

Internal Audit of Ukraine Country Office

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Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Ukraine Country Office. The objective of the audit was to assess the office's governance, risk management and internal controls. The internal audit covered the period from January 2015 to November 2016. The audit team visited the office between 14 November and 1 December 2016, and subsequently conducted further work at headquarters.

The 2012-2016 Ukraine country programme had been extended into 2017, and a new country programme was under preparation at the time of the audit visit. The existing programme consists of two main programme components: child rights-based systems, policies and budgets; and protective and inclusive services. There is also a cross-sectoral component. The country office is based in the capital, Kyiv with, at the time of the audit visit, six zone offices (in Kharkiv, Kramatorsk, Donetsk, Mariupol, Dnipropetrovsk and Luhansk).

In the period since the country programme was approved, the emergency in Ukraine has had a significant impact on the office and on the programme, including a significant growth in the scale and range of activities and funding. The original budget for the five-year programme cycle was US\$ 22.075 million; the revised total budget was US\$ 64 million, of which US\$ 4 million were regular resources (RR) and the remainder 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, and may not always be used for other activities without donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR. There is an additional subcategory, Other Resources Emergency (ORE), which the office can obtain to cover humanitarian crises, and the Ukraine Country Office had obtained such funds to the value of US\$ 70 million for the period 2015-2016. In 2016, the OR ceiling was revised upward to reflect this funding. It had initially been set at US\$ 18 million before the emergency began.

Since early 2014, there has been sporadic fighting in eastern Ukraine. According to the office, the total population affected by the crisis by the time of the audit was over 5 million, of whom 1.7 million were children. The crisis had resulted in displacement of people, disruption in the provision of basic services, and reduction in humanitarian access to the affected population. UNICEF's humanitarian strategy in the crisis region has been to support responses by Government and other partners, focusing particularly on scaling-up interventions in health, child protection, water, sanitation and hygiene (WASH), and education.

This crisis had dramatically changed the context in which the country office operated, and UNICEF had raised significant amounts of ORE to fund its humanitarian response. Although a UNICEF corporate emergency had not formally been declared for the country, the office was allowed to use emergency recruitment procedures from January 2015. Nonetheless, such a dramatic scaling-up of UNICEF's programmes and operations in Ukraine posed significant challenges for the country office against the backdrop of a difficult operating and security environment.

The audit found a number of areas that were functioning well. For example, the office had integrated the emergency response with the regular programme, and had established six zone offices for its implementation in the field. Working with UNHCR and other international and local partners, UNICEF had delivered significant volumes of supplies and other support to the

affected populations, and had facilitated coordination of the overall humanitarian response through its leadership of the Education and WASH clusters in particular.

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, particularly given the challenging operating environment in Ukraine and the substantial pressures on the office from the rapid scale-up of its programme.

In discussion with the audit team, the country office has agreed to take a number of measures to address these risks and issues. Two actions are being implemented as high priority; that is, they concern issues that require immediate management attention. These relate to strengthening the governance structure for and implementation of the Harmonized Approach to Cash Transfers (HACT), and improving the country office's programme monitoring.

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 Ukraine Country Office, the Europe and Central Asia Regional Office (ECARO), and OIAI will work together to monitor implementation of these measures.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk management and governance processes over a number of key areas in the office. 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 have been communicated to the client in the process of the audit.

Audit Observations

Risk assessment

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

During the first quarter of 2016, the country office prepared its RCSA and drew up an action plan to mitigate the identified risks. Out of a total of 24 planned actions, 21 were marked "achieved". The audit team noted that of six significant risks identified for 2016, two had not been reflected in the priorities of the office's annual management plan.

2016 management review: In view of the significant changes in the operating environment since the crisis, the office had asked a consultant to conduct a management review of the office governance and operation processes. The review was completed in August 2016 and made 27 recommendations. The office decided to implement all of these, and as of the end of November 2016 it had already implemented six of them.

Agreed action 1 (medium priority): The country office agrees to reflect within its management priorities all key risks that have been identified.

Staff responsible for taking action: Representative, Deputy Representative, Operations Manager

Date by which action will be taken: 28 February 2018

Office structure

The office's structure had grown significantly in order to deliver the emergency response. The total number of staff increased from 27 in 2014 to 67 in November 2016. There were also 53 consultants in 2015 and 78 in 2016.

Staff functions: The audit found that 14 consultants were performing what are normally staff functions for the office, in the areas of human resources, administration, inventory management and programme planning and implementation. Examples of tasks that are normally reserved for staff members included: acting as representatives of UNICEF in

meetings with national authorities and NGOs; issuing press declarations in the name of UNICEF; signing programme cooperation agreement (PCA) extensions; participation in panels for selection of other consultants; and supervision of staff members and consultants. The assignment of such responsibilities to consultants is not normally permitted by UNICEF policy, which says that “consultants may not perform regular and continuing staff functions”, although the audit team appreciated that this was a response to the urgent needs of the crisis in eastern Ukraine, and that many of the resulting risks could be managed by effective supervision of the consultants.

Management of Emergency Water, Sanitation and Hygiene (WASH) programme: An Emergency Coordinator had joined the office on 1 January 2015. Her job description included overall coordination of the emergency response, including planning and implementation. However, she also had administrative responsibility over the four zone offices in the government-controlled areas, and was the budget owner for the largest programme in the country office which represented more than half the total budget.

The most important component of the emergency programme was WASH. The Emergency Coordinator was supported by a Chief WASH Consultant who, as a consultant under an institutional contract, could not be the budget owner under UNICEF’s systems, and an Emergency Specialist hired under a temporary appointment contract who did not have any responsibilities in terms of budget implementation. The Emergency Coordinator was the individual accountable for the implementation of this programme as the budget owner, but information related to the partnerships involved in this programme resided mainly with the WASH Consultant and the Emergency Specialist. This increased the risk of confusion in terms of budget responsibilities and fragmentation of the knowledge required for effective budget management.

Budget owners: In 2015, it was decided to give programme officers budget management responsibilities outside their area of technical expertise. Thus budget owner responsibility for a given area was sometimes assigned to section heads and staff members of other programme sections. This was done to share experience and knowledge across sectors. However, heads of sections were not accustomed to having to manage large budgets, when before the conflict the country office had been mainly focused on advocacy. This absence of financial management experience could have been at the root of some weaknesses that the audit noted in supply planning, grant management and cash-transfer management (see observations *Procurement planning* and *Cash transfer management*, below). To help mitigate this risk, the country office recruited a budget officer in September 2016.

Agreed action 2 (medium priority): The country office agrees to review its staffing structure, including the following steps:

- i. Ensure the structure is aligned to the needs of the new country programme.
- ii. Ensure that consultants are replaced by staff members wherever this is practicable.
- iii. Review the staffing requirements for the WASH programme, and identify and deal with any gaps that need to be addressed for the long term.
- iv. Address any capacity gaps in planning/budgeting through specific training/coaching.

Staff responsible for taking action: Representative, Deputy Representative, Operations Manager

Date by which action will be taken: 31 March 2018 (item ii); the office reports all other actions as completed

Recruitment

In response to the demands of the crisis in the eastern regions of Ukraine, UNICEF headquarters approved use by the office of fast-track recruitment procedures starting in January 2015.

At the time of the audit, the office had 15 posts which had been vacant for between four and 14 months. These included key positions such as the emergency WASH specialist in Donetsk, the emergency Child Protection Officer in Mariupol, and the partnership specialist in Kyiv. Discussions with the country office suggested that these posts were unfilled due mainly to lack of funding and lack of qualified candidates.

The country office was mitigating the risks arising from some of the vacancies by having stand-by partners¹ temporarily fill those functions, using temporary assistance (TA) contracts, and through stretch assignments. At the time of the audit visit, the country office was planning to review the structure in 2017.

The audit also noted the following specific weaknesses in the recruitment processes.

Time to recruit: The office had a benchmark to complete recruitment in 60 days for fast-track cases, and 90 days for regular cases. However, one regular recruitment had taken 60 days after the closure of advertisement to complete the evaluation of the written test, whilst in three cases of fast-track recruitment it had taken between 66 and 151 days to complete the selection process. The office said that a second evaluator was needed in some cases which causes delay but does not sacrifice quality.

Selection panel: An external candidate was eventually selected who had been proposed for interview by a staff member who sat in the selection panel. That staff member also signed off the reference check for the candidate. Two other staff members who were part of the selection panel also signed the reference letter for this candidate. These staff should not have been part of the selection panel to avoid conflict of interest and risking opening the recruitment to dispute. The country office told the audit team that this had been an exceptional case, where a temporary assignment (TA) which underwent a simplified process was used to fill a post whilst a permanent candidate was sourced.

Background checks: The office had a policy of requiring at least three background checks, including one from the most recent supervisor of the selected candidate. However, in three out of nine cases tested, only one or two reference checks were performed. In one case, contrary to UNICEF staff selection policy, the offer letter was sent to the selected candidate before the background check information from the most recent employer had been received, and no explanation was given for this.

Agreed action 3 (medium priority): The country office agrees to:

- i. Review its staffing requirements and, for the vacant posts, ensure a strategy to fill those that are still needed. The office will propose those posts that are not needed, or cannot realistically be funded, for abolition.
- ii. Ensure that staff selection panel members are aware of their responsibilities, and

¹ Standby partners are other organizations, UN and non-UN, with which UNICEF has a reciprocal agreement under which it can borrow staff for up to three months in an emergency such as that in Eastern Ukraine.

avoid situations that could lead to actual or perceived conflicts of interest and/or impairment of independence in recruitment decisions.

- iii. Monitor adherence to UNICEF policy in relation to reference checks.

Staff responsible for taking action: Representative, HR Manager, HR Officer

Date by which action will be taken: The office reports all actions as completed

Programming

Programme interventions in eastern Ukraine included the rehabilitation of schools. However, UNICEF had not been involved in the first step of identification of schools to be rehabilitated. Instead it had relied on the NGO implementing the programme to do this. The NGO also had directly negotiated with the local authorities in the establishment of the list of the schools to be rehabilitated. Thereafter, official requests for involvement from the local authorities were addressed not to UNICEF but to the NGO.

This could result in disbursement of funds for ineligible or non-existent activities and could also compromise UNICEF oversight over the agreed activities. The office did not have a mechanism to mitigate the risk of the same implementing partner both negotiating the intervention and later implementing it.

Agreed action 4 (medium priority): The country office agrees that before signing any agreement with a partner that is to both identify and implement activities, it will establish a process for ensuring that UNICEF is involved in the identification of those activities or, where this is not possible, that there is a process for managing the related risks.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: The office reports action as completed

Preparation of the new country programme

The 2012-2016 country programme had been extended to 2017 to align it with an extension of the UNDAF.² In September 2016, the country office had started the preparation of the new country programme. The audit noted the following with regard to this process.

Integration of emergency component: The country office had had seen the need to better integrate the emergency component into the regular programme as early as 2015, during the mid-term review. This led to annual workplans that did reflect this integration.

However, since the emergency programme was mostly (78 percent by funding) linked to WASH, it was mainly integrated in the output 2.3 *Access to essential commodities*. Integration of the emergency and regular programme had not gone beyond that. Furthermore, the country office planned to scale up the interventions in the emergency areas to national level – this had been recommended by the Regional Director and UNICEF's Office of Emergency Programmes (EMOPS). However, at the time of the audit visit the country office had no strategy to ensure sustainability and adoption at a national level of the models implemented

² The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and a national Government, setting out the latter's chosen development path, and how the UN will assist.

in the eastern regions as part of the emergency response, in particular in health and social services.

Situation analysis: Country offices generally prepare a situation analysis (SitAn) on children and women at least once in the course of a country programme; this feeds into the design of the country programme that follows. The SitAn in Ukraine was finalized in mid-2015 and was a joint initiative of UNICEF and the Government of Ukraine. It was prepared using international and national consultants.

Following a review of the SitAn and discussions with the country office, the audit team noted that there were weaknesses in the quality and reliability of the data collected by the statistical service, including data on child poverty. These weaknesses were highlighted in the SitAn report as a limitation on the consultant's work. Moreover, there were insufficient disaggregated data on children from the Roma minority, a disadvantaged and marginalized group in Ukraine.

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

- i. Identify potential opportunities for scaling-up to national level of programmes implemented as part of the emergency response in eastern regions, in order to integrate them in the next country programme.
- ii. Prioritize capacity-building of national authorities on quality and reliability of data on child poverty. In the shorter term, fill gaps in this data as much as possible with surveys and studies, which will be included in the office's PRIME (Plan for Research , Impact Monitoring and Evaluation).
- iii. Obtain disaggregated data on the situation of children from the Roma so as to better reflect their needs.

Staff responsible for taking action: Representative, Deputy Representative

Date by which action will be taken: 31 December 2018 (item iii, through the planned MICS); the office reports both other actions as completed

Resource mobilization

Overall, the country office had been successful in mobilizing other resources (OR) funds, and this had been recognized in 2016 by a *post-facto* increase in its funding ceiling for OR from US\$ 18 million to US\$ 60 million, reflecting the sums raised. However, the audit noted that US\$ 30 million of these funds had been mobilized from a single donor, posing a risk to the sustainability of the programme if this donor withdrew its support.

Moreover, when an office or programme is heavily dependent on a limited range of donors, there is a risk that the programme focus will be driven by those donors' specific priorities rather than by UNICEF and its partners' assessment of children's needs. According to the country office, the focus of donors on funding the emergency response had made it harder to fund its regular programme, particularly in sectors such as Child Protection where the funding gaps have always been relatively high.

In July 2014 the office had prepared a resource mobilization³ strategy to reflect the additional funding needs from the emergency. However, this was done without a complete picture of the funding needs for the rest of the country programme, including the impact of the crisis, as a needs assessment was completed only in 2015. This did not enable the strategy to reflect a complete picture of the office's funding needs for the rest of the programming period, taking fully into account the impact of the crisis. Furthermore, the strategy foresaw the creation of a fundraising taskforce led by the Representative, but this taskforce had not operated.

The audit team could not determine the exact extent of funding gaps per programme output,⁴ since these had not been recalculated by the country office after the restructuring of outputs following the 2015 review. In 2015, funding gaps for the regular programme were followed up using monitoring tables during programme coordination meetings, and for emergency funds through situation reports. However there was no evidence that the office had continued to use these tools in 2016.

Agreed action 6 (medium priority): The country office agrees to:

- i. Monitor funding gaps by programme output and establish a funding strategy for programme areas that may be underfunded, increasing donor diversity where possible.
- ii. Review responsibilities for monitoring resource mobilization, and ensure they are carried out using appropriate tools.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: 30 June 2018

Procurement planning

The office prepared a consolidated procurement plan that was monitored and controlled by the supply section. However, the information it contained was limited to the name of the requestor, the programme section and the planned amounts by value, without indicating quantities. This did not enable a proper planning of supplies. Also, the specific inputs required were not always identified; sometimes there were only generic activity descriptions, such as 'rehabilitation', 'production of visibility products', or services to provide daily support on UNICEF Ukraine social media accounts.

There was also a significant difference in actual against planned procurement. According to data held in VISION,⁵ the total value of purchase orders placed for goods and services in 2015

³ 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.

⁴ UNICEF programmes plan for results on two levels, outcomes and outputs. 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.

⁵ VISION is a UNICEF management information system (from Virtual Integrated System of Information).

and 2016 (as of November 2016) was US\$ 42.4 million against a planned total of US\$ 32.2 million. Procurement had thus been underestimated by US\$ 12.2 million (40 percent). A review of the purchase orders placed by the office during 2015 and 2016 showed that *ad hoc* requests for supplies were submitted that had not been included in the supply plan. These included cases of requests for purchases close to the expiry dates of the grants by which they were funded.

The differences between planned and actual procurement were due to inadequate matching of quantities to needs, and procurement needs were not always sufficiently taken into account during the preparation of the workplans and in signing programme cooperation agreements (PCAs). More regular monitoring of implementation of the supply plan could have helped the office address changes, delays or unforeseen events in order to adjust quantities and values promptly.

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

- i. Review its planning process and ensure that supply plans are informed by specific quantities required for the planned activities.
- ii. Avoid as far as possible *ad hoc* procurement close to expiry of the related grants.
- iii. Monitor supply procurement and ensure orders are placed from the procurement plan whenever possible, and that exceptions are justified in writing and the supply plan adjusted accordingly.

Staff responsible for taking action: Deputy Representative, Supply & Logistics Officer, Procurement Officer, Chief of Operations

Date by which action will be taken: completed (i); 1 February 2018 and ongoing (ii and iii)

Selection of partners

The office signed one or more programme cooperation agreements (PCAs) with 25 NGOs in 2015 and 16 in 2016 (as of the end of November). The audit reviewed five of these PCAs worth about US\$ 4 million signed with national and international NGOs.

The NGOs were identified using the direct selection procedure – that is, the office chose an NGO with which to work, rather than putting the proposed PCA out for bids. UNICEF advice is that the latter procedure should be followed where possible. Where it is not, an office should note the reasons. The office provided *a posteriori* justification for four of five cases reviewed but none for the fifth. UNICEF also requires offices to define the criteria for selection of NGO partners but the office had not done this.

The office had a programme review committee (PRC) to review proposed PCAs. However, the audit noted the following in the five PCAs reviewed:

- In none of the cases was there evidence of budget review by the PRC; there was thus no assurance that the projects had been costed adequately.
- Although three PCAs mentioned the distribution of supplies, they did not include the supply budgets with description of detailed items, corresponding amounts and delivery terms. The lack of supply details in the PCAs complicated the office's supply planning in terms of quantity, type and delivery.
- In one case, the PCA was amended to reflect an increase of the budget from 29 to 36 million Ukrainian hryvnia (from US\$ 1.12 to US\$ 1.4 million). The amendment was not

submitted to the PRC for review.

- In all cases, the risks linked to the implementation of the programmes were not assessed.
- In four cases, there was previous UNICEF experience with the partner that was not reviewed.
- Two PCA submissions were signed by a consultant and not by a staff member.

The audit also noted that the HACT⁶ focal point was not a member of the PRC, although the review of the partner's risk profile and the planning of the assurance activities was an essential element of the partnership review.

Agreed action 8 (medium priority): The country office agrees to:

- i. Define criteria for the identification of NGOs with the best comparative advantage as partners for the country programme.
- ii. Where direct selection has been used, assess the NGO against those defined criteria and document that assessment in the minutes of the programme review committee (PRC), along with the rationale for using direct selection.
- iii. Improve the quality of the files submitted to the PRC and its review of those files by systematically presenting to it the risk assessment, and any past evaluation of the performance of the partner.
- iv. Ensure that the PRC reviews the budget of the proposed PCA and, where relevant, the list and description of supplies, and minutes these reviews.
- v. Ensure that information on partner's risk profile and corresponding assurance activities are correctly reflected in the PRC submission and in the HACT assurance plan.
- vi. Consider whether the HACT focal point should be a member of the PRC.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: 31 March 2018 (i and ii); the office reports all other actions as completed

Harmonized Approach to Cash Transfers (HACT)

UNICEF offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities; this reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of implementing partners expected to receive US\$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. At country level, HACT involves a macro-assessment of the country's financial management system.

⁶ HACT is the Harmonized Approach to Cash Transfers. See following observation.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audit and special audits. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. HACT is also used by UNDP and UNFPA, and the agencies are meant to work together to implement it.

During 2015 and 2016 (until November 2016), the office made direct cash transfers (DCTs) totalling US\$ 11 million, of which US\$ 10.6 million were transferred to NGOs and US\$ 400,000 to Government implementing partners. The office had assigned the role of HACT focal point to the Budget Officer, who joined the office in September 2016. The audit noted the following.

Country Programme Action Plan (CPAP):⁷ The CPAP signed with the Government did not include all the relevant HACT provisions. Missing clauses included those on monitoring, assurance and evaluations, by which the Government partner agrees to cooperate with UNICEF on monitoring all activities supported by cash transfers and on assessment of public financial systems.

Micro-assessments: The office had micro-assessed eight partners in 2015 and 2016, but had not used the results to decide the type of cash transfers to be used or the level of assurance activities. The office also did not always follow up key recommendations stemming from the micro-assessments and make sure they had been carried out. It did have a database that it had adopted in September 2016 to track these recommendations, but it was still under development and did not track actions arising from the various assurance activities as well as micro-assessments. It was not consistently used across the programme sections and it did not contain complete information. For instance, four partners that were visited by audit had outstanding micro-assessment recommendations that were not recorded in the database or followed up.

Assurance activities: The office prepared assurance plans in 2015 and 2016. Contrary to the requirements of the HACT framework and policy, the frequency of spot checks and programmatic visits reflected in the plan were not defined on the basis of the partners' risk profile or the total amount disbursed to them annually and through the programme cycle. Moreover, the overall level of implementation of spot checks was low; in 2015 only five out of 32 planned took place, and in 2016 16 out of 40. In contrast, all 32 programmatic visits⁸ planned for 2015 did take place, and in 2016, 44 out of the 50 planned did. However, there was no quality review process over the programmatic visit reports, and the audit team found that their quality was inconsistent.

For the scheduled audits, the office contracted external audit firms. Two audits were performed in 2015 and three in 2016. However, a partner that had received over US\$ 500,000

⁷ The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

⁸ According to the latest UNICEF-specific HACT procedure issued in 2014 (page 2), programmatic visits are defined as "a review of progress towards achievement of planned results, challenges and constraints in implementation and ways to address them performed with the partner at the programme site. Depending on the nature of the partnership, programmatic visits may be undertaken at a field location (field monitoring), the partner's office and/or in the form of a meeting involving key stakeholders. Programmatic visits focus on programmatic issues, including attention to matters of financial management."

had still not been audited at the time of the audit visit.

Training: All staff had completed mandatory online training on HACT, but there was no practical training through site visits. Insufficient knowledge of HACT procedures could also be attributed to the high staff turnover in the emergency context. Further, the assurance plans prepared for 2015 and 2016 did not include mechanisms to track provision of HACT training to partners. The four partners visited by audit in late 2016 confirmed that they had not been provided any training on HACT at that stage, and the audit team found that their understanding of HACT procedures was very limited. Management reported that HACT was subsequently defined as a priority area by the country office in 2017.

Agreed action 9 (high priority): The country office agrees:

- i. Establish a HACT oversight team, with assignment of responsibilities between programme and operation sections and zone office staff; define mechanisms of coordination for HACT implementation, including reporting lines.
- ii. Ensure that results of micro-assessments are used to determine the type of cash transfer and the intensity and type of assurance activities.
- iii. Ensure that sufficient assurance activities are implemented (in terms both of quality and quantity) to provide sufficient assurance on the use of funds and achievement of results.
- iv. Establish a follow-up mechanism for high and significant-priority recommendations stemming from micro-assessments, spot checks, programmatic visits and scheduled audits.
- v. Develop a plan to provide adequate training on HACT to staff members and implementing partners, track its implementation, and report progress to the HACT oversight team.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: 30 June 2018 (item iii); the office reports all other actions as completed

Programme monitoring

The office had two types of monitoring activities. One was HACT programmatic visits for activities supported by cash transfers (see observation on *HACT*, above). The other was field-monitoring visits to assess progress towards the achievement of planned results, provide technical support to partners, learn from implementation and identify and address bottlenecks.

However, there was no consolidated monitoring plan. Neither was there a monitoring strategy defining the differing approaches to be used to cover the very high number of projects according to their nature or level of complexity. During a field visit, the audit team did find that one zone office had prepared monitoring plans, but these did not refer to either the planned outputs of the zone-office workplan or to the HACT assurance plan, thereby reducing capacity to determine whether all key outputs had been monitored. Moreover these plans had not been endorsed by the country office or even shared with it.

During a field trip to two zone offices, the audit team noted that monitoring practices varied among sections and zones. The reports issued did not have a standardized format and the information included varied from office to office. In one, staff members were not aware of

the difference between HACT programmatic visits and non-HACT field monitoring visits (such as technical support). The audit team attributed this to the lack of standardized processes for programme monitoring activities, including planning and reporting. This increased the risks of inefficiencies and duplication of work among programme sections and zone offices.

The audit reviewed a sample of 10 programme monitoring reports covering the period from January 2015 to end of September 2016, and noted the following:

- The purpose of the visit in the programme monitoring template was stated in terms of as the activities to be assessed. However, the expected results were not defined and a link to the workplans was missing.
- Progress of programme implementation was not clearly assessed against expected outputs.
- Programme monitoring reports did not state whether there were proposed actions that would require follow-up.

The office in Kyiv used separate in-house databases to record reports from HACT assurance activities and those from non-HACT field-monitoring visits. However, these databases did not include all the monitoring reports prepared and also did not record recommendations stemming from these visits. It was noted that the post of Monitoring and Evaluation Officer, who was in charge of the maintenance of this database, fell vacant in September 2016, leading to periods where the monitoring information was not updated.

Agreed action 10 (high priority): The country office agrees to:

- i. Ensure that programme-monitoring reports refer to expected results defined in annual workplans, and state whether the expected results have been achieved or not.
- ii. Ensure that recommendations in monitoring reports include the staff assigned to follow up on their implementation, with timelines; and establish a system to ensure that implementation has taken place.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: 31 March 2018

Cash transfer management

Between 2015 and October 2016, cash transfers totalled approximately US\$ 11 million, which was 17 percent of the office's total expenditures. The audit sampled 11 advance payments totalling US\$ 2.4 million, made to five partners. It also sampled 12 liquidations, totalling US\$ 1.6 million.

The audit team noted that in nine cases, the partners did not complete the Funding Authorization and Certificate of Expenditures (FACE)⁹ forms correctly. For example, activities mentioned in the FACE form referred to the global outcomes defined in the annual workplans, instead of the budgeted activities as per the itemized cost estimate; and in some cases, the

⁹ 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. The FACE form was designed for use with the HACT framework, but can also be used outside it.

outstanding balances were not shown. Despite these omissions, the office had accepted and processed the forms.

In 12 cases, the designated budget owner was not the individual certifying the FACE forms in UNICEF. In one case, a consultant did so. Also, the segregation of duties between the person certifying the FACE form and the person approving it in VISION was not respected in six cases. In 10 cases, the signature on the FACE forms did not correspond to the authorized signature as per the signed programme cooperation agreement. However, as the Finance Unit did not maintain a list of authorized signatories, it could not verify the authenticity of those on the form. There was therefore a risk that forms with unauthorized signatures might be accepted by the country office, which could result in payments being made against fraudulent requests.

Three instances were noted where cash transfer payments were not made within the 10 days benchmark included in UNICEF guidelines for payment of advances. For the sample tested, it took 14-24 days from the receipt of the partner's request to the posting of the advance payment. This could delay the implementation of the planned activities by the partners.

Agreed action 11 (medium priority): The office agrees to:

- i. Ensure that cash transfer advance requests, payments and accounting are made on correctly completed Funding Authorization and Certificate of Expenditures (FACE) forms, giving training to partners if necessary.
- ii. Maintain a list of authorized signatures from partners for verification against signatures in the FACE forms.
- iii. Ensure that the FACE forms are certified by authorized budget owners and that there is adequate segregation of duties in certification and approval of payment.
- iv. Determine and address the cause of delays in the processing of cash transfer payments.

Staff responsible for taking action: Deputy Representative, Operations Manager, HACT focal point, Admin/Finance Officer, responsible Programme Officers

Date by which action will be taken: The office reports all actions as having been completed

Consultancy contract management

During 2015 and 2016 (as of November 2016) there were 143 consultancy contracts, which amounted to US\$ 3.1 million. Of these, 17 (worth US\$ 430,460) were single-source contracts issued without competition.

The audit reviewed 20 contracts and found a number of weaknesses. In 10 of 20 cases reviewed, the terms of reference described generic functions but did not include specific, measurable, time-bound deliverables. This reduced the office's capacity to monitor delivery. Also, the payment of instalments should be directly linked with satisfactory deliverables at specific time intervals. For 15 contracts, though consultants were paid monthly, the payment terms were not directly linked to specific deliverables. The deliverables were activity-based because tangible products had not been defined in the contract. This increased the risks of paying for services not fully received or not getting good value for money.

Agreed action 12 (medium priority): The country office agrees to:

- i. Include specific, measurable and timebound deliverables in all consultancy contracts.
- ii. Base payments on agreed deliverables, specified in the contract's terms of reference.

Staff responsible for taking action: Deputy Representative, Heads of Sections, Operations Manager, Contracts Officer, Programme Associate (Child Protection)

Date by which action will be taken: 30 June 2018

Warehouse and logistics management

The audit reviewed the inventory warehouse management and distribution controls, and assessed timeliness of procurement and actual delivery.

It was noted that the office had established long-term agreements (LTAs) for procurement of supplies. Out of 12 sampled cases reviewed, seven purchase orders were placed using LTAs, established by the office through competitive bidding processes that involved a review by the Contracts Review Committee (CRC). Also, at year-end, the office had conducted a physical count of supplies in the warehouses in Kyiv, carried out by staff members who were not responsible for day-to-day management of the warehouse.

However, the audit noted the following.

Delay in deliveries or their recording: A review of deliveries from local and offshore suppliers between February 2015 and September 2016 showed that in 88 instances supplies totalling US\$ 19.4 million (or 46 percent of the US\$ 42.4 million orders placed by the office during 2015 and 2016 (as of November 2016), were delivered after the target arrival dates. The delays ranged from 30 to 150 days. The audit noted that some delays were due to underestimation of time required to prepare supply specifications, and lack of capacity from implementing partners to receive hygiene kits provided by the office. The office noted that there were also backlogs in recording some deliveries in VISION, resulting in incorrect actual delivery dates. This meant that the office could not reliably use the target dates for supply delivery monitoring purposes.

Storage of supplies: The office stored supplies in three different warehouses in the Kyiv area. Two warehouses were managed by third parties, while the third was a Government warehouse that UNICEF was able to use free of charge. In VISION, however, the supplies were recorded under the same storage location.

The audit team visited the three warehouses and noted that there were differences between what it found, and the information in VISION. Delays in recording the distribution of items stored in the warehouse increased the risk of un-controlled inventory and loss of supplies.

Distribution of goods and service delivery: The distribution of warehouse items during 2015 and 2016 (as of November) totalled US\$ 9 million. However, in 223 release orders totalling US\$ 3.7 million, the distribution of supplies was covered by neither a PCA nor an SSFA.¹⁰ Instead, the office had developed a procedure to decrease transactional costs and expedite the recording of distribution that involved more than 10 local consignees. In these cases, there

¹⁰ Small-scale funding agreements (SSFAs) are for smaller activities; they are simpler and easier to produce than PCAs and can be used up to a threshold of US\$ 50,000.

were no details on where the supplies were distributed or which partner received them. Also, according to VISION, during 2015 and 2016 there were 47 release orders totalling US\$ 772,031 for programme supplies that were handed over to Government implementing partners.

The audit reviewed two PCAs and one SSFA that included the distribution of programme supplies. In all US\$ 20 million in supplies were received by these three implementing partners. It was noted that partner contribution to the agreement ranged between 0 and 5 percent for operating costs. In the case where the partner did not contribute to the agreement, it was noted that UNICEF provided the funding for staff costs, renting storage space and logistics. Given that these agreements were limited to the distribution of supplies without expected contributions from the partners, the audit team concluded that these cases should properly be regarded as vendor relationships and not partnerships. As such the office could have issued vendor agreements, following UNICEF's procedures for the award of contracts.

The audit visited a partner and noted that the NGO operated from a limited space and that it did not have adequate storage space or capacity for distribution of programme supplies.

In-kind donations: Contributions-in-kind may be accepted provided they are supplied at no cost and in a form that can be used for the purposes of UNICEF. Otherwise they should be refused, since their acceptance may lead to waste of resources.

During 2015 and 2016, the office received in-kind donations amounting to US\$ 1.2 million. The goods received were mainly toys valued at roughly US\$600,000, medicines worth about US\$300,000, and US\$ 280,000 of electric appliances. However, management had not explained how these supplies were part of the assessed needs of children living in the regions affected by the emergency nor how their distribution would contribute to the planned results in these regions. An audit visit to a distribution centre and a school noted that some of the donated supplies were not being used after more than a year. Also the toys were distributed without any agreement, such as a PCA with an NGO or a Government request.

Distribution, storage and logistics costs for these items had to be funded from emergency resources, even though the policy on donations in kind states that these costs are to be borne by donors and not by the office.

End-user monitoring: The end-user monitoring of programme supplies was found to be inadequate at the time of the audit visit due to limited staff resources. The audit team noted that reports issued by the zone offices did not provide details on the quality and effectiveness of programme supplies delivered to end-users. Also, the audit received feedback from schools visited that the quality of sport equipment, backpacks and desks issued had not been satisfactory. The country office reported that it was prioritizing this area in 2017.

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

- i. Monitor delivery of supplies and identify and address causes of delays promptly.
- ii. Update information in VISION related to warehouse locations.
- iii. Distribute supplies to partners using waybills generated in VISION and not manual documentation.
- iv. Distribute to government implementing partners on the basis of signed workplans or specific signed agreements.
- v. Manage distribution of supplies with no contribution from the partners through contracts, and not through programme cooperation agreements.

- vi. Ensure that in-kind donations of programme supplies will contribute to results for children in a cost effective manner
- vii. Establish a process for end-user monitoring by programme sections and see that feedback is regularly provided to the supply section on the use and quality of supplies.

Staff responsible for taking action: Deputy Representative, Supply and Logistics Officer, Supply Officer

Date by which action will be taken: 31 March 2018 and ongoing; (except for items ii and iii which the office reports as completed)

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 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 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 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 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.

Conclusion

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.