

Internal Audit of Ecuador Country Office

December 2019

Office of Internal Audit
and Investigations (OIAI)



Report 2019/24

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Executive summary

The Office of Internal Audit and Investigations has conducted an audit of the Ecuador country office. The audit team visited the office between 18 September and 7 October 2019, and the audit covered the period from 1 January 2018 to 31 July 2019.

Ecuador had an estimated population of 16.8 million people in 2017,¹ with 6 million, or 35.7 percent, being 17 or younger.² It is an upper-middle-income country that has made substantial progress in reducing poverty in the last decade. However, it has also faced falling commodity prices and other economic challenges, and the percentage of malnourished children has decreased only slightly in recent years. Poor access to safe water and sanitation remains a problem in some places, especially rural areas and the Amazon region. In 2016, 222,000 children and adolescents were still outside the education system.

The country programme

The UNICEF Ecuador Country Office is in its first year of the current four-year country programme. The main programme components are: *Health and Nutrition*; *Education*; *Social Inclusion*; and *Child Protection*. The main *Health and Nutrition* activities were combating malnutrition and improvement of the health facilities. The key *Education* activities were the development and application of methodologies for rural education. In *Social Inclusion*, the emphasis was on establishment of multidimensional poverty indicators and measurement of social investment for children. For *Child Protection*, the main activities concerned development of public mechanisms for prevention of, or care in, cases of violence and adolescent pregnancies.

The country office is also part of the regional humanitarian response to Venezuelan migrants, *Children on the Move*. One of the key emergency activities was Cash-Based Interventions (CBI) to help the Venezuelan refugees.

The budget for the 2019-2022 programme is US\$ 25.76 million, exclusive of emergency budget allocation. The office has its own Private Sector Fundraising (PSFR) unit, which plans to contribute about US\$ 21.6 million (84 percent) of the above US\$ 25.76 million. In fact the office generated income of US\$ 5.6 million in 2018 and in 2019 up to August, US\$ 3.8 million; although the office could not yet generate a surplus to help fund other UNICEF operations, the 2019 revenue forecast was still higher than in previous periods. The office also spent US\$ 5.2 million on the Venezuela response from May 2018 to September 2019.

The country office is in Quito. As of the time of the audit, the office had a total of 40 staff posts (five international professionals, 14 national officers and 21 general service posts) and 25 non-staff positions, of which 22 were United Nations Volunteers (UNVs) and three were individual contractors.

¹ *World Population Prospects 2019*. United Nations Department of Economic and Social Affairs, Population Division.

² Instituto Nacional de Estadísticas y Censo del Ecuador (INEC), 2017.

Results of the audit, and action agreed

The audit team noted a number of areas where the office's controls were functioning well. Despite the country experiencing an economic slowdown and political instability, the PSFR operation was expecting an increase in fund collection of 7.6 percent in 2019 compared to 2018. Meanwhile the office had converted five out of seven Temporary Appointment (TA) positions to Fixed Term, enhancing business continuity.

The audit also noted that 95 percent of staff, consultants, UNVs and individual contractors had completed the mandatory training on Prevention of Sexual Exploitation and Abuse of Authority (PSEA). The office conducted PSEA orientation for the key implementing partners in 2019.

The audit also identified a few areas where further action was 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 measures to address these risks and issues. Two of these are considered as high priority; that is, to address risks that require immediate management attention. They are as follows:

- The office agrees to complete the key indicators, baseline and targets in the results matrix and update the results in the Results Assessment Module, with appropriate evidence.
- The office agrees to plan and monitor progress on implementation of workplans and track any action points from programmatic visits to completion.

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 controls and processes over the office were generally established and functioning during the period under audit.

The Ecuador Country Office, LACRO and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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Audit objectives and scope

The objective of the audit was to provide independent assurance regarding the adequacy and effectiveness of the governance, risk management and control processes in the country office. The audit covered the period from January 2018 to June 2019. The audit team visited the office from 18 September to 7 October 2019.

This report presents the more important risks and issues found by the audit team and the measures agreed with the Ecuador country office management to address them.

Audit observations

Programme results

UNICEF country programmes are planned with a results matrix in which the planned outcomes are supported by appropriate outputs that will lead to them. This demands a logical relationship between the outputs and outcomes,² and an appropriate set of baselines and indicators that permit accurate measurement of progress towards them. Progress towards the achievement of results and use of resources are reported in an online portal, the Results Assessment Module (RAM), as part of the annual country office reporting process at the end of each calendar year.

The audit reviewed the results framework and the way the office reported against it. It noted the following.

Programme results structure: The audit team reviewed the result structure in RAM and noted that the country programme results structure needed improvement. For example, there were outcomes whose corresponding output was not clearly stated for WASH,³ and there were no indicators specified for the achievement of some outputs. In the results matrix, some key information, such as result baselines and targets, was missing.

The audit team also noted that the results matrix was not fully aligned with the country programme document in either the key progress indicators, or in the baselines and targets. It was also not fully aligned with the respective workplans. As a result, some budget allocations per programme outcome and output were missing in the workplans, in which the budget figures by activity did not tally with the total budget at the outcome level.

The source of the reported results was not always clear. Neither was it clear how they had been verified. The audit reviewed the means of verification for the results indicators in the results structure. These included (for example) national surveys, Government reports, national statistics and publications. Some of these had not in fact taken place or been issued, due to the political situation. The audit team also noted that the office had not identified alternative means of

² 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 change or product that will contribute to the outcome. Thus a clinic would be an output, and better health an outcome.

³ Water, Sanitation and Health.

verification or data sources that could support the status of progress made on the results.

Results reporting: Progress towards the achievement of results and use of resources is reported in the RAM as part of the annual country office reporting process at the end of each calendar year. A review of the 2018 RAM reporting noted that results reporting could be improved. More specifically, some targets were not reported, status of results was not updated, and there was no consistency between the rating of indicators and the rating of the outputs and the outcomes. The status of the results achieved in 2018 was therefore not fully supported.

Agreed action 1 (high priority): The office agrees to:

- i. Align the results structure in all documents (CPD, Results Matrix and workplans) and complete the key indicators, baseline and targets in the results matrix.
- ii. Update the status of the progress on results in RAM through appropriate means of verification and support the results with appropriate evidence.

Responsible staff members: Deputy Representative

Date by which action will be taken: March 2020

Monitoring

The audit reviewed the office's monitoring of programme implementation, including results monitoring and programmatic visits to obtain assurance on the use of cash transfers to partners. It noted the following.

Monitoring of regular country programme: The country management team (CMT) meetings reviewed the indicators on the performance of the programme, and Programme meetings discussed its status. However, the audit team noted the absence of a monitoring plan. This would have given assurance that the office was planning its monitoring activities so as to promptly identify bottlenecks to programme implementation.

The office also did not demonstrate that they were systematically monitoring progress of the workplan. The audit team was told that periodic monitoring visits were carried out by the programme sections, but no monitoring reports were prepared. There was no formal tracking of whether activities were being undertaken as planned and whether the action points from monitoring visits were being implemented.

The audit also noted that the qualitative monitoring practices that are part of Results-Based Management (RBM) suggest consultation of, and participatory feedback from, the stakeholders; this was not being obtained. One example was the 2017 campaign on Violence against Children, the workplan for which required feedback from local communities to inform policy development at the central level. The office did not obtain such feedback.

Monitoring humanitarian cash transfers: The office is one of the LACR countries implementing the Children on the Move Humanitarian Action for Children (HAC) regional appeal.⁴ As part of this,

⁴ A HAC is an appeal that UNICEF launches for assistance for a particular crisis or emergency response, and will state how much UNICEF thinks it needs to raise for a given situation. The appeals page is at

there was a Cash-Based Interventions (CBI) programme for Venezuelan refugee families, in which cash delivery was made to the eligible migrants by an implementing partner. As of September 2019, the office had transferred US\$ 1.2 million to it for CBI. However, the office had not adequately monitored this partner. For the period October 2018–September 2019, two programmatic visits were made to it, but neither specifically related to this programme intervention. As of September 2019, the office had only performed 16 out of the 27 planned programmatic visits (the 27 planned were the minimum under HACT⁵ guidelines). This left 11 to be completed in three months.

The audit noted the small size of the Monitoring and Evaluations (M&E) function, which was run by just one staff member. Despite this, the audit noted no issues with the Evaluation side; however, the lack of capacity had affected monitoring.

Agreed action 2 (high priority): The office agrees to:

- i. Strengthen the M&E function.
- ii. Plan and monitor progress on implementation of workplans and track any action points from programmatic visits to completion.
- iii. Monitor CBI activities to ensure that the authorized beneficiaries are receiving the amount for which they are eligible, and implement appropriate end-user monitoring to ensure they are used as intended.

Responsible staff members: Deputy Representative, M&E Officer and Field Coordinator Officer
Date by which action will be taken: i, December 2020; ii, March 2020; iii, June 2020.

Resource mobilization

An office is expected to raise the bulk of the resources for its country programme, up to the ceiling approved by UNICEF's Executive Board for the country office in question. In the case of UNICEF Ecuador, this ceiling was US\$ 22 million, representing 85 percent of the total budget of US\$ 25.77 million for the 2019-2022 country programme.

As at end of 2019, the office revised its plans; it had originally planned to raise US\$ 3.851 million from PSFR in 2019 for programmes, and had hoped to contribute to UNICEF's regular resources and thematic funds. However, the updated estimate for programmes was for US\$ 3.453 million, giving a shortage of about \$0.4 million. After meeting the expense of PSFR operations, there was an estimated total funding gap of 5.6 percent to fund programme interventions in 2019. The office noted in the January CMT meeting that, between 2019-2022, there would be a deficit of 40 percent in funding the programmes.

However, the office did not have a clear resource mobilization strategy. Such a strategy would have helped it identify donors beyond the range of the PSFR operation (for example Governments and pooled funds), estimate probable shortfalls and then reach out to these donors in a planned manner. This would help maximize resource mobilization potential and possibly enable the office

<https://www.unicef.org/appeals/>; the page for the Venezuela response can be found at <https://www.unicef.org/appeals/children-on-the-move.html>.

⁵ Harmonized Approach to Cash Transfers. See observation *Assurance activities*, below.

to set aside funds to be applied to programme activities in the event targets are not met in the future. (Although it lacked an overall strategy, the office did have a specific Private Sector Plan for PSFR; this is dealt with in a subsequent observation.)

Agreed action 3 (medium priority): The office agrees to develop a resource mobilization strategy and operationalize it through concrete action plans.

Responsible staff members: Deputy Representative, PFP Officer (with the support of Representative and Operations Officer)

Date by which action will be taken: October 2020

Budgeting

There were inconsistencies across different planning documents regarding the resources required to implement planned activities. For example, the budget summary in the Country Programme Management Plan (CPMP) did not reconcile with the amount of funds needed for the two programme outcomes as indicated in the Programme Strategy Notes. Also, the funding plan for the 2019-2022 country programme in the CPMP provided for Other Resources⁶ of US\$ 21.6 million compared to the US\$ 19.6 million budgeted in the 2019-2022 Private Sector Plan (PSP). This indicated a lack of due diligence in planning and costing programme activities.

The audit noted that a 2020 budget had been redeveloped with a projected shortfall of US\$ 1.5 million for the programmes. However, in view of the anomalies noted by the audit team in budgeting, this projection may very well be inaccurate. It also excludes US\$ 1.725 million from UNICEF's Emergency Programme Fund (EPF), which the office had requested for the Venezuelan migrant crisis; as offices have eventually to repay EPF advances, this sum was in effect a liability.

The audit also noted that the office was not analyzing budget utilization against allocation on a continuous basis to promptly identify the funding shortfalls. This meant it did not have a clear picture of the amounts that needed to be raised as a part of a resource mobilization strategy. As of September 2019, total utilization level was 92 percent, out of which only 40 percent was actual utilization and 60 percent – US\$ 8.8 million – was fund commitments/reservations to fund programme interventions in the last quarter of 2019. However, in view of the anomalies noted by the audit in budget analyses, this projection of US\$ 8.8 million may very well be insufficient for the rest of 2019.

Agreed action 4 (medium priority): The office agrees to analyze the budget allocation and utilization regularly using programme performance indicators, to promptly identify the funding shortfalls and obtain a clear picture of what further resource mobilization is required.

Responsible staff members: Deputy Representative, Budget Associate

Date by which action will be taken: February 2020

⁶ Regular Resources (RR) are core funding that an office may spend as it needs; Other Resources (OR) are funds it must raise.

Private-sector fundraising (PSFR) strategy

The country office had a Private Sector Plan (PSP) for the period 2019-2022 indicating a three-pronged strategy and KPIs for financial targets. However, the PSP only covered three years, so the PSFR forecast did not include the planned revenue for the full country programme.

PSFR funding was mainly (about 94 percent) raised for the regular Ecuador country programme, not the humanitarian response. The country programme did include some activities connecting development with humanitarian programming, but the emergency response had been funded mainly from the EPF loan and the HAC appeal. (The office stated that there was negative perception of Venezuelan refugees, and it would be harder to raise money from individual donors if PSFR was associated with this.)

The audit noted the following.

Integrated fundraising strategies: There was insufficient integration of PSFR strategies with other programme units. For example, the audit team did not note any joint funding proposals to corporate donors, who contributed very little funding in 2019. Better synergies between the fundraising and programme teams could have resulted in such proposals.

Operationalization: The PSFR strategy had not been fully operationalized as of 30 September 2019. There was no process in place to measure the impact via key strategic indicators (for example on the efficiency of campaigns), and no strategy for diversification (such as pursuing new corporate donors). The lack of an analysis of the PSFR activities' cost efficiencies, i.e. gross revenue vs. associated costs (e.g. per campaign, per agency, etc.), hampers the timely adjustment necessary to improve the strategy going forward.

The strategy implementation should also have included contingency plans. For example, there was the last-minute cancellation of a popular television fundraising event, "Teleton", which was one of the main contributors for the 2019 fundraising goals. The office had not yet decided on potential alternatives that might compensate.

Enablers: UNICEF guidelines on PSPs require that their implementation includes identification of "enablers" – that is, factors that would enable PSFR fundraising, such as advocacy, continuous reporting on the use of the funds, and soliciting of funds for related or other causes. This was insufficiently covered in the PSP.

Agreed action 5 (medium priority): The office agrees to develop an integrated private fundraising strategy for the full country programme period. It should include plans for the pursuit of additional corporate donors, and implementation should include identification of enablers and measurement criteria, and contingency plans where needed.

Responsible staff members: PFP Officer (with support from Operations Officer and Representative)

Date by which action will be taken: January 2020 and then ongoing

REDACTED

REDACTED

Programme planning

UNICEF country programmes should influence national policies and strategies so that they promote the rights of children. This includes preparing periodic workplans outlining the activities to be undertaken; these workplans should be reviewed and signed by Government partners to foster joint ownership. The country office stated that the political context, including changes in Government, meant it was not always easy to arrange this, and that it was also sometimes not possible to obtain commitment when the relevant national policies were not formally determined.

The country office had an advocacy strategy. However, further advocacy was required with the Ministry of Health, the office of the Prosecutor and the Ministry of Education and other service providers for the development of strategies to provide specialized care for early adolescent pregnancies.

The office's process for coordination with the Government counterparts was through the signing of the "Plan Operativo Annual" (POA). The office signed nine POAs with the respective line ministries. However, in some instances, the signing was delayed. For example, the POA with one ministry was signed in July 2019 and the POA with another ministry in May – in both cases, months after the implementation of the relevant activities had commenced. The office told the audit team that due to the political situation, discussions and signing of the relevant cooperation agreements had been delayed. This made it harder to get the POAs signed.

The audit also noted that one of the outputs/activities in the office workplan was not yet reflected in any of the signed POAs and some of the implementation periods in the workplan were not in line with the respective POAs.

Agreed action 7 (medium priority): The office agrees to:

- i. When feasible, strengthen advocacy to further influence national policies and strategies for the realization of rights of children.
- ii. Include all relevant programme activities in the POAs to ensure implementation of the activities by the relevant partners, and foster joint ownership.

Responsible staff members: Deputy Representative, Communications Officer

Date by which action will be taken: June 2020

Communication for development

Communication for Development (C4D) is defined as an integral part of programmes that uses a mix of communication tools, channels and approaches to influence positive social and behavioural change. This helps ensure the efficiency and effectiveness of UNICEF support activities. This is very important in the context of Ecuador, where there can be negative perceptions and social

behaviours (such as xenophobia against Venezuelans). The 2019 HAC⁷ highlighted the negative perception of Venezuelan migrants and refugees by host communities as impediments to effective and efficient delivery of humanitarian assistance. The office had also identified social norms as bottlenecks to realizing the rights of children and adolescents.

The office had drawn up a communications strategy to prevent violence against children, combat chronic malnutrition, promote inclusive education and prevent xenophobia. However, the implementation of this strategy was limited. For example, the messaging on xenophobia was being given at schools and did not include the wider host communities. Also, no feedback was obtained to adjust the strategy where necessary. The audit noted that the subject of xenophobia was sensitive and required a C4D strategy to address the stereotypes.

However, the office had not developed an integrated C4D strategy, or made effective use of behavioural data from the communities to strengthen its C4D. The country office results structure had just one C4D-related component, with a small budget (US\$ 8,878) that had not been spent as at 30 September 2019. With regard to the migration response, one output indicator was planned but no funds were available for its implementation. The audit noted that C4D work was expected to be integrated into programme interventions by individual programme sections.

Agreed action 8 (medium priority): The office agrees to develop and implement an integrated C4D strategy, and make effective use of behavioural data from communities to strengthen C4D messaging.

Responsible staff members: Deputy Representative, Communications Officer
Date by which action will be taken: September 2020

Assurance activities

To obtain reasonable assurance that funds disbursed to implementing partners are used for the intended purposes, UNICEF offices use the Harmonized Approach to Cash Transfers (HACT). This is a framework under which offices assess the risk of working with a particular partner and determine the most suitable method of transferring cash to them. This assessment (a 'micro-assessment') is also used to determine on the type, number and frequency of assurance activities, such as spot checks and programmatic visits.

The office made direct cash transfers (DCTs) to partners of US\$ 5.6 million for the period from January 2018 to August 2019, representing about 28 percent of the office's total expenditure for this period. All DCTs were made to NGOs to implement various programme activities such as CBI (discussed earlier in this report), improved water, sanitation and hygiene (WASH) services at the transit points, assistance to the concerned Ministry in the coordination and management of temporary transit facilities, mental health and psychosocial support for emergency preparedness and response, prevention of obesity in children and more.

The office had prepared its annual assurance plan in compliance with the minimal requirements of HACT. However, a review of assurance activities related to a partner that received US\$ 1.4 million (25 percent of DCTs) showed that this partner was performing incompatible duties; they

⁷ See page 6.

ranged from identification of target population to the payment of the beneficiaries, meaning that there was insufficient segregation of functions to prevent conflicts of interest. Yet risk associated with this partner had been assessed as low.

The audit also noted delays in the completion of the assurance plan. For example, as of September 2019, only four out of 10 planned spot checks (40 percent) had been completed. It was not clear how the office would complete the rest of the assurance activities before the end of the year.

The country office had established indicators to measure completion of HACT activities; however, there was inadequate follow-up of these indicators.

Agreed action 9 (medium priority): The office agrees to:

- i. Take appropriate measures to ensure timely completion of planned assurance activities.
- ii. When feasible, avoid allocating incompatible tasks to a particular partner; when that is not feasible, implement additional assurance activities – even when the standard assessment template shows that the risk associated with the partners is low.

Responsible staff members: Deputy Representative

Date by which action will be taken: i, December 2019; and ii, January 2020

Partnership management

Responsibility for sourcing and selecting partners rested with individual programme sections. However, as in other country offices, proposed partnerships were subject to review by the Partnership Review Committee (PRC).

Offices can identify partners through either through open selection, which is a competitive process, or direct selection. With the latter, the office will approach a single partner it thinks is appropriate. At the time of the audit, 57 out of the 61 partners had been selected using the direct selection method. The office's 2019 Annual Management Plan had prioritized increasing the partnership pool to ensure competition; however, at the time of the audit, little progress had been made in this respect.

The audit also noted that one partner had been overpaid by US\$ 46,000 in programme support costs. The same partner had been paying the required 12 percent value added tax on programme supplies; however, it was not recovering this and reimbursing UNICEF in accordance with the latter's tax-exempt status. This could have been avoided if the country office had procured the supplies using its tax-exempt privileges and then delivered them to partner.

Agreed action 10 (medium priority): The office agrees to:

- i. Take appropriate measures to minimize direct selection of partners.
- ii. Take appropriate measures to deduct programme support cost from payments made to partners.
- iii. Consider procuring programmes supplies using its tax-exempt privileges for subsequent

- distribution to partners.
- iv. In consultation with the UNICEF Legal Office, consider recovering the US\$ 46,000 excess value-added tax payments identified by this audit.

Responsible staff members: Deputy Representative

Date by which action will be taken: February 2020

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. 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 auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the regional 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 auditee's (for example, a regional office or HQ 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 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 regional-office management but are not included in the final report.

Conclusions

The overall conclusion presented in the summary falls 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.