

# Internal Audit of the Papua New Guinea Country Office

September 2018

Office of Internal Audit  
and Investigations



Report 2018/06

## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an internal audit of the Papua New Guinea (PNG) country office. The objective of the internal audit was to assess the adequacy and effectiveness of the office's governance, risk management, and control processes. The audit team visited the office from 30 April to 16 May 2018, and the audit covered the period from 1 January 2017 to 30 April 2018.

The 2018-2022 country programme as approved by the UNICEF Executive Board has six main components: *Health; Nutrition; Water, sanitation and hygiene; Basic education; Child protection; and Social inclusion*. There is also a cross-sectoral component. The total budget is US\$ 85.9 million, of which US\$ 10.9 million is Regular Resources (RR) and US\$ 75 million Other Resources (OR). RR are core resources that are not earmarked for a specific purpose. OR are contributions that may have been made for a specific purpose or programme and may not always be used for other purposes without the donor's agreement. The office is expected to raise the bulk of the resources for its country programme as OR, up to the approved ceiling.

The PNG country office is in the capital, Port Moresby. There are no zone offices. As of May 2018, the office had 47 approved posts – 15 international professional (IP), 15 national professional (NO), and 17 general service staff (GS).

The country is a lower-middle-income country. PNG ranks 158th out of 188 on the Human Development Index (HDI). The country did not achieve any of the Millennium Development Goals, despite some progress in health, education and other sectors. Persistent challenges remain in addressing poverty, low levels of literacy, tuberculosis, maternal mortality, nutrition, immunization, family planning, environmental sustainability, gender and global partnerships. The office works in an unusual operating environment characterized by weak Government capacity; deep-rooted cultural norms, practices and diversity; security and access issues; economic hardships affecting the delivery of social services; a weak link between the national and provincial Governments; and limited availability of data.

There was a noteworthy practice. To reduce infant deaths from hypothermia (which are significant in PNG), in 2017 UNICEF and selected implementing partners tested an innovative hypothermia alert device, worn as a bracelet on new-born babies, that alerts caregivers to newborns becoming hypothermic. The office had led research into the results, and preliminary evidence showed reduced neonatal mortality and increased breastfeeding frequency at the Port Moresby hospital. The audit team met with mothers, caregivers and health workers who confirmed that they had been well trained in the use of the device.

### Action agreed following the audit

The audit identified a number of areas where further action was needed to better manage risks to UNICEF's activities. In discussion with the audit team, the country office has agreed to take a number of measures to address these risks with the support of the regional office has agreed. Six are being implemented as high priority – that is, to address risks that requires immediate management attention:

- Implement a strategy and action plan regarding availability and quality of data, focused on the most critical data needed to better inform and support evidence-based planning and reporting. Revise baselines of outcome and output indicators and

ensure relevant data are collected to enable measurement of results. Build capacity of the office's staff to analyze and use child-related data to reinforce evidence-based planning, monitoring and reporting.

- Reinforce oversight over risk management, including fraud risk. Ensure that the country management team fulfils its responsibilities, including supervising the performance of the office's statutory committees regarding quality assurance and risk management.
- Identify and address the key bottlenecks in the selection process and the causes of prolonged vacancies. Expedite the planned recruitment of human resources unit staff. Update the orientation package to include local cultural values and standards and conduct periodic orientation for new staff. Ensure staff complete mandatory training and manage performance in accordance with UNICEF standards.
- Strengthen oversight of certification of expenditures by partners. Reinforce management of outstanding direct transfers, and develop capacity of staff and implementing partners in cash-transfer processes. Identify and address the causes of delays in in DCTs to partners.
- Ensure that micro-assessments and assurance activities are adequately planned, risk-based, implemented and monitored. Build staff capacity and develop a plan for supporting and guiding selected implementing partners on cash transfer processes.
- Increase oversight over the quality of donor reports, and ensure they are supported with sufficient appropriate evidence. Implement a mechanism for obtaining feedback from donors.

## Conclusion

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed significant improvement to be adequately established and functioning.

The Papua New Guinea Country Office, the East Asia and Pacific Region (EAPRO) and OIAI will work together to monitor implementation of the measures that have been agreed.

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## Objectives

The objective of the internal audit was to assess the adequacy and effectiveness of the PNG country office's governance, risk management, and control processes. The audit also sought to identify improvements to how the country office's programmatic and other activities were managed to deliver results for children. 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, the measures agreed with the client to address them, and the timeline and accountabilities for their implementation. It does not include lower-level risks, which were communicated to the client in the process of the audit.

## Audit observations

### Convergence for increased impact

The diverse needs of children can often be addressed at the same time and place, or through programme components designed to complement each other. UNICEF encourages this approach, referring to it as convergence. Increasing integration and synergy across different outcomes can result in a comprehensive delivery of quality services and achievement of local and community-based outcomes for children. The PNG Country Office regarded the PNG context as lending itself very well to programme convergence, because of a high level of correlation among all childhood indicators.

In August 2017, the office identified several lessons from the 2012-2017 country programme. For instance, though the office worked with the same implementing partners across sectors during 2017, programme activities were not effectively complementary and/or linked to each other geographically. Further, the programmes used many partners and did not focus enough on target areas; reducing the impacts of programme interventions on children.

However, although the new 2018-2022 country programme incorporated some of these lessons, the CPD<sup>1</sup> included limited information on programme convergence. While the health programme highlighted the importance of convergence with the nutrition and WASH<sup>2</sup> sectors, there was no reference to convergence for education, child protection and social inclusion. Further, the audit reviewed a sampled programme strategy note that was prepared as a main input for developing the CPD and found it did not include any analysis of convergence.

As of the end of the audit's on-site work (16 May 2018), the office had not completed the development of convergence processes. For instance, responsibilities of staff members, key convergence-related risks and controls, and review mechanisms had not been fully defined. Neither had the office completed the documentation supporting the design of packages of integrated interventions or activities; the specific target areas of interventions (such as district or community) and the implementing partners with whom to converge. Further, it had not updated and revised the strategy notes of each programme to define the convergence

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<sup>1</sup> The CPD is the Country Programme Document, which sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs (as in this case) for five years.

<sup>2</sup> Water, Sanitation and Hygiene.

strategy and action plan that could ensure key activities of all programmes would be converging geographically, programmatically and by implementing partners to expand quality service coverage and use in target areas.

The implementation of convergence was constrained by the lack of continuity and vacancies in key senior management positions (see also observation *Human resources*, below) and the lack of clearly defined convergence strategy note and action plan.

**Agreed action 1 (medium priority):** The office agrees to, with the support and guidance from the regional office:

- i. Clearly define the strategy and action plan to secure convergence of programmes at the district and community level. To this end, the office will revise the programme strategy notes of each programme (or develop a stand-alone convergence strategy note for all programmes).
- ii. Implement, in target areas, key intervention packages of services and programme supplies that are integrated across programmes.
- iii. Clarify responsibilities and convergence processes and use relevant performance indicators to track the implementation of convergence and increase accountability of designated staff members.

Responsible staff member: Deputy Representative; and Chiefs of Education, Child Protection and WASH

Date by which action will be taken: November 2018

## Evidence-based planning and programming

UNICEF requires its country offices to use the most relevant and up-to-date data and information to identify the most disadvantaged children, design appropriate strategies and programmes, and monitor and report on results.

The audit noted the following.

**Data quality:** In discussions with the audit team, some stakeholders – Government and other partners, donor representatives, etc. – expressed low confidence in the quality of available data for programming. Most data were outdated and incomplete. The recent UNICEF situation analysis of the children and women, completed in October 2016, showed that data and information were generally outdated, of weak quality and not disaggregated.

**Impact of data gaps:** The lack of good-quality, disaggregated data had constrained evidence-based planning and programming in PNG. A 2016 independent evaluation of UNDAF<sup>3</sup> implementation concluded that the lack of access to data impeded accurate assessment of the status of the outcome indicators against the established baselines and targets.

The impact of data gaps was evident in the Results Assessment Module (RAM). UNICEF offices, including country offices, upload their results to the RAM so that they can be viewed across the UNICEF. The office's RAM data showed that none of the five planned outcomes of the last country programme were assessed, as the office did not have enough data and information

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<sup>3</sup> The UNDAF is the UN Development Framework, an agreement between the UN in a country and the host Government on how the UN can assist the country in reaching its development goals.

to effectively measure progress against established indicators – particularly at the outcome level.<sup>4</sup> For example, there was no data and information available to measure progress for six out of the seven outcome indicators selected for the young child survival and development programme. The remaining indicator had only partial information available. Regarding the education programme, 10 of the 34 sampled output indicators also missed key information such as “indicator status”; “indicator rating”; and “indicator primary source”. The means of verification for 16 of these 34 indicators were stated without specific reference sources or hyperlinks, or simply described as “other”.

Further, the baselines of some outcome indicators established in the 2018-2022 results matrix were taken from outdated sources (dated from 2006 to 2015). Inadequate baselines constrained the establishment of realistic targets to measure progress.

**Recent management action:** The office had taken steps to address data gaps. For instance, it included in the 2018-2022 CPD a social inclusion programme and outcome indicators with the aim of strengthening national capacity to collect, manage and analyze child-related data. Further, in March 2018, the office, with the assistance of a consultant, completed a comprehensive diagnostic assessment of “what exists” in terms of data to inform decision-making. The assessment also proposed a strategy and an action plan. However, as of the end of the on-site audit, the office had not completed its review of the assessment, so had yet to finalize and implement an office-wide strategy and action plan to reduce the most critical data gaps (including disaggregated data at all levels) affecting UNICEF programmes.

**Agreed actions 2 (high priority):** The office agrees to, with the support of the regional office:

- i. Implement a strategy and action plan that focuses on the most critical data, ensuring its quality and timely availability. The office will also work with other UN agencies on the issue as appropriate.
- ii. Ensure relevant data are collected and used to enable accurate measurement of results.
- iii. Revise the baselines of outcome and output indicators to reflect the most recent data and information, such as that from DHS or UNICEF-supported data collection activities.
- iv. Build capacity of the office’s staff to analyze and use data related to children to reinforce evidence-based planning, monitoring and reporting.

Responsible staff member: Deputy Representative, and Monitoring and Evaluation Specialist  
Date by which action will be taken: i), ii) and iv) December 2018; and iii) The office reported it had completed implementation as of June 2018.

## Risk management

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<sup>4</sup> 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, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

UNICEF country offices are meant to manage risks to the implementation of programmes in a structured and systematic manner. The organization's Enterprise Risk Management (ERM) policy is currently being revised, but it requires offices to perform an annual Risk and Control Self-Assessment (RCSA) to identify, assess and manage risks that threaten the achievement of results. The assessment must include a mitigation plan for each significant risk.

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

**Risk assessment and mitigating actions:** The office had conducted a RCSA and drawn up a risk profile in 2017. Six high-risk areas were identified, and an action plan established. The status was updated during the annual review in the first quarter of 2018.

However, the office could have been more thorough in linking the proposed mitigation measures with the root causes they were expected to address. Further, it could have implemented the planned mitigation measures in a timelier manner. For instance, during its meeting of March 2017, the CMT<sup>5</sup> agreed to develop a resource mobilization strategy. This was to address a risk related to funding and donor relations, which was rated as high. However, this action had neither been assigned a target date nor followed up in subsequent meetings. It had yet to be implemented as of the end of the audit in May 2018 (see also observation *Resource mobilization*, below).

Further, actions points raised by the CMT during 2017 had not been followed up and implemented. For instance, the issue of longstanding direct cash transfers (see observation *Management of cash transfers*) was discussed in several meetings but insufficient action was taken to mitigate the risks involved. (The CMT also did not monitor the performance of the office's statutory and management committees; these have responsibilities for management of specific risks, and the audit noted several shortfalls in their functioning. Those shortfalls are discussed in other observations.)

**Fraud risk:** The audit team noted that some recent cases of suspected fraud and irregularities involving implementing partners, investigated by the Office of Internal Audit and Investigations, had led to impairment of funds, in that the programme activities to which they had been allocated were delayed or did not take place. The office itself rated the risk of fraud and corruption as high in the 2017 RCSA.

However, the office's assessment was not sufficient to identify and address its vulnerabilities to fraud and irregularities. It had also not established effective mitigation measures to prevent and/or detect fraud, such as rigorous monitoring of the use of funds by partners. Neither had the office been proactive in advocating the adoption of robust anti-fraud policies by implementing partners.

UNICEF has mandatory online training on ethics, including fraud awareness. However, 24 out of the 38 staff members had not completed the course at the time of the audit. The office had also not identified key staff involved in processes with a high fraud risk who should be given additional training on fraud awareness and red-flag identification. Neither had it assessed the effectiveness of statutory governance and oversight committees, such as the partnership review committee and contract review committee, in prevention and detection.

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<sup>5</sup> An office's country management team (CMT), which 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.



The above weaknesses were caused mainly by weak risk-management culture, and by inadequate management oversight. The latter was exacerbated by frequent changes in the management team, most especially in the operations areas, where the office had seven different Chief of Operations in the past one and half years (see also observation *Human resources*).

**Agreed action 3 (high priority):** The office agrees to, with support and guidance from the regional office, reinforce oversight over risk management, including fraud risk; and to take the following specific steps:

- i. Ensure clear linkages between the root causes of identified risks and the planned mitigation actions and increase accountability for timely implementation and periodic monitoring of the mitigation action plan.
- ii. Update the Risk and Control Self-Assessment to incorporate several significant risks identified elsewhere in this audit report.
- iii. Define a strategy and action plan to prevent, detect and respond to significant fraud risks, and regularly assess progress in their implementation.
- iv. Ensure that the country management team fulfils its responsibilities, including supervising the performance of the office's statutory committees regarding quality assurance and risk management.

Responsible staff member: Chief of Operations; Deputy Representative; and Representative  
Date by which action will be taken: December 2018

## Human resources

As of May 2018, the office had 47 established posts – 15 international professional (IP), 15 national professional (NO), and 17 general service staff (GS).

The audit reviewed the quality of the selection process and found it to be generally fair and transparent. However, it noted the following areas for improvement.

**Turnover of senior management:** Senior management of a country office is generally comprised of the Representative, Deputy Representative and Chief of Operations. In the past two years, the office had three Representatives; two Deputy Representatives (the post was vacant for about nine months in that period); and seven Chief of Operations functioning in acting capacity (the post had been vacant since November 2016). This instability and lack of continuity in the senior management team had a significant impact, and constrained staff morale and effective oversight, risk management and quality assurance functions, for which senior management is accountable.

**Recruitment and vacancies:** The office completed 17 recruitments during the period covered by the audit. As of May 2018, there were still 14 vacant positions; four of these were key positions that had been vacant for over one year. (One of these, the Chief of Operations post, was among the senior posts mentioned above.)

The office recruitment process was protracted. From a sample of seven completed recruitments reviewed, it took an average of 233 days to complete the process (from the date a post became vacant to assumption of duty). For instance, as mentioned above, the post of Deputy Representative took about nine months to be filled in 2017. The post of Chief of Operations was filled 591 days after it fell vacant in November 2016 .

The office said that it had encountered challenges in attracting qualified candidates, which at times led to vacant posts being advertised more than once. The audit acknowledged that there were problems attracting suitable candidates for PNG, which is not always seen as an attractive posting. However, the problems with recruitment had also been caused by a number of other factors that were within the control of the office, including: lack of recruitment planning; absence of local talent groups; delayed availability of staff involved in the selection process; and inadequate management oversight on staffing. Insufficient capacity of the human resources unit also contributed to delays. In fact, the office shared the services of an HR manager with two other UNICEF offices, and s/he assisted the office remotely with periodic visits to PNG. The office said that the HR unit's planned capacity would be adequate when its vacant posts were filled.

The protracted recruitment process and vacancies put enormous strain on the existing staff, leading to errors, weak quality assurance, poor quality output and delays in workplan implementation. It was a factor in several observations in this audit report.

**Orientation of new staff:** Half of the 14 staff that assumed duties during the period 1 January 2017 to 30 April 2018 were new to the UNICEF system. However, the office did not conduct effective orientation for them. Three of those interviewed stated that they did not have any orientation, and that that had affected their transition. The office said that some new staff participated in development missions and received extensive training and a "welcome package". The package was meant to brief them on services like accommodation, schools, transportation and security, among other things; but it did not cover essential topics such as local cultural values and standards, or highlights of major programmes.

**Mandatory training:** All UNICEF staff were expected to complete the two mandatory courses relating to Prevention of Sexual Harassment and Abuse of Authority (PSHAA) and Prevention of Sexual Exploitation and Abuse (PSEA) by 31 March 2018. The audit found that as of April 30, 2018, 12 (32 percent) and nine (24 percent) of the staff in PNG had yet to undertake training for PSHAA and PSEA respectively. Further, several other mandatory courses related to cash-transfer procedures, security, and ethics and integrity had yet to be undertaken by some staff. The office was not aware of the completion rate of these mandatory courses because of lack of an effective monitoring mechanism.

**Staff performance:** The office used UNICEF's global performance assessment system, ACHIEVE. This requires planning, mid-term review and year-end evaluation. The audit noted that staff performance was not consistently managed, measured and reported on in a timely way. The staff interviewed by the audit commented that the process was mainly to ensure compliance with UNICEF requirements. They said that they usually had no mid-term or periodic reviews with their supervisors, and year-end evaluations were equally not done in accordance with UNICEF guidance. This had hampered the morale and motivation of staff. By the end of the global deadline of 30 April 2018, the audit found that only seven out of 38 staff had completed their performance planning.

**Agreed action 4 (high priority):** The office agrees to, with support and guidance from the regional office, reinforce oversight over human resources management; and to take the following steps:

- i. Identify the bottlenecks in the selection process and take appropriate measures to address them.

- ii. Expedite the recruitment of planned human resources unit staff and ensure it has the capacity to support the office effectively.
- iii. Update its orientation package to include cultural values and local standards including highlights of major programmes and conduct periodic orientation for new staff.
- iv. Ensure staff complete mandatory training on time.
- v. Ensure staff performance planning, periodic reviews, and year-end evaluations are carried out on time in accordance with UNICEF standards.

Responsible staff member: i) and iii) Human Resources Officer, and Human Resources Manager; ii) and iv) Chief of Operations and Deputy Representative

Date by which action will be taken: November 2018

## Partnership management

The office collaborated with 18 NGOs (one international and 17 national) during the period of 1 January 2017 to 30 April 2018 and issued 10 programme cooperation agreements (PCAs) and eight small-scale funding agreements (SSFAs).<sup>6</sup> The PCAs were attached to 13 programme documents<sup>7</sup> with a total value of US\$ 2.7 million while the SSFA amounted to US\$ 320,000. The audit noted the following.

**Partner selection:** Offices can select partners either through open selection or closed selection. With closed selection, the office will approach a single partner it thinks is appropriate, whereas open selection allows all potential partners to respond to an expression of interest. The office will then assess the results for prequalifying partners and updating the partners' database.

The audit found that none of the office's partners had been identified through open selection, which enables offices to identify implementing partners with the best comparative advantage. Though open selection is not mandatory, it could increase efficiency gains, important given the high cost of doing business in PNG. It could also be used for identification of potential partners within districts and provinces, which would assist convergence in certain localities (see also observation *Convergence for increased impact*, above).

**Partnership review committee (PRC):** The review and approval processes for PCAs were protracted. From a sample of nine programme documents reviewed, it took an average of 97 days to complete the entire process (UNICEF's global benchmark is 45 days). The maximum was 282 days.

The PRC also failed to detect some gaps in the quality of the programme documents. Five out of nine reviewed by the audit had no baselines, which would make it hard to set realistic performance targets. The PRC's review of the budgets in the PCAs was also not thorough. In one case, headquarters costs for a local NGO were budgeted and approved (this is contrary to UNICEF policy that such costs may be paid only to international NGOs, which often incur

<sup>6</sup> The PCA is the standard framework for partnerships, but SSFAs, which are simpler, can be used for partnerships up to US\$ 50,000 in value.

<sup>7</sup> The programme document is the paper that operationalizes a PCA. It sets out the expected results, activities, related resources requirements, workplan and other key information defining the programme. The number of programme documents is not necessarily the same as that of PCAs, as there can be more than one such document associated with a PCA – for example, when a partner is undertaking activities in more than one area but concludes just one PCA with UNICEF.

additional costs at their headquarters for overseeing and supporting programme implementation). In one case, a national NGO was paid administrative costs for each of three interventions although they were running concurrently. Administrative costs (like staff salaries) should be paid once only to the same partner during a given period.

These weaknesses were caused by a combination of factors, including insufficient management oversight on the operations of the committee. Weak functioning of the PRC reduced assurance as to whether the PCA budgets and results frameworks were justified and sound.

**Joint annual reviews and quarterly reporting:** Only one of the 10 NGO partners that qualified for a joint annual review<sup>8</sup> had participated in one. Further, only one out of the five sampled partners used the recommended tool for quarterly reporting on results. This had constrained the quality of progress reporting and the linkages of the activities' contribution to the achievement of results.

**Agreed action 5 (medium priority):** The office agrees to:

- i. Define its selection criteria and conduct open selection, where applicable, to identify prospective implementing partners in the focus provinces for its convergence strategy and use the results to update its partner database.
- ii. Reinforce its oversight of the PRC committee.
- iii. Ensure that joint annual reviews are done with the relevant implementing partners, and train and assist partners to use the required tools for quarterly results reporting.

Responsible staff member: Deputy Representative and Representative

Date by which action will be taken: November 2018

## Procurement

The office procured programme supplies and services worth US\$ 1.6 million and US\$ 1.5 million respectively from January 2017 to April 2018. It issued 53 contracts for services. The audit noted the following.

**Market survey:** Towards the second half of 2018, the office was to commence the second phase of its WASH programme, about US\$ 22 million. This involves mainly construction contracts, with an estimated value of over US\$ 12 million that are critical to the successful implementation of the new country programme. The audit noted that the office had not conducted a market survey to identify potential contractors and suppliers for this work. Given the importance of the WASH programme, such a survey will identify service providers and availability of local goods and services in the various districts and provinces where the project will be implemented and enable the office to obtain better value for money.

**Contract review committee (CRC):** The office had a CRC to advise the Representative on contract above the threshold of US\$ 50,000, which is normal.

The audit reviewed a sample of seven contracts submitted to the CRC for review. In one case,

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<sup>8</sup> Joint annual reviews with NGO partners are required for those partners that receive more than \$100,000. The aim is to review the performance of the NGO and UNICEF against the agreements and other requirements.

the assessment of contractual risks and the related planned response contained in the submission were unrelated to the purpose of the contract. In three other cases where the risks were correctly identified, planned measures were insufficient to address them. The CRC did not detect these issues in its reviews.

Further, in three instances, non-CRC members were invited to take part in, and even chaired, the proceedings of the CRCs. In one case, all the three participants in the meeting were from the programme section (no operations staff were present to provide the necessary guidance), and the review was chaired by the head of programme (which is the Deputy Representative), while the subject of the meeting was a high-value programme contract. Members of the CRC serve in their own individual capacity, and each member is responsible for recusing him/herself from the review of submissions whenever conflicts of interest exist.

These weaknesses were caused by frequent changes in most senior operations staff (responsible for provision of technical guidance) and insufficient training for the CRC members on their role.

**Contracting process:** The audit reviewed a sample of seven contracts awarded during the period covered by the audit. One sampled contract (with a value of US\$159,891) was awarded through single-source selection without sufficient justification; there was no demonstration of emergency or that the awardee was the sole provider of the good or service in question. Three contracts did not include a liquidated damage clause<sup>9</sup> that would protect UNICEF from a financial loss in case of delays, abandonment of contract; or failure to deliver according to the terms of the contract. In another contract, the CRC recommended that the proposed extension be subject to the performance evaluation being completed for the previous contract. The audit could not find any evidence that the performance evaluation had been done, though the office had extended the duration of the contract.

**Contract management:** Contract closure requires periodic monitoring of the status of contracts and closing-off of commitments that do not need further activity or action. The office did not regularly check for expired contracts so that they could be closed, releasing any unused funds to their funding sources. The audit found 45 contracts that had ended in 2017 that were still open as of the time of the audit. These expired contracts had a total value of US\$ 203,000 in unused balances, which the office could have released and used for other activities.

Further, contracts are legally binding only when signed by both parties (UNICEF and the contractor), and implementation of contracts should not commence before signature. The review of a sample of 15 contracts awarded in 2017 confirmed that in six cases, the implementation of the contracts started before they were signed and signing took place from 26 to 169 days later. This could increase the risk of disputes and tasks not being performed in accordance with the contracts. This was mainly due to inadequate supervision of contract management.

**End-user monitoring and beneficiary feedback:** End-user monitoring of supplies is done to check that supplies are being delivered to the intended beneficiaries and are used for the intended purpose (reducing risk of fraud), and to obtain feedback from beneficiaries on

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<sup>9</sup> A liquidated damages clause is similar to a penalty clause, but is not quite the same. Liquidated damages refer to compensation that will be given in the event of non-delivery or non-performance; however, that compensation should not exceed the losses incurred by the injured party. With a penalty clause, which is punitive, it may do so.

whether the supplies were appropriate. The office had no warehouse and consigned supplies directly to the implementing partners. It had not established a structured end-user monitoring and beneficiary feedback system.

**Agreed action 6 (medium priority):** The office agrees to, with the support of the regional office:

- i. Conduct a targeted market survey and use the results to update its service provider database.
- ii. Strengthen oversight of the contract review committee and ensure it fulfils its responsibilities.
- iii. Reinforce its contracting process to ensure contracts are awarded in accordance with established standards and that single sourcing is adequately justified.
- iv. Reinforce oversight of contract administration and ensure expired contracts are closed to release unused funds, and that contracts are not commenced until fully signed.
- v. Institute a robust mechanism to ensure programme supplies are used for the intended purpose and delivered to the right beneficiaries, and that feedback is gathered from those beneficiaries.

Responsible staff member: Chief of Operations, Representative, Deputy Representative and Monitoring and Evaluation Specialist

Date by which action will be taken: December 2018

## Resource mobilization

Country offices raise most of the funding for their country programme themselves, from a mixture of sources that can include traditional donors, Government partners, the private sector and others. The audit reviewed the office's resource mobilization,<sup>10</sup> and noted the following.

**Funding status:** During the last country programme, which ended in December 2017, the office had raised US\$ 38.1 million of the total estimated required funds of US\$ 53.6 million, leaving a funding gap of US\$ 15.5 million. Some programme areas did not fully achieve expected results because of this funding gap. For instance, one of the four child protection outputs related to birth registration was constrained due to inadequate funding.

As of the time of the audit in May 2018, a review of the current funding situation for the 2018-2019 period revealed a funding gap of US\$ 14.4 million out of the planned requirements of US\$ 31.7 million. A detailed analysis of various result areas showed that, while some programme areas had enough funds for the 2018-2019 period, others showed significant funding gaps. Further, four posts, occupied by staff with valid contracts until 2019, only had funding up to June 2018.

In preparation for the new country programme, the office had reviewed its funding situation in September 2017 and identified 12 action points. As of April 2018, none of the five action points, meant to be completed by March 2018, had been fully implemented. One of them was

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<sup>10</sup> While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

a background analysis of the donor environment globally, regionally and domestically and carrying out a donor mapping<sup>11</sup> *vis-à-vis* the office's funding priorities, with an action plan on how to approach potential donors. Another was to establish time-bound, measurable targets for each donor, monitor progress, and evaluate efforts and results.

The office had also been responding to the emergency following the magnitude 7.5 earthquake in Hela province on 26 February 2018. In this regard, it had estimated the funds required at US\$ 13.8 million for 2018. As of the time of the audit, it had raised US\$ 5.2 million (including US\$ 1.8 million still in the pipeline). A sectoral analysis indicated more significant shortfall in some programme areas. For instance, the health programme raised only 21 percent of the estimated fund requirement for emergency health needs as of May 2018.<sup>12</sup> Insufficient fundraising may hamper the implementation of humanitarian response.

**Strategy:** The office recognized that it had relied heavily on a limited number of donors and that some programmes were operating through extensions of grants from the previous country programme. However, five months into the new programme, the office had yet to develop a clear and comprehensive resource-mobilization strategy and an advocacy plan in support of it. An all-inclusive resource mobilization and advocacy strategy would increase the office's capacity to coordinate and raise funds and leverage investments of other stakeholders for children. (It is also UNICEF corporate guidance that an office should have such a strategy.)

**Monitoring:** The office had appointed a focal point for tracking funding gaps and developed various ways to track and analyze funds availability at the outcome level. These systems could be strengthened to include analysis of funding gaps at the output levels; current funding allocations; confirmed funds not received; and in-depth historical analysis of funding trends by donors and provinces in the country. Such in-depth analysis would assist fundraising efforts.

The office stated it was aware of the funding shortfalls in both the regular and emergency programmes and had recently increased its fundraising efforts. It said it was optimistic that these would start yielding results soon.

**Agreed action 7 (medium priority):** The office agrees to, with the support of the regional office:

- i. Develop a comprehensive resource mobilization strategy, with specific targets for the programme period, that outlines how, where, when and with whom resource mobilization activities will be undertaken.
- ii. Review and reinforce its resource mobilization efforts in areas where there are funding gaps and take steps wherever possible to expand its donor base, including leveraging funds for priority programme components.

Responsible staff member: Deputy Representative

Date by which action will be taken: i) The office reported it had completed implementation as of August 2018; and ii) December 2018

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<sup>11</sup> A process of analysing donors that have common mandate with UNICEF and might be willing to fund its programmes. It includes compiling information on the donors' engagements and interactions.

<sup>12</sup> The targets and shortfalls in this paragraph refer to emergency funding (ORE) and are independent of those for normal OR.

## Management of cash transfers

The office disbursed US\$ 6.7 million in direct cash transfers (DCT) to implementing partners between January 2017 and April 2018. The audit noted the following.

**Outstanding direct cash transfers:** As of the time of the audit, the total outstanding DCT was US\$ 4.16 million. The DCTs outstanding for more than six months but less than nine months accounted for 16.5 percent of all outstanding DCTs (US\$ 685,000), while those over nine months accounted for 30.7 percent (US\$ 1.28 million). The long-outstanding DCT was caused partly by insufficient support to implementing partners, including training on certification of expenditures. There was also no mechanism for coordinated follow-up of outstanding DCT within the office, and there were inadequate assurance activities on the use of DCT by implementing partners. For DCT over nine months, the office had had to stop providing additional funds to that partner, in accordance with UNICEF procedures. This will delay implementation of programme activities and constrain achievement of results for children.

**Disbursements and supporting documentation:** Country offices are expected to transfer funds to implementing partners within 10 working days of the funding request, to ensure effective implementation of programme activities. The audit team reviewed a sample of 10 cash transfers and found it took an average of 40 days. One was processed within 10 days, but the others took between 15 and 95 days. Three out of the five partners visited by the audit also expressed concerns on timeliness of cash transfers to them and the consequent delays in implementing programme activities. The office had not identified the causes of delays or taken corrective measures.

Further, six out of the seven certificates of expenditures received from the implementing partners had no quarterly activity reports attached to them. This meant that the completion of activities could not be confirmed or verified against the agreed results framework when the certificates of expenditures were processed. The seven sampled FACE forms<sup>13</sup> did not include the start and end dates of proposed programme activities. Two did not include the authorized amount to be paid or certification of expenditures and contained mathematical errors.

The audit team also reviewed three sampled reimbursements<sup>14</sup> and found no evidence of prior approval before the partner implemented programme activities.

**Agreed action 8 (high priority):** The office agrees to:

- i. Reinforce the management of outstanding direct cash transfers, with a view to minimizing the risks of having cash transfers outstanding over nine months.
- ii. Identify the causes of delays in direct cash transfers to implementing partners and implement corrective measures.
- iii. Strengthen oversight of certification of expenditures by implementing partners.
- iv. Develop capacity of staff and implementing partners over UNICEF cash-transfer processes and certification of expenditures.

<sup>13</sup> 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.

<sup>14</sup> Instead of making DCTs, an office can reimburse a partner for activities afterwards; this may be done where the NGO is (for example) high risk or does not have the financial administration appropriate for handling DCTs.



Responsible staff member: Deputy Representative, and Senior Budget Associate  
Date by which action will be taken: December 2018

### Assurance on use of direct cash transfers

UNICEF and some other UN agencies use a risk-based framework to obtain assurance on whether transferred funds have been used as intended. Known as the Harmonized Approach to Cash Transfers (HACT), it calls for systematic assessment of the risks involved in dealing with a partner; this is done through a micro-assessment, which looks at the partners' financial procedures and capacity. The level of assurance activities needed when dealing with that partner will be decided accordingly. The aim is to cut down on unnecessary checks and bureaucracy while ensuring that risks are controlled. Assurance activities under HACT include spot checks and scheduled and special audits. There are also programmatic visits that will establish whether activities paid for have taken place.

The audit reviewed the office's implementation of HACT and noted the following.

**Oversight:** The HACT committee was ineffective as it did not fulfil its key oversight functions. For instance, the assurance plans were not always risk-based, although that is the principle on which HACT is based. Further, the committee had met only three times since its inauguration in November 2016 and did not monitor implementation of assurance activities and the related indicators. Neither did it provide direction to address challenges associated with HACT implementation, or promptly address issues identified by the various assurance activities.

**Macro-assessment:** At the country level, HACT involves a macro-assessment of the country's financial management system. This helps assess the risks in the overall operating environment and will also establish to what extent a country's own audit institutions are able to provide assurance.

A macro-assessment of the PNG's public financial management system had been done by a third-party contractor commissioned by UNDP, and the report shared with the UN country team in January 2018. The assessment highlighted several important risk areas in the country's financial systems, such as the need to improve staff qualifications and skills, and internal controls and adherence to financial procedures. Prior to this report, the office had relied on PNG's supreme audit institution (SAI), the Auditor-General's Office, to conduct audits of key government departments (which are UNICEF implementing partners). As of the time of the audit, the office had yet to review the new macro-assessment report to determine the impacts of the identified risks on UNICEF assurance activities (such as the types of cash transfer) and whether it would continue to use the SAI for audits of government partners.

**Micro-assessments:** The office's choice of partners to be micro-assessed was not risk-based and the criteria and rationale were not consistent. For instance, in 2017, it planned and conducted 12 partners' micro-assessments. Of the 12 partners, five did not meet the recommended threshold for micro-assessment and had no planned disbursements in 2017. For another 10 partners that had never been micro-assessed and had received more than US\$ 100,000 in the current country programme, the office assumed high-risk ratings; this is the correct procedure where a partner has not been micro-assessed, but it means they need more rigorous assurance activities, and these might not have been necessary had they had been micro-assessed and found to be of low or medium risk. The office could have prioritized these 10 for micro-assessment instead of the five that were not needed.

The 12 micro-assessments were of good quality; however, the office had not done a thorough analysis of the reports with the aim of using the results to establish plans for capacity development.

**Assurance activities:** The office had carried out a limited number of assurance activities for 2017 and 2018. In 2017, the office implemented only nine out of 39 of planned spot-checks, and 39 out of 64 planned programmatic visits. It had also conducted only one out of six planned capacity-building activities.

Like the micro-assessments, the assurance activities were not always risk-based. Five of the nine spot checks conducted in 2017 related to implementing partners that received between US\$ 14,000 and US\$ 41,000, but none were carried out on four partners that received between US\$ 275,000 and US\$ 750,000. Further, two partners that were rated as high and significant risk and that received more than US\$ 420,000 each were spot-checked only once, which was less than HACT's risk-based standard of two or more. These two partners should have been prioritized instead of the five that did not require spot checks.

As of 30 April 2018, none of the planned assurance activities (six programme visits and five spot checks) for the first quarter had been carried out. Further, only two of the five required audits<sup>15</sup> for the last country programme (2012-2017) were conducted.

The office indicated that the high cost of travel and the remoteness of some project sites contributed to the non-completion of planned assurance activities. Nonetheless, the office did not have compensatory measures in place and did not seek alternative means of obtaining assurance in those high cost and remote project sites such as the use of local third-party contractors. Insufficient assurance activities increased the risk of delay or non-implementation of planned programme activities and achievement of planned results; and misappropriation of funds.

**Quality of assurance reports:** The audit reviewed a sample of 10 spot checks and two audit reports. It found that they were conducted by third-party service providers in accordance with established quality standards. A sample of 10 reports of programme visits was also reviewed. The recommended programmatic visit tool had been used in the sampled cases, but the quality of the reports varied from section to section. In five cases, the reports did not clearly assess and indicate the level of progress being made towards achieving the planned results.

**Follow-up:** The recommendations from the 2017 programmatic visits, spot checks and HACT-related audits, aimed to improve the financial and programmatic management capacity of implementing partners, were still all open as of the time of the audit. The office did not have a systematic mechanism for reviewing, prioritizing and monitoring implementation of key recommendations/action points stemming from all assurance activities. The audit also noted that the accountabilities of staff were not clearly defined. The reports were shared with the section chiefs for their actions, but there was no follow-up process to confirm actions taken and if any open key recommendations were being closed off in a timely manner. The absence of follow-up mechanisms and unclear accountabilities of staff increased the risk of not getting good value for money regarding HACT expenditures.

**Capacity building:** As of April 2018, 13 staff had not completed the mandatory HACT training and 19 had not undertaken the FACE online training. Five partners met by the audit team

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<sup>15</sup> Audits are required for partners that receive US\$ 500,000 during the duration of a country programme.

confirmed that this had affected the quality of advice on HACT-related standards and processes that they received from the office's staff. They also told the audit team that they had not receive HACT guidance material for future reference, or sufficient training on HACT and cash transfer processes. This contributed to delays in certifying the use of funds received from the office (see also the observation *Management of cash transfers*).

**Agreed action 9 (high priority):** The office agrees to strengthen oversight of the application of assurance controls on the use of funds by implementing partners, and take the following specific steps:

- i. Review the results of macro-assessment to determine the specific implications for UNICEF assurance activities of the significant weaknesses reported.
- ii. With support from the regional office, ensure that micro-assessments and assurance activities are risk-based and are adequately planned, implemented and monitored.
- iii. Build staff capacity, and develop a strategy and a plan, for supporting and guiding selected implementing partners on cash-transfer processes.

Responsible staff member: Deputy Representative

Date by which action will be taken: December 2018

## Programme evaluation

Programme evaluations seek to determine the relevance, efficiency, effectiveness, impact and sustainability of UNICEF programme interventions. The unique context in PNG—high transaction costs, weak capacity of partners, serious insecurity and difficult access to hard-to-reach areas—should be considered in the planning and conduct of programme evaluations.

During the previous (2012-2017) programme cycle, there had been major programme expenditures in health (US\$ 18 million), education (US\$ 17 million) and child protection (US\$ 9 million). However, the office had planned and conducted only one formative evaluation<sup>16</sup> – for child protection, in 2016; this was late in the country programme, although a formative evaluation would normally take place early in implementation. The office said it had planned to do this earlier, but was unable to due to vacancies involving the evaluation function.

Further, it had not conducted any evaluations at the end of interventions to determine the extent to which its planned outcomes had been achieved. Each significant programme component should have been evaluated at least once during the country programme cycle – especially given that none of the planned outcomes of the previous programme had been fully achieved; it would have been useful to identify lessons learned and inform the new country programme.

Though three government implementing partners visited during the audit were satisfied with the relevance, efficiency, effectiveness and impact of UNICEF interventions, they expressed concerns about sustainability. The Department of National Planning and Monitoring, responsible for oversight of implementation of all UN programmes, also expressed concerns about the sustainability of UN programme interventions, including those related to UNICEF.

As of the end of the on-site audit in May 2018, the office had not finalized the five-year

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<sup>16</sup> A formative evaluation is an assessment of an activity carried out in its early stages, when its conclusions can still be fed back into programme design.

integrated monitoring and evaluation plan (IMEP) for the new country programme or the IMEP for the 2018-2019 workplans. This was mainly due to staff vacancies, special leave and turnover in the office's evaluation function during 2017. The audit was therefore unable to assess the adequacy of any planned evaluations and allocated resources.

**Agreed action 10 (medium priority):** The office agrees to establish a plan to evaluate key programme components during the current programme cycle, with a focus on sustainability of programme interventions.

Responsible staff member: n/a

Date by which action will be taken: The office reported it had completed implementation as of August 2018

## Reporting to donors

Country offices should produce evidence-based donor reports that meet UNICEF quality standards. The office had submitted 27 donor reports during the period 1 January 2017 to 30 April 2018, five of which were submitted late (the delays from ranging from four to 13 days after the due dates). The audit tested a sample of eight results/achievements in four donor reports to see if they were supported with sufficient appropriate evidence. It found that seven lacked sufficient supporting documentation.

In general, the four donor reports contained an outline of future workplans, tables and graphs to aid comprehension. However, the quality of these reports could be improved to include: an appeal or solicitation for future funding from the donor; a comparative analysis between results agreed in the project proposal/donor agreement and results reported in the donor report, with an explanation of any shortfalls; an analysis of constraints and challenges, with specific actions being taken or planned to be taken to address the constraints; and a comparative analysis between amounts approved/agreed in the donor agreement/project proposal and actual expenditures, again with explanation of any variances.

Finally, the office did not have an effective mechanism for soliciting and receiving written feedback from donors on the office's performance in donor reporting and on areas for improvement in the partnership. Late or weak-quality donor reports increase the risk of errors or unsupported result statements that could hamper donor relationships.

**Agreed action 11 (high priority):** The office agrees to increase oversight of the quality of donor reports, and to take the following specific steps:

- i. Reinforce the guidance to staff on the quality assurance process for donor reporting and ensure donor reports are supported with sufficient appropriate evidence.
- ii. Implement a feedback mechanism for soliciting and receiving feedback from donors.

Responsible staff member: Deputy Representative

Date by which action will be taken: i) September 2018; and ii) The office reported it had completed implementation as of July 2018

## Annex A: Methodology, and definitions of priorities and conclusions

The audit used a combination of methods, including interviews, document reviews, 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 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. 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

<b>High:</b>	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.
<b>Medium:</b>	Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
<b>Low:</b>	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 report summary fall into four categories:

***[Unqualified (satisfactory) conclusion]***

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

***[Qualified conclusion, strong]***

Based on the audit work performed, OIAI concluded that the office' governance, risk management and internal controls needed improvement to be adequately established and functioning.

***[Adverse conclusion]***

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.