period, the Country Office planned to conduct a post-pilot review of this arrangement in November 2026 and use the findings to inform decision-making.

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

- **Governance and risk management:** During the period under review, the Country Office's governance processes were generally well managed. Following preliminary feedback from the audit, the Country Office reassessed the risks related to the planned abolishment of a key finance position and recommended deferral of the abolishment to allow for the implementation of adequate risk mitigation measures. The risks and mitigating actions related to the organizational changes resulting from the recent Programme Budget Review (PBR) exercise needed to be systematically assessed and recorded as part of a more structured, visible risk management process that captured all significant risks and ensured rigorous, timely monitoring, oversight and risk-informed decision-making. There was also a need to incorporate fraud-related training into the annual learning and development plan.

- **Protection from sexual exploitation and abuse (PSEA):** While the Country Office had established processes to assess and address context-specific sexual exploitation and abuse (SEA) risks, there was a need for more consistent monitoring of SEA risks at the programme level and timely reassessment of CSO partners previously assessed as having 'no contact with beneficiaries'.

- **Programme monitoring:** The Country Office did not have an office-wide monitoring plan, and there was no mechanism to coordinate or consolidate monitoring data from various sources. This limited management's ability to systematically track programme performance, weakening evidence-based decision-making and accountability for results.

- **Private sector fundraising:** [redacted]

- **Harmonized approach to cash transfers (HACT):** The Country Office demonstrated a proactive, strategic approach to partnership management through a strategy aimed at streamlining the partner portfolio and prioritizing strategic partners. At the operational level, the disbursement and liquidation of funds was generally timely and conducted in accordance with the HACT framework. However, there was a need to ensure that the requirements for partner micro-assessments were consistently followed and to extend spot-check coverage to ensure adequate assurance on the use of UNICEF funds.

- **Service contracts:** There was a lack of transparency in the selection of individual consultants, which increased the risk of inappropriate procurement practices, poor value for money and substandard services. Documentation of technical and financial evaluations was inadequate, technical reviews were not performed against clear, predefined criteria, and the financial evaluation and justification for fee decisions were not documented. In addition, for some contracts, payments were made without evidence of progress against agreed deliverables, limiting management's ability to confirm satisfactory performance before authorizing payment. There was also a need for formal justification of the use of individual contractors, following UNICEF's discontinuation of this contracting modality, and for improvements in the contracting and management of these contractors.

The table below summarizes the actions management has agreed to take to address the residual risks identified and OIAI's assessment of the ratings of those risks (see the definitions of the observation ratings in the Appendix). For all other areas within the audit scope, no deficiencies in the governance, risk management or control processes evaluated were identified that warrant reporting.

AGREED ACTIONS & AUDIT RATINGS	
Governance and risk management (Observation 1): Formalize the proposed deferral of the finance associate post abolishment and regularly monitor implementation of the transition plan and the adequacy of mitigating measures through the CMT's ongoing risk management activities; strengthen the risk assessment process to ensure that it captures all significant current and emerging risks and systematically record and monitor the adequacy of mitigation measures, with assigned responsibilities and realistic implementation timelines; integrate fraud risk training into the annual learning and development plan and monitor its implementation through the established office structures, including the Learning and Development Committee.	Medium
Protection from sexual exploitation and abuse (Observation 2): Establish a systematic training programme to ensure that all staff remain up to date with PSEA requirements, including the incorporation of training activities into the PSEA work plan. This should include refresher training on effectively integrating PSEA into programme monitoring activities; implement periodic internal reviews, through the PSEA programme focal points, to assess compliance with PSEA requirements, particularly regarding timely partner reassessments and the adequate integration of PSEA elements into programme monitoring visits, and report back to the CMT on a regular basis.	Medium
Programme monitoring (Observation 3): Implement a structured monitoring framework – with the support of the Regional Office and UNICEF Headquarters – including an office-wide monitoring plan, with clear linkages between each programme indicator or marker of progress and specific monitoring activities. This monitoring framework should have a single point of reference (e.g., in SharePoint) for all internal monitoring data and analysis.	Medium
Private sector fundraising (Observation 4): [redacted]	Medium
Harmonized approach to cash transfers (Observation 5): Define accountabilities for monitoring the status of HACT risk ratings and incorporate regular training/refreshers on the HACT framework into the annual learning and development plan; strengthen the application of a risk-based approach in the planning and implementation of HACT assurance activities; enhance oversight	Medium

over the HACT process, including reviewing the validity and eligibility of micro-assessments and application of a risk-based approach in the planning and implementation of HACT assurance activities.	
Service contracts (Observation 6): Strengthen oversight of service contracts management by ensuring proper documentation of the technical and financial evaluations and linking payments to deliverables; establish a note for the record, with the head of office's approval, that specifies the exceptional 'niche' circumstances in which individual contractors may be engaged (through the United Nations Office for Project Services [UNOPS] or other third-party vendors) with appropriate justification. This should explain how the individual contractors will be managed, including requiring disclosure of the contracting modality in the job advertisements, having signed terms of reference, and the financial reporting process and oversight mechanisms.	**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.

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CONTEXT

Serbia is an upper-middle-income country with a population of 6.7 million, of which 17 per cent are children.[1] The country has been a candidate for European Union membership since 2012. While Serbia has achieved high levels of basic service coverage by actively pursuing national reforms, including on healthcare, early childhood development, preschool, inclusive education and child protection, challenges remain in ensuring equitable access for all. Serbia is among Europe's least equal countries in terms of income. Children remain susceptible to living in poverty, with an at-risk-of-poverty rate of 19.5 per cent in 2023. Children from Roma communities and those living in rural areas fall behind the general population in many areas of life.[2]

UNICEF Country Office

At the time of the audit, the Serbia Country Office had 30 staff members (2 international professionals, 17 national officers, 11 general services) and 3 vacancies. The staffing structure will be reduced to 23 posts (2 international professionals, 12 national officers and 9 general services) in the new country programme, in accordance with decisions of the Programme Budget Review undertaken in September 2025. The reorganization is being implemented using a phased approach, for completion by July 2026. The office is located in the capital of Serbia, Belgrade.

UNICEF Country Programme

The overarching goal of the UNICEF Serbia Country Programme 2026–2030 is to contribute to national efforts to accelerate the Sustainable Development Goals and advance child rights in Serbia, with a focus on the most vulnerable and marginalized.

The current country programme covering the period from 2026 to 2030 was approved by the UNICEF Executive Board in September 2025 and comprises the following components: (i) health and early childhood development; (ii) quality and inclusive preschool, primary and secondary education; (iii) child protection; (iv) adolescents and youth; (v) social policy, public financing and child rights monitoring; and (vi) programme effectiveness. Figure 1 below summarizes the indicative budget allocated to the five programme components:

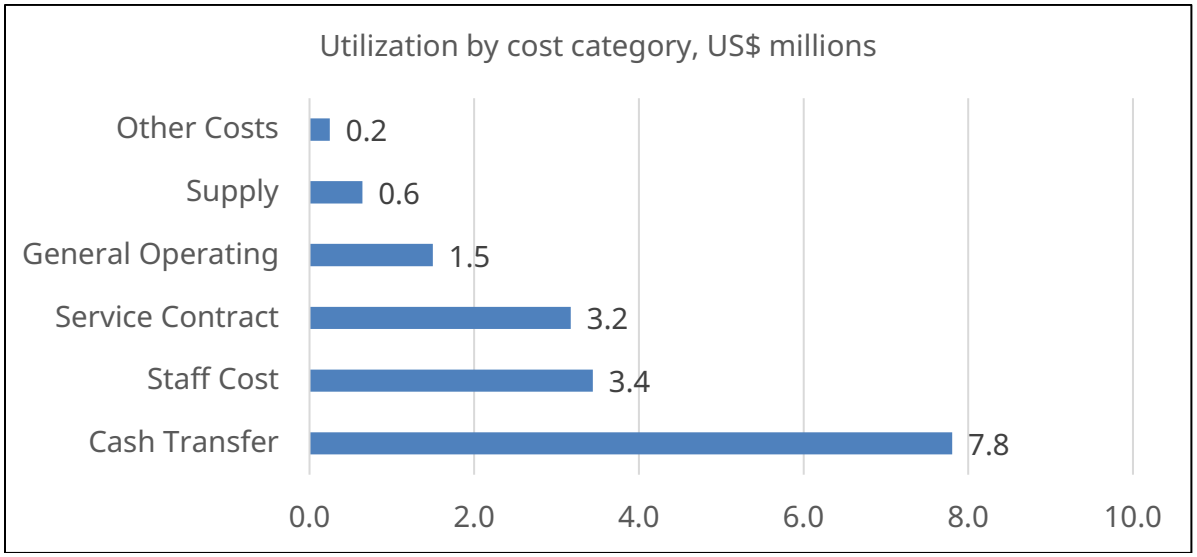
[1] United Nations Children's Fund, Serbia Country Programme Document 2026–2030, 2025
[2] Ibid.

Figure 1: Programme budget allocation (2026–2030)

Programme component	(US$ thousands)		
	Regular resources	Other resources	Total
Health and early childhood development	998	4,850	5,848
Quality and inclusive preschool, primary and secondary education	998	7,673	8,671
Child protection	998	3,650	4,648
Adolescents and youth	256	2,025	2,281
Social policy, public financing and child rights monitoring	500	1,300	1,800
Programme effectiveness	500	500	1,000
Total	**4,250**	**19,998**	**24,248**

The total expenditure incurred by the Country Office on programmes and operations during the period from January 2024 to December 2025 was US$16.7 million. The expenditure reported by cost category is shown in Figure 2 below:

Figure 2: Expenditure by cost category (January 2024 to December 2025)



The most significant category of expenditure was cash transfers,[3] amounting to US$7.8 million. This includes approximately US$6.3 million in transfers to implementing partners under the HACT framework. Key controls related to cash transfers to implementing partners as well as expenditure on general operating costs and service contracts were

[3] Cash transfers include transfers to implementing partners (CSOs and government), transfers to other United Nations agencies and an immaterial amount incurred in 2024 relating to cash transfers to beneficiaries.

included in the audit scope. The staffing structure was also considered by the audit in assessing the Country Office's governance processes.

AUDIT OBJECTIVES, SCOPE AND APPROACH

The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes related to a selection of significant risk areas of the Serbia Country Office.

The audit scope was determined during the audit planning process based on an assessment of the inherent risks[4] of the Country Office and included the following areas:

- Governance
- Risk management
- Protection from sexual exploitation and abuse
- Programme monitoring
- Results reporting
- Private sector fundraising
- Implementing partnerships (CSOs) management
- Cash transfers to implementing partners
- HACT assurance activities
- Service contracts

The audit fieldwork was conducted in March 2026 in conformance with the Institute of Internal Auditors' Global Internal Audit Standards. For the purposes of audit testing, the audit covered the period from 1 January 2024 to 31 December 2025. The audit involved a combination of methods, tools and techniques, including interviews, data analytics, document review, tests of transactions, field visits to implementing partners and validation of preliminary observations.

[4] 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.

The key areas where actions are needed are summarized below.

1. Governance and risk management — Medium

During the period under review, the Country Office's governance processes were generally well managed. Following preliminary feedback from the audit, the Country Office reassessed the risks related to the planned abolishment of a key finance position and recommended deferral of the abolishment to allow for the implementation of adequate risk mitigation measures. The risks and mitigating actions related to the organizational changes resulting from the recent PBR exercise needed to be systematically assessed and recorded as part of a more structured, visible risk management process that captured all significant risks and ensured rigorous, timely monitoring, oversight and risk-informed decision-making. There was also a need to incorporate fraud-related training into the annual learning and development plan.

Country offices are expected to maintain governance arrangements that support the efficient achievement of programme objectives while managing fiduciary, operational and reputational risks. This includes clear accountability, adequate capacity across functions, and regular management review of performance, risks and internal controls. During periods of significant organizational change, it is critical that governance structures and mechanisms be adapted to ensure a well-managed transition that achieves the expected results while maintaining organizational stability and achieving programmatic goals.

During the period under review, the Country Office's governance processes were generally well managed. All statutory governance committees met regularly as per their terms of reference, and the discussion points and decisions from these committees were recorded and circulated to all staff. Reporting lines and accountabilities were clear, and delegation of authority was appropriately managed. Interviews with some staff and senior management indicated that internal communication was transparent, and the audit noted that there were regular all-staff meetings, section meetings, email updates from senior management and an active country office staff association.

Management of risks related to post abolishment: In 2025, following a PBR and a reduction in the institutional budget envelope, the Country Office's staffing structure underwent a significant change, including abolishment of several posts, establishment of cross-sectoral programme officer roles and a restriction on the use of individual contractors (hired through UNOPS) to fundraising activities only.

Cost-cutting measures approved by the PBR included the planned abolishment of the finance associate position in July 2026. The abolishment decision was also driven by the global Office Modernization Initiative and plans for a remote operations hub that would

support small country offices, but these were subsequently delayed. As the only dedicated finance position, the finance associate role supports a broad range of activities across core finance, [redacted] and HACT/partnership processes, with key responsibilities for ensuring the accuracy, timeliness and integrity of transactions and control activities. To mitigate the risks, the Country Office proactively considered options such as sharing the post with another country office, deferral or redistributing duties among several colleagues.

In assessing the management of risks related to the restructuring plans, the audit raised questions about the adequacy of measures to address the potentially significant gaps in the Country Office's internal control framework that would result from the abolishment of this key finance position. These risks were discussed with the country office management during audit fieldwork, after which the Country Office conducted a detailed review of the finance associate workload, risks and transition arrangements and a reassessment of the timing of the abolishment. This analysis led the Country Office to concur with the audit team's view that further measures were required to reduce the risks to an acceptable level. The Country Office consequently recommended to the Regional Office that the abolishment date be deferred to 28 February 2027, with a further review in September 2026, to allow time to implement appropriate risk mitigation measures, and by which time the feasibility of remote operational support from the wider organization and the country office funding outlook would be clearer.

The audit considered the above developments and found the proposed measures to be sufficient to mitigate the identified risks, if implemented as planned. At the time of the drafting of the audit report, the Regional Office had indicated its approval of the proposed deferral, based on the significant operational risks that it posed, and advised the Country Office to proceed with formalization and implementation of the deferral in collaboration with the Division of Finance and Administrative Management.

Risk management process: UNICEF's risk management procedure requires all offices to undertake a structured risk management process to ensure sufficient management and oversight of risks and to allow timely, risk-informed decision-making and escalation of issues. Significant risks that could affect planned results in programmes and operations in key risk categories should be documented to facilitate their regular review and monitoring of mitigating actions for their ongoing effectiveness. The audit reviewed the adequacy of the Country Office's approach to ensuring regular assessment and management of significant and emerging risks.

The Country Office conducted an annual risk assessment campaign as a basis for updating the office risk register. Risk considerations were also embedded in planning documents such as the Country Programme Management Plan and Annual Management Plan. The audit noted, however, that the risk register did not capture all significant risks faced by the Country Office, [redacted]

[redacted] For example, the following significant risks were not systematically recorded, nor was the Country Office's response to those risks:

- **Staff capacity versus workload assessment:** Following the PBR, the number of approved posts was planned to decrease from 33 at the end of 2025 to 23 by the end of 2026. There was a risk that reduced staffing levels might be insufficient to absorb existing and additional responsibilities, leading to potential delays in programme delivery, increased demands on staff capacity and well-being, and weakened oversight and internal controls. The above-mentioned abolishment of the finance associate post is indicative of this risk.

- **Separation of duties:** In a relatively small country office, a reduced structure increases the likelihood of role overlaps, misalignment between assigned roles and staff levels, the emergence of informal workarounds to cope with additional tasks and inadequate supervisory oversight. This increases the likelihood of errors, delays, bottlenecks or weakened segregation of duties, thereby compromising the effectiveness of internal controls.

- **Over-dependence on key individuals:** As staffing levels shrink, the Country Office may become overly dependent on a small number of individuals for critical functions, creating a concentration risk should any of them depart.

- [redacted]

CMT meeting minutes did not provide assurance that risks were regularly discussed, reviewed or monitored during these meetings. While some risks were discussed informally within the Country Office, there was no structured process to ensure visibility of all significant risks from all sections. The lack of a comprehensive and up-to-date risk register weakens governance oversight and may impair management's ability to effectively manage, monitor and use risks to inform decision-making.

Root causes: The incomplete identification, assessment and recording of significant risks was due to an underdeveloped enterprise risk management approach, characterized by the absence of a mechanism to continuously identify and update emerging risks. The risk register was treated more as a compliance or annual exercise rather than a dynamic management tool.

Fraud risk management: The UNICEF Policy on Anti-Fraud and Corruption states that fraud awareness training is an essential element of UNICEF's control environment. During the period under review, the Country Office did not conduct any fraud-related training,

limiting opportunities to reinforce staff awareness of fraud risks, despite UNICEF's zero tolerance of the risk of fraud.

Root causes: The Country Office perceived the risk of fraud in the Serbia country context to be low; hence, training in this area was not prioritized.

AGREED ACTIONS

The Country Office agrees to:

i. Formalize the proposed deferral of the finance associate post abolishment and regularly monitor implementation of the transition plan and the adequacy of mitigating measures through the CMT's ongoing risk management activities.
ii. Strengthen the risk assessment process to ensure that it captures all significant current and emerging risks and systematically record and monitor the adequacy of mitigation measures, with assigned responsibilities and realistic implementation timelines.
iii. Integrate fraud risk training into the annual learning and development plan and monitor its implementation through the established office structures, including the Learning and Development Committee.

Staff Responsible: Operations Manager
Implementation Date: December 2026

2. Protection from sexual exploitation and abuse — Medium

While the Country Office had established processes to assess and address context-specific SEA risks, there was a need for more consistent monitoring of SEA risks at the programme level and timely reassessment of CSO partners previously assessed as having 'no contact with beneficiaries'.

The audit noted that the Country Office had established processes to assess and address context-specific SEA risks. For example, a PSEA risk assessment was conducted prior to entering partnerships, and the results were used jointly by the Country Office and implementing partners to develop action plans to mitigate identified risks. These action plans were monitored throughout implementation by section-level PSEA focal points. The PSEA action plan was reviewed annually to assess implementation progress and update activities as needed. In addition to these positive steps, the audit noted the following areas for improvement related to PSEA:

Monitoring of SEA risks: The UNICEF Programme Implementation Handbook requires that all programmatic assurance activities include monitoring of SEA risks through the incorporation of at least three SEA-related questions. In addition, regardless of the partner's PSEA capacity rating, programme monitoring visits should include beneficiary-level engagement with at least one specific question on SEA. The audit reviewed a sample of 15 programmatic visit reports completed during the audit period and found that 10 reports did not meet the requirements of PSEA monitoring, that is, incorporation of at least three SEA-related questions in the monitoring visit. Insufficient monitoring of SEA risks increases UNICEF's exposure to reputational and operational risks.

Assessment of partners: SEA risks are context-specific and can change due to shifts in programme focus, emergency responses or changes in the operating environment. UNICEF PSEA policy requires regular reassessment to ensure that partner risk classifications are up to date. For partners assessed as having no contact with beneficiaries, the risk classification is valid for a period of two years. Three out of thirty CSO partners (10 per cent) were assessed as having no contact with beneficiaries in 2023, and no reassessments had since been made, even though the operations of partners initially classified as having no contact with beneficiaries may have evolved. Without periodic reassessment, there was an increased risk that potential SEA exposure might not be identified and managed.

Root causes: While all staff completed the mandatory online PSEA training, there was insufficient training on PSEA monitoring and reassessment requirements, leading to a lack of awareness among programme staff involved in the monitoring process and inconsistent application of the requirements. These gaps went unnoticed due to a gap in PSEA oversight activities.

AGREED ACTIONS

The Country Office agrees to:

i. Establish a systematic training programme to ensure that all staff remain up to date with PSEA requirements, including the incorporation of training activities into the PSEA work plan. This should include refresher training on effectively integrating PSEA into programme monitoring activities.
ii. Implement periodic internal reviews, through the PSEA programme focal points, to assess compliance with PSEA requirements, particularly regarding timely partner reassessments and the adequate integration of PSEA elements into programme monitoring visits, and report back to the CMT on a regular basis.

Staff Responsible: Country Office Representative, Operations Manager (Office PSEA Focal Point), Deputy Representative, Child Protection Specialist (Office PSEA Focal Point)

Implementation Date: December 2026

3.Programme monitoring | Medium

The Country Office did not have an office-wide monitoring plan, and there was no mechanism to coordinate or consolidate monitoring data from various sources. This limited management's ability to systematically track programme performance, weakening evidence-based decision-making and accountability for results.

Monitoring is the systematic process of collecting, analysing and using data to understand the situation of women, children and adolescents, guide outcomes-focused and equitable programming and effectively manage programmatic risks.

Structured and coordinated monitoring framework: According to the UNICEF Procedure on Monitoring, every country office is required to maintain a structured and coordinated office-wide monitoring and data system. The same procedure calls for office-wide planning of programme monitoring, covering both results and implementation and linking each programme indicator or marker of progress to specific monitoring activities. The monitoring plan should also define the required frequency, coverage and disaggregation of monitoring data to ensure programme coverage, quality and equity.

The audit noted that an office-wide monitoring plan was not in place. In addition, although the Country Office collected monitoring data through various section-specific approaches, there was no unified office-wide system that consolidated all monitoring data (e.g., from the eTools Field Monitoring Module, Results Assessment Module and joint monitoring activities), contrary to UNICEF requirements for maintaining a single point of reference with links to all sources of internal monitoring data and analysis. The lack of an office-wide monitoring plan and consolidated data system limits management's ability to systematically track programme performance, weakening evidence-based decision-making and accountability for results.

Root cause: The Country Office did not recognize the need to establish a coordinated, office-wide monitoring framework due to unclear corporate guidance on the operationalization of a structured and coordinated office-wide monitoring framework.

AGREED ACTION

The Country Office agrees to implement a structured monitoring framework – with the support of the Regional Office and UNICEF Headquarters –including an office-wide monitoring plan, with clear linkages between each programme indicator or marker of progress and specific monitoring activities. This monitoring framework should have a

single point of reference (e.g., in SharePoint) for all internal monitoring data and analysis.

Staff Responsible: Deputy Representative
Implementation Date: December 2026

4. Private sector fundraising — Medium

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

AGREED ACTIONS

[redacted]

Staff Responsible: [redacted]

Implementation Date: [redacted]

5. Harmonized approach to cash transfers — Medium

The Country Office demonstrated a proactive, strategic approach to partnership management through a strategy aimed at streamlining the partner portfolio and prioritizing strategic partners. At the operational level, the disbursement and liquidation of funds was generally timely and conducted in accordance with the HACT framework. However, there was a need to ensure that the requirements for partner micro-assessments were consistently followed and to extend spot-check coverage to ensure adequate assurance on the use of UNICEF funds.

The Country Office transferred US$6.3 million to implementing partners (30 CSOs and 18 government partners) through the HACT framework. The Country Office demonstrated a proactive, strategic approach to partnership management by establishing a partnership strategy and a partner-selection checklist for the 2026–2030 Country Programme, with a clear focus on streamlining the partner portfolio and prioritizing strategic partners.

The audit noted that disbursement and liquidation of the funds was timely, and the Funding Authorization and Certification of Expenditure (FACE) forms reviewed by the audit team were supported by adequate documentation and approved in accordance with the table of authority. The audit team also identified the following areas for improvement:

Micro assessment: Under the HACT framework, UNICEF country offices are required to conduct micro-assessments or assign a high-risk rating for implementing partners receiving US$100,000 or more in a calendar year. Once completed, a micro-assessment is valid for five years. The audit found that HACT requirements regarding the validity of and eligibility for a micro-assessment were not consistently followed. For instance, four partners were assigned 'low' or 'medium' risk ratings despite lacking a valid micro-assessment. One other implementing partner was incorrectly assigned a 'not required' rating despite receiving cash transfers exceeding US$100,000 in 2024. This was due to the Country Office misinterpreting the basis for the requirement to conduct a micro-assessment as prescribed by the HACT procedures. Incorrect or expired risk ratings may result in insufficient monitoring and oversight, thereby reducing the Country Office's ability to identify and address financial management capacity issues in a timely manner.

Root causes: The accountability for monitoring the status of partnerships with regards to HACT risk ratings was not clearly defined. In addition, there was inadequate oversight of the HACT process, particularly regarding the validity of and eligibility for micro-assessments.

Spot checks: The HACT framework and UNICEF's spot-check guidance emphasize spot checks as one of the essential pillars of UNICEF's partnership risk management. The minimum number of spot checks to be conducted annually for each implementing partner is determined automatically for all partners that have liquidated expenditure equivalent to US$50,000 per year. However, country offices can conduct additional follow-up spot checks beyond the minimum requirements, prompted by the country context and risk factors.

The audit found that the level of assurance on the use of UNICEF funds was limited by relatively low testing coverage. A comparison of the expenditure tested with the total reported expenditure showed that the testing covered only 13 per cent. While the Country Office complied with the spot-check guidance by ensuring that each individual spot check covered approximately 50 per cent of the expenditure reported on the FACE form, this approach did not sufficiently consider total expenditure reported by an implementing partner. The low level of testing relative to total expenditure limits the level of assurance that can be derived from spot checks, potentially allowing material misstatements, misuse or unintentional errors to go undetected.

Root causes: The HACT framework lacks guidance on how to apply the risk-based approach to planning for spot checks. The framework only provides guidance on the

minimum testing coverage for the selected FACE form, rather than on the total expenditure reported by an implementing partner. This led the Country Office to focus mainly on complying with the HACT framework instead of being driven by a risk-based methodology. OIAI will address this wider issue through a separate thematic audit of HACT assurance activities.

AGREED ACTIONS

The Country Office agrees to:

i. Define accountabilities for monitoring the status of HACT risk ratings and incorporate regular training/refreshers on the HACT framework into the annual learning and development plan.
ii. Strengthen the application of a risk-based approach in the planning and implementation of HACT assurance activities.
iii. Enhance oversight over the HACT process, including reviewing the validity and eligibility of micro-assessments and application of a risk-based approach in the planning and implementation of HACT assurance activities.

Staff Responsible: Operations Associate, Deputy Representative, Office HACT Focal Point and Finance Associate

Implementation Date: December 2026

6. Service contracts — High

There was a lack of transparency in the selection of individual consultants, which increased the risk of inappropriate procurement practices, poor value for money and substandard services. Documentation of technical and financial evaluations was inadequate, technical reviews were not performed against clear, predefined criteria, and the financial evaluation of and justification for fee decisions were not documented. In addition, for some contracts, payments were made without evidence of progress against agreed deliverables, limiting management's ability to confirm satisfactory performance before authorizing payment. There was also a need for formal justification of the use of individual contractors, following UNICEF's discontinuation of this contracting modality, and for improvements in the contracting and management of these contractors.

During the audit period, the Country Office incurred expenditure of US$0.5 million on individual consultants[6] and US$1.09 million on institutional contracts.[7] Services provided by individual consultants included technical assistance to government partners and the main institutional contracts covered strategic planning, digital fundraising and face-to-face fundraising services. The Country Office also contracted individuals through an agreement with UNOPS. The audit assessed the controls over the selection, contracting and management of service contracts, as well as the management of the agreement with UNOPS, and noted the following:

Individual consultant selection process: UNICEF procurement principles include transparency, integrity, best value for money and fair treatment of bidders. This is typically achieved through competitive selection of vendors and requires adequate documentation of the selection process. The audit noted that procurement processes were conducted competitively and contract amendments appropriately documented and approved.

The audit reviewed a sample of eight individual consultant purchase orders out of a total of 43 (representing 50 per cent of the total value of contracts) and noted that the technical and financial evaluation processes were not adequately documented. Technical reviews were not performed against clear, predefined selection criteria, and following technical selection, the financial evaluation and justification for fee decisions were not documented. In five instances, there were significant differences in the bidders' proposed fees, yet the audit found no evidence of financial negotiations or records explaining how final rates were agreed. This lack of transparency in the consultant selection process increased the risk of inappropriate procurement practices, lack of value for money and substandard services.

Root cause: There was a lack of oversight by the country office management over the consultant selection process.

[redacted]

[6] A consultant is an individual contracted by UNICEF for a particular deliverable or deliverables, usually with specialized skills or knowledge that is not readily available within UNICEF and for which there is no continuing need in UNICEF. The services of a consultant are temporary and based on defined deliverables for a price or fee. The consultant is in business for their own benefit, is not in an employer-employee relationship and is paid on the basis of invoices or agreed instalments upon UNICEF's acceptance of work.

[7] Institutional contracts are governed by the provisions set out in the Supply Procedures and Instructions. An institutional contract is a procurement instrument used to contract organizations (legal entities), not individuals, to deliver specific services, studies, evaluations, research or outputs according to defined terms of reference.

[redacted]

[redacted]

Personnel services agreement with UNOPS: The Country Office engages individual contractors using a UNICEF personnel services agreement with UNOPS. The global HR Policy Support unit advised the audit team that, since UNICEF phased out the individual contractor modality, such hiring of UNOPS contractors for staff-like functions was, in principle, no longer in line with the global policy; however, there was no explicit policy barring their use, and there may be specific 'niche' cases in which such use may be permissible. Any decision to use this modality should be made by the head of office, based on the local context. [redacted] the justification for this practice and the head of office's approval were not documented for the record.

The audit evaluated the management of these UNOPS contractors and identified some areas for improvement. First, the job advertisements issued by UNICEF did not clearly state that selected candidates would be working for UNICEF under a UNOPS contract, which reduced transparency for applicants. In addition, contractors signed only the general UNOPS contract terms and conditions; the detailed terms referenced in job advertisements were not attached to the contract, leaving the contractors without signed terms of reference outlining delivery expectations. The lack of clear disclosure of the contracting arrangements and signed terms of reference increased the risk of misunderstanding by contractors with respect to the contractual relationship, accountability and performance management.

A review of financial records indicated that some expenditure related to UNOPS contractors was misclassified. Costs incurred during the audit period were recorded under the line items 'Warehousing and Logistical Services', 'Labour Costs' (US$747K) and 'Co-funding with Other UN Agencies' (US$615K) rather than being correctly classified as 'Consultancy' or 'Contractor Costs'. This misclassification reduces the accuracy and reliability of financial records for monitoring and decision-making.

Root causes: The issues described above regarding the UNOPS contractors resulted from the lack of country-level guidance on managing individual contractors, following UNICEF's corporate decision to discontinue the use of individual contractors. The misclassification of costs was due to human error and inadequate oversight.

AGREED ACTIONS

The Country Office agrees to:

i. Strengthen oversight of service contracts management by ensuring proper documentation of the technical and financial evaluations and linking payments to deliverables.
ii. Establish a note for the record, with the head of office's approval, that specifies the exceptional 'niche' circumstances in which individual contractors may be engaged (through UNOPS or other third-party vendors) with appropriate justification. This should explain how the individual contractors will be managed, including requiring disclosure of the contracting modality in the job advertisements, having signed terms of reference, and the financial reporting process and oversight mechanisms.

Staff Responsible: Country Office Representative, Operations Manager, Human Resources Associate, Operations Associate and Hiring Managers

Implementation Date: December 2026

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 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, and control processes were adequate and functioning well.
Partially Satisfactory, Improvement Needed		The assessed governance, risk management, and 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 did not function 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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