Internal Audit of the Islamic Republic of Iran Country Office

August 2016

Office of Internal Audit
and Investigations (OIAI)
Report 2016/10

unite for
children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of UNICEF's country office in the Islamic Republic of Iran. The audit was conducted from 11 November to 3 December 2015.

The 2012-2016 country programme consisted of two main programme components: *Child poverty reduction and inclusion*; and *Opportunities for adolescents and young people.* There was also a cross-sectoral component.

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The total budget of the 2012-2016 country programme was approximately US$ 22.2 million, of which US$ 7.2 million was regular resources (RR) and US$ 15 million was to be raised as other resources (OR).

RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself as OR.

The country office is in Tehran. It has a total workforce of 28 posts (three international professional, 11 national officers and 14 general service).

The audit sought to assess the governance, risk management, and control processes over the country office's activities, and covered the period from January 2014 to December 2015. The audit team had full access to required documentation and to UNICEF staff, but did not meet with Government or NGO partners during the audit visit.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures.

Two of these actions are being implemented as a high priority; that is, to address issues requiring immediate management attention. They are as follows.

- The office agrees to increase its focus on resource mobilization, and to develop strategies and plans to obtain the OR necessary to achieve the results defined in the workplans.
- The office agrees to increase oversight in respect of partnerships with NGOs.

The Islamic Republic of Iran country office has prepared action plans to address the issues raised in this report.

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 country office were generally established and functioning during the period under audit.

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The UNICEF country office, with support from the Middle East and North Africa Regional Office (MENARO), and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI)   August 2016

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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.

The audit observations are reported under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit Observations

1   Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the country programme.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The governance committees were functioning well, with adequate terms of reference and membership. Staff members' responsibilities were clearly defined. The office monitored completion of the 2014 performance evaluation reports (PERs); those of all staff had been completed on time.

The office had conducted a risk and control self-assessment (RCSA) and updated its risk profile in 2015. Identified risks had action plans, which were monitored; high and very high risks had been escalated to regional or HQ level where appropriate.

The office promoted staff awareness of UNICEF's ethical policies and procedures, such as UNICEF anti-fraud policy and the executive directive on preventing harassment, sexual

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harassment and abuse of authority. All staff had taken the "Ethics and Integrity at UNICEF" online course. Segregation of duties was regularly reviewed and action taken to address any conflicts.

However, the audit also noted the following issues.

Office priorities and key programme results

A UNICEF office's annual management plan (AMP) is an internal office management tool that ensures that the human, material and financial resources of the country office remain focused on the planned strategic results for children. It includes the office's key annual management priorities and the most significant programme results expected. The AMP also includes the deliverables expected from relevant UNICEF staff.

There should be an annual management review to review the progress made toward defined priorities, so that the AMP can be updated. The Representative is accountable for the preparation or updating of the AMP, with the support of the Country Management Team (CMT),[1] by 15 February.

The office had an AMP for 2014-2015 that described the programme management environment and coordination mechanisms. However, it did not identify the office's key annual management priorities or the most significant programme results expected. This did not allow the office to assess priorities achieved or progress made against expected results, as part of the development of the following (2015-2016) plan. The audit also noted that the 2014-2015 AMP, dated January 2014, was to have been updated in April 2014 to include the workplans starting in that month; however, the government partners did not sign them[2] and the update was not done.

In January 2015, the office drew up a 2015-2016 AMP that it said had been developed with the majority of office staff involved. However, it was finalized late, in June 2015. It also included a total of 17 office priorities and key programme results. To permit focus on those that are critical, key priorities should ideally not exceed 10,. Moreover some results and output indicators related to functional priorities were not well defined. For example, the supply management priorities were not sufficiently specific, and could result in ambitious planning and a lack of focus on critical areas.

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

   i.   Complete preparation of the next management plan by the end of February.
   ii. Ensure that key priorities are well formulated and linked to high risks, with specific results to be addressed during the year.

Target date for completion: The office reported the action as being completed
Responsible staff members: Representative, Deputy Representative and Operations Manager

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[1] An office's country management team 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.
[2] See observation *Results-based programme planning* on p10 below.

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Staffing structure and recruitment

The office had revised the 2012-2016 CPMP[3] in 2013 to take into account significant changes in the operating environment. The revised CPMP reduced the total number of posts from 45 to 35 because of current sanctions, and an unfavourable aid environment that would limit the office's capacity to raise OR. In the March 2013 PBR,[4] the office indicated that 28 out of the 35 posts was the critical minimum staffing structure needed for the country programme, based on the availability of OR funds.

The remaining seven posts, which were OR-funded, were frozen and considered as additional staff capacity that the office would need to recruit if significant OR funds became available; they did not,[5] and the office could not fill the vacant OR posts. UNICEF policy is that posts that have been vacant for a long period due to lack of funding should be abolished. In fact, the March 2013 technical review that was part of the PBR suggested the office consider abolition of further posts. However, the office kept the posts, and they remained vacant throughout 2014 and 2015. This led to a high number of vacancies in 2014 and 2015.

During the period under audit, 10 of the remaining critical minimum 28 posts also became vacant. The vacancies included posts critical to the programme, such as Deputy Representative, Health and Nutrition Officer, Education Specialist, HIV/AIDS Officer, and Social Policy and M&E (Monitoring and Evaluation) Specialist.

This was exacerbated by a slow recruitment process. The office's own records showed that in eight out of 16 cases in 2014/2015, recruitment took more time than the UNICEF 90 day-standard, measured from the date the post was advertised to the date staff were on-board. For 2015, all recruitment took longer than the target. For instance, it took 273 days to recruit an HIV AIDS Officer, the same time to recruit an Education Officer, and a year to recruit a Deputy Representative. The delays reduced the office's capacity to adequately implement the country programme and to deliver results for children. However, management had not identified the reasons for delays or ways to address bottlenecks.

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

  i. Review the staffing structure in light of current funding constraints, and adjust the programme implementation strategy accordingly.
  ii. Identify reasons for delays in recruitment and ways to address bottlenecks, so as to fill vacant posts in a timely manner.

Target date for completion: August (i) and end of July (ii) 2016
Responsible staff members: Representative, Deputy Representative and Operations Manager

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[3] When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

[4] The programme budget review (PBR) is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives. In cases where the management plan is substantially revised during the country programme, it may be resubmitted to the PBR.

[5] See also observation *Resource mobilization*, p15 below.

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2   Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office succeeded to re-establish relationships and re-start the country programme as of January 2015 This text has been redacted

The office had a work process for assessment and reporting on achievement of results in the Results Assessment Module (RAM). The audit team reviewed RAM reporting for nine programme outputs and three operations outputs for the mid-year ended 30 June 2015, and found there was satisfactory reporting on results as well as progress against each indicator and target. The office also had controls to ensure the country office annual report met UNICEF guidelines.

This text has been redacted when there were major risks of unutilized thematic funds, the office developed a critical budget tracker tool to monitor utilization of funds by units, results, grants and expiry dates. This tool, implemented in the last quarter of 2014, enabled the office to monitor fund balances and upcoming expenditures, thereby reducing the risk of expiry of unutilized grants. The office also had a system to monitor completion of planned activities and the utilization of funds at the activity level, to identify potential bottlenecks to acceleration of planned activities.

However, the audit noted the following.

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Results-based programme planning

UNICEF offices and their partners sign workplans that are expected to detail the expected outputs, indicators, targets, baselines, activities to be carried out, the responsible implementing institutions, timelines and planned inputs from the partners and UNICEF. Workplans serve as basis for programme disbursements to partners, and are expected to be signed with key partners before the end of February of the year of implementation.

UNICEF and the Government had entered into a new programme of cooperation from 1 January 2012 to 31 December 2016. They signed multi-year workplans (MYWPs); those for 2012-2014 covered the period from September 2012 to end of March 2014. The audit reviewed the development of MYWPs and noted the following.

Timeliness in signing the MYWPs:

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During this period, the leadership of the office changed. A new Representative, in post from 1 November 2014 to early December 2015, succeeded in rebuilding the relationship with the Government and improving trust and communication. This led to the joint development, with government counterparts, of MYWPs for the period January 2015 to December 2016. Of the 15 MYWPs, 12 were signed by the end of February 2015 (and nine of these were signed as of 31 December 2014, enabling implementation to start effective 1 January 2015). The three remaining MYWPs were signed late, on 14 and 15 June and 9 November 2015, despite the office's significant efforts. These three MYWPs represented US$ 896,000-worth of activity, or 18 percent of the total planned resources of US$ 5.1 million represented by the 15 MYWPs. However, prompt signing of the majority of 2015-2016 MYWPs reduced the risk of delays in programme implementation.

Development of MYWPs: Interviews with the office's staff, as well the minutes of the joint Steering Committee of UNICEF and the Ministry of Foreign Affairs, showed that the MYWPs for 2015-2016 were developed in cooperation with key line ministries. The Government had maintained strong ownership and control over the development and implementation of MYWPs in accordance with the country programme action plan (CPAP)[6] signed between [redacted] UNICEF   Text redacted   and the Government at the beginning of the country programme cycle.

The audit reviewed four of the MYWPs and found that they were aligned with the needs and national priorities of the government. Further, the outcomes and outputs[7] outlined in

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[6] 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.

[7] 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.

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sampled MYWPs matched the outcomes and outputs included in the CPAP and UNDAF.[8]

However, the audit also noted that the programme outcome and outputs of the four sampled MYWPs were not sufficiently specific and measurable. For instance, they used the words "improve"; "increase"; "support" and "strengthen", which are not conducive to measurement without further parameters. The programme outcome and outputs were derived from the CPAP. Moreover, because of the then-weakened relationship with the Government, these outcomes and outputs had not been subjected to a joint formal mid-term review of the country programme in 2014, as would normally be the case. (Technical refinements had been identified through internal reviews in 2014, but could not be agreed with Government at that time.)

The planned activities generally contributed to the achievement of stated outputs. However, the activities were not always clearly defined, again because of use of words such as "support" and "improve". For instance, in one sampled programme, seven out of the 15 planned activities were generally broad and did not clearly define the type and extent of work.

The country programme had 19 expected outputs and 53 indicators to measure progress. The number of indicators per output varied from two to five, with an average of 2.8. However, there were nine indicators with no baselines, thereby reducing the capacity of the office to judge performance. The audit accepts that obtaining the relevant data could have been difficult.

The office made insufficient use of the results-based budgeting approach in developing its MYWPs. The estimated budgets were not supported with detailed cost analyses, except for activities funded from OR. This was due to lack of harmonized costing methodology, leading to inconsistent practices among programme sections. At the time of the audit, the office was developing a methodology and a procedure for costing estimated planned resources of activities set out in MYWPs. Meanwhile, insufficient costing analysis for estimating planned resources by activity in MYWPs increased the risk of unrealistic planning.

Finally, the breakdown of RR and OR was not identified for each activity for the four sampled MYWPs (although one did present total RR and OR). Further, the portion of the budget that was funded and unfunded was not given in the three out of the four sampled MYWPs, so that their users could not determine whether the estimated budgets corresponded to the funded budget only or also included the unfunded portion.

The above shortcomings could have been addressed by use of an internal quality assurance checklist reflecting standard operating procedures that were adapted to the local context and risks.

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

    i.   Develop and implement a quality assurance checklist to ensure multi-year workplans are prepared in accordance with UNICEF Programme, Policies and Procedures Manual. Any significant deviations from key expected controls due to the operating

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[8] 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.

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       environment or context should be supported and approved by the Representative and the Regional Office.

   ii.   Develop a strategy, to the extent possible, to increase baseline data for establishing realistic performance targets.

Target date for completion: November (i) and September (ii) 2016
Responsible staff members: Deputy Representative, and Social Policy, Monitoring and Evaluation Specialist

Harmonized Approach to Cash Transfers

Total cash transfers disbursed to implementing partners from January 2014 to October 2015 amounted to US$ 1.8 million. The office had 25 partners as of the end of November 2015 (15 government partners, and 10 local NGOs).

UNICEF offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office places responsibility on implementing partners to manage and report on the use of funds provided for agreed activities. This is intended to reduce the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs, while maintaining sufficient assurance on the use of funds.

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. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities are expected, at a minimum, to include spot checks, programme monitoring and scheduled and special audits. Implementing partners that have received more than US$ 500,000 during the programme cycle are subject to at least one scheduled audit during the programme cycle.

The audit noted the following.

HACT procedure: UNICEF's HACT procedure effective 1 August 2014 confirmed that all offices that transferred cash to implementing partners were expected to fully implement the HACT procedure by 1 January 2015, and that any previous waivers were now invalid. If both the head of the office (the Representative, in a country office) and the Regional Director consider HACT procedure cannot be fully complied with, an exemption can be sought from HQ.

The Iran office had adopted HACT only on 1 November 2015. A review of eight cash transfers (DCT, reimbursement and liquidations) confirmed that HACT was not implemented and FACE forms [9] not used. Disbursements were instead made based on a letter from partners

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[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.

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requesting funds, and liquidations were based on documentation such as programme implementation reports and financial documents received from partners after completion of all activities. The process was not risk based and was not the most effective and efficient use of UNICEF resources. Further, the office had not undertaken alternative activities to manage risk and assure proper use of funds in the interim.

Governance of HACT: The office developed a HACT adoption plan in coordination and with support from the Regional Office. It also officially informed the Ministry of Foreign Affairs (MFA) and subsequently partners on the launch of HACT during a Steering Committee meeting held on 8 September 2015.

HACT implementation was reviewed during CMT meetings. In addition, the office had established a task force to oversee HACT implementation. The task force had met for the first time in June 2015 and had held four further meetings as of the time of the audit in December.

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Macro- and micro-assessments: The office had decided to implement HACT in phases, with phase 1 ending December 2016. The office had decided not to conduct a macro-assessment during this phase and was therefore unable to establish reliance on the Supreme Audit Institution of the Government[11] to audit government departments. The office had also decided not to carry out micro-assessments of government partners until the end of 2016. Government partners were therefore Redacted subject to more intense assurance activities. The office told the audit that it would reassess the operating environment and decide whether to conduct macro-assessment and micro-assessments of government partners during phase II of HACT implementation from January 2017, to align with the new country programme for 2017-2021.

For NGO partners, the office planned to conduct capacity assessments to establish their risk rating and the appropriate type of cash transfer. Partners that are expected to receive US$ 100,000 or more per year from UNICEF should be micro-assessed at least once per programme cycle to comply with the HACT requirements. As the office had no NGO partners that were expected to meet this criterion, it did not plan to carry out micro-assessments in 2015 and 2016.

Assurance on the use of funds: From January 2014 to 31 October 2015, the office obtained assurance on partners' use of funds through 100 percent verification of supporting documents and programmatic visits. Effective 1 November 2015, the office relied fully on HACT. It had prepared a HACT assurance plan (although this had yet to be approved by the

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[11] The Supreme Audit Institution in a country is typically the Comptroller General, Auditor General or National Audit Office. In the case of the Islamic Republic of Iran, it is the Supreme Audit Court.

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Representative). The plan was risk-based. The frequency of spot checks and programmatic visits was clearly linked to the risk profile of partners and to the total cash transfers expected to be paid annually or during the programme cycle. The assurance plan did not include any planned audits because no partners were expected to receive more than US$ 500,000 during the current cycle.

As of the end of the audit, the office had not prepared a schedule for the nine planned spot checks and 28 planned programmatic visits[12] relating to the 25 partners for 2015-2016 (see also the following observation, *Programme monitoring*).

Capacity building of partners and staff: The office reported that all its staff and implementing partners attended a five-day workshop on HACT procedures in October 2015. The HACT guidance was translated into Farsi and shared with all partners. All staff had completed the HACT e-course. As of the end of the on-site audit, the office was finalizing HACT-related work processes to clarify responsibilities, standards and steps for cost-effective implementation.

Agreed action 4 (medium priority): The office agrees to:

   i.   Prepare and communicate the terms of reference for the HACT task force, and establish a mechanism to report to it regularly on the status of implementation of the HACT assurance plan.
   ii.   Complete the HACT work processes and disseminate them to staff.
   iii. Finalize the HACT assurance plan and ensure it is approved by the Representative.

Target date for completion: The office reported the action as being completed for ii and iii, and expects to complete i by the end of July 2016
Responsible staff members: HACT focal point

Programme monitoring
The audit reviewed whether the office had mechanisms to monitor progress against planned outputs and targets established in the results framework. Country offices should conduct mid-year and annual programme reviews held jointly with government and NGO partners so as to review progress, and identify constraints and lessons learned. They are also expected to conduct regular programme field visits jointly with implementing partners. Programme monitoring is also an assurance activity for HACT purposes (see previous observation).

In its assessment of this area, the audit reviews the implementation of a sample of key programme activities and use of funds, and would discuss progress, constraints and opportunities with partners. The audit team reviewed a sample of field visit reports and the minutes of the two Steering Committee meetings held in 2014 and 2015 with the Government and UNICEF. It also interviewed all senior managers of the office and held several group discussions with programme staff, as well as meeting with the UN Resident Coordinator to

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[12] 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."

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discuss the operational context and the opportunities and constraints to UNDAF implementation. The following was noted.

Monitoring mechanisms: The office used various means to monitor programme implementation and achievement of results. It regularly monitored progress through CMT and programme management team meetings, and reviewed progress against indicators and targets using the UNICEF results assessment module (RAM) at mid-year and year-end.

Although the office did not carry out a mid-term review in 2014

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an annual review was undertaken through the Steering Committee in November 2014. Further, following the re-start of the programme in January 2015, the office had completed an internal mid-year review in July 2015. It had also reviewed progress with all relevant Government partners during a Steering Committee meeting in September 2015. The minutes of the two Steering Committee meetings showed good joint reviews of progress for all MYWPs.

The office's internal mid-year review included a good analysis of key achievements by output, as well as key challenges/constraints and lessons learned. Examples of key constraints to implementation included late signing of MYWPs, shortage of funds, prolonged NGO clearance, frequent disruption caused by changes in senior officials, lack of availability of data and knowledge for programming, etc. However, mitigation actions for these, with assigned responsibilities and timelines, were not clearly identified in the mid-year review, and there was no evidence of follow-up.

Planning of programme monitoring: For NGOs, a monitoring plan was prepared and agreed by the office, the NGO and the Government counterpart. However, this was not the case for Government partners. All monitoring visits needed Government approval, which could take two to four weeks. Also, the office did not prepare quarterly travel plans to track programme monitoring for the office as a whole, by section and for joint monitoring with other UN agencies. Further, as of the time of the audit, the office had not prepared a quarterly HACT schedule for programmatic visits and financial review of partners (see also previous observation, *Harmonized Approach to Cash Transfers*, regarding assurance activities).

The office had not recently analysed total programme monitoring activities by programme, output, unit, purpose and location, to draw lessons learned and identify areas that require more frequent monitoring.

Monitoring tools*:* The office had issued a template and related guidance for field- monitoring visits. This template was used for monitoring outside Tehran. However, for monitoring visits that did not require a travel budget (such as those in Tehran), the staff used a range of different methods to record their findings. There was also no office-wide standard to ensure all significant monitoring activities were properly tracked and recorded for sharing with staff within and among sections.

Monitoring visits by staff*:* The audit reviewed a sample of five trip reports covering the period from January 2014 to the time of the audit. The reports adequately recorded the purpose/objectives of visits, the challenges/constraints, the results achieved by the partner and any follow-up actions. However, the latter were not always specific and measurable, with assigned responsibilities and timelines. There were also inconsistent practices among

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sections for follow-up of of action points, as there was no office-wide work process for this. Further, not all sampled trip reports were made available on the shared drive.

Agreed action 5 (medium priority): The office agrees to increase oversight of programme monitoring, and to:

i. During mid-year and annual reviews, develop specific and measurable mitigation actions to address recurrent key systematic risks and constraints to programme implementation. These actions will have clearly assigned responsibilities and timelines.
ii. Establish a process to review, at least annually, the adequacy of monitoring and technical support provided to partners, and identify areas for improvement.
iii. Prepare a monitoring schedule for financial reviews and programmatic visits as an integral part of the assurance plan under the Harmonized Approach to Cash Transfers (HACT), and regularly monitor and report progress against the plan (see also observation on HACT, p12 above).
iv. Develop office-wide mechanisms to track programme monitoring activities, and follow up key action points stemming from financial reviews, programmatic visits, annual and mid-year reviews.

Target date for completion: December (i and ii), end of July (iii) and September (iv) 2016
Responsible staff members: Deputy Representative; Operations Manager; and Social
Policy, Monitoring and Evaluation Specialist

Resource mobilization

UNICEF country offices usually need to raise the bulk of the resources needed for their country programmes themselves. They should therefore have adequate resource mobilization [13] strategies.

The Board-approved ceiling for funding that the office could raise as OR under the country was US$ 15 million during the five-year programme cycle ending on 31 December 2016. However, the office reported that ░░░░░░░░░░░ This text has been redacted ░░░░░░░░░░░ it anticipated raising only US$ 5 million as OR during that period, US$ 10 million less than originally expected. Further, the office raised very limited funding from the private sector. (However, the office did succeed in raising US$ 2.6 million from one major donor in late 2014 to fund programmes targeting Afghan refugee children.)

The 2015 planned RR and OR resources amounted to US$ 4.9 million and the funds raised and received by the office were US$ 2.8 million, leaving a funding gap of US$ 2.1 million. However, the funding gaps were unevenly distributed among programmes. Thus, while some programme outputs were significantly underfunded, others were overfunded, and the office reported in the mid-year review of 2015 that 15 out of the 19 planned outputs were on track. Given that there were large funding gaps but a high percentage of planned outputs were on track anyway, it is likely that the funding requirements for some expected results had been

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[13] 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.

significantly overestimated. Of the remaining five outputs, however, as of the end of November 2015, four were constrained and one had no progress (leading to postponement or cancellation of planned activities). Insufficient resources had thus constrained achievement of expected outputs for several planned outputs.

There had been insufficient fundraising since the inception of the current programme, and particularly in 2014-2015. This text has been redacted In 2014 and 2015, the priorities were to re-establish relationships and communication with the Government partners, and re-start the country programme by signing multi-year workplans with them. Thus the office had issued funding proposals to only two potential donors in 2014-2015 (although it had obtained funds from both).

At the time of the audit, the office had started to turn its attention to fundraising again. A fundraising paper for the 2015-2016 period was completed on 23 February 2015. Though it suggested some fundraising activities, it did not include detailed analysis of the global, regional and local aid environment; funding trends by donors and programme areas; lessons learned; or way forward and action plan with timelines, fundraising targets, milestones and assigned responsibilities. Further, it only covered the period ending 31 December 2016. In light of the fact that the programme had only recently resumed This text has been redacted it would have been sound to obtain feedback on major aspects of future fundraising plan from the government through discussion at the Steering Committee or other means to secure common understanding of principles and approach.

At the time of the audit, the office was also considering preparing a multi-year resource mobilization plan that would take into account recent changes such as the lifting of international economic sanctions and the upcoming new 2017-2021 country programme.

Agreed action 6 (high priority): The office agrees to increase focus on fundraising, and to take the following steps:

i.   In collaboration with the Regional Office and relevant HQ divisions, develop a comprehensive multi-year resource mobilization plan that includes a clearly defined strategy (including expanding the donor base in light of the changing environment, and restarting private sector fundraising). It should also include lessons learned, assigned responsibilities, funding targets and an action plan.

ii. Obtain feedback on major aspects of the resource mobilization plan in consultation with relevant government partners.

iii. Update fundraising tools and prepare a package of quality funding proposals for each programmatic area, with a particular focus on those with significant funding gaps.

Target date for completion: October (i and ii) and September (iii) 2016
Responsible staff members: Representative, Deputy Representative, Partnerships Officer, Communication Officer and Section Heads

Programme cooperation agreements review process

In line with the UNICEF guidance, the office had a Programme Cooperation Agreement Review Committee (PCARC) to review proposals for partnerships with NGOs and make recommendations to the Representative accordingly.

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The Government of Iran regulates UNICEF cooperation with local NGOs. Upon receiving a list of local NGOs vetted by the Ministry of Foreign Affairs, the office conducts financial and programmatic capacity assessments of the NGOs before entering into a Partnership Cooperation Agreement (PCA).

The office had five PCAs with five different local NGOs and had paid direct cash transfers (DCTs) amounting to US $750,000 as of 17 November 2015. The audit reviewed a sample of two PCAs and found that the submission to the PCARC was complete and included all PCA agreement documents. The minutes of the PCARC were signed by Committee's members. The technical and financial assessments were completed, and the sampled NGOs were properly registered with the Government. However, the audit noted the following.

Budget review: In both cases sampled, there was no evidence that the PCA budget was reviewed and approved by the designated authorized person from the Operations section. Further, the office did not use a list of up-to-date standard unit costs and was therefore unable to ensure consistent review of the unit costs in the budgets.

Quality of results frameworks: The two sampled PCAs had frameworks of expected results that were well-defined, including indicators, targets and evaluation tools. However, baselines were not included, thereby increasing the risk of setting unrealistic targets and constraining performance measurement.

Performance of partners with previous PCAs: For one of the two sampled PCAs, the partner had a previous partnership with the office. However, their previous performance had not been reviewed and taken into account when considering the new PCA.

Though the office had established a PCARC with appropriate terms of reference and membership, it had no work process or standard operating procedures for the development of project document and the conclusion of PCAs with NGOs that defined the responsibilities, standards and sequence of work activities. This had contributed to the above shortcomings.

Agreed action 7 (high priority): The office agrees to increase oversight over the Programme Cooperation Agreement (PCA) review process, and:

  i.   Define the work process and country-specific standard operating procedures (SOPs) for the development of project documents and the conclusion of PCAs with local NGOs. Both the work process and the SOPs will include assigned responsibilities.
  ii.   Ensure performance of partners on previous PCAs is assessed prior to entering into agreement with them again.
  iii. Ensure partners include the relevant baselines in the framework of expected results of each PCA.
  iv.   Fix standard unit costs to assist effective review of PCA budgets.

Target date for completion: By the of July 2016
Responsible staff members: Operations Manager; Education Officer; and Social Policy, Monitoring and Evaluation Specialist

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Evaluations and related activities

Areas of high programme expenditure should be matched by proportionate levels of evaluation. In particular, evaluations should be done of any initiative before it is replicated or scaled up, and/or after long periods without programme evaluations, and for each programme outcome on which expenditure has reached US$ 10 million.

The country programme has two major programme components: *Child poverty reduction and inclusion*; and *Opportunities for adolescents and young people*. It had implemented one major evaluation for the country programme cycle (*Evaluation of the impact of juvenile justice training workshops on the practice of police officers*). This was scheduled to be completed at the beginning of the country programme in 2012. The evaluation was not completed until February 2014, due to late signing of the CPAP[14] (in June 2012) and the multi-year workplans (in September 2012), and difficulties in identifying a suitable consultant.

The results of this evaluation were communicated to partners through meetings with relevant ministries, and to staff through programme monitoring team meetings. The office provided management responses and followed up on the implementation of recommendations. The office advocated implementation of the management responses to the Government. Further, some of the planned activities in the management response were included in the 2015-2016 multi-year workplans. Meanwhile the management responses were uploaded to UNICEF's Evaluation Management Response Tracking System and regularly updated.

This text has been redacted

Besides formal evaluations, UNICEF offices also carry out other surveys and studies that give them a better picture of the situation of children and women in a country. Here, too, the completion rate was low in the Iran country office. In its Integrated Monitoring and Evaluation Plan (IMEP) for 2014-2015, the office had planned to conduct eight studies, surveys and evaluations during the period under audit, for a total budget of US$ 255,000. As of the end of October 2015, it reported that four out of eight major planned studies, surveys and evaluations were cancelled (three studies and one evaluation). One planned evaluation was constrained and postponed to 2016; two planned studies and surveys were completed; and one planned study had been drafted and was being reviewed by the Government. This suggested that the office's planning had been unrealistic about what could be achieved with the resources available. It also meant that there was less data for use in planning the next country programme. The audit also noted that although the office monitored progress in implementation of the IMEP twice a year, the progress report did not compare planned studies and evaluations with actual completion dates, and actual costs with original budgets.

Further, there was no plan for an end-of-cycle assessment of the 2012-2016 country programme to identify lessons learned to inform the new country programme. The office commented that this assessment was not obligatory and a strategy note and an internal programme review would fill this gap. The audit was however of the view that a proper

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[14] The Country Programme Action Plan (CPAP) is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

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assessment would be particularly relevant, given that the implementation rate of planned studies, surveys and evaluations was so low and that the planned mid-term review was not carried out. As of the time of the audit, the office said it had taken steps to start an internal programme review as a compensatory measure.

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

i.   In coordination with the Regional Office, conduct an internal programme review of the performance of the 2012-2016 country programme to identify programme impacts, good practices and lessons learned, so as to inform the new 2017-2021 country programme.
ii.   Amend the Integrated Monitoring and Evaluation Plan progress report to include information with which to determine whether studies and evaluations have been completed within budgets and planned timelines.
iii. Develop a strategy to increase access to data and information, so as to enable evidence-based advocacy to support equity-based programming, programme implementation and evaluation.

Target date for completion: November (i), quarterly (ii), and September 2016 (iii)
Responsible staff members: Deputy Representative; and Social Policy, Monitoring and Evaluation Specialist

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3 Operations support

Operational processes are established to support the country programme. The scope of the audit of this area includes the following:

- **Financial management**. This covers overall maintenance of the budget and accounts, financial closing procedures and reporting including bank reconciliation process.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology** (ICT). This includes provision of facilities and support, appropriate access and use, and security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. Bank reconciliations were completed on time and there were no long-outstanding unreconciled items. An audit review of five sample procurement-related transactions found payments were adequately supported.

The Property Survey Board met regularly and discharged its responsibilities in 2014 and 2015. A physical count of assets in August 2015 found no unreconciled differences.

The Regional Office conducted two reviews of the ICT function, in 2014 and 2015. The recommendations from these reviews were implemented properly. The business continuity and disaster recovery plans had been updated, and access to ICT systems and data was restricted to authorized users.

However, the audit also noted the following.

Cash transfer management

UNICEF policy on cash transfers states that reimbursements can be processed when the expenditure was previously authorized; also, the funds should be released after completion of activities. An audit review of a sample of four transactions found that one of them was a *post-facto* reimbursement to an NGO. The retroactive approval of expenditures occurred because of delays in obtaining government clearance. This took place because the NGO had begun some activities prior to government clearance, thus creating a risk of reimbursing activities not cleared by the government and not pre-authorized by UNICEF.

Agreed action 9 (medium priority): The office agrees to increase oversight to ensure cash transfers by reimbursement are approved through an exchange of letters prior to the start of activities.

Target date for completion: By the end of July 2016
Responsible staff members: HACT focal point

Bank account signatories

The head of an office should designate signatories to operate bank accounts. These signatories, designated paying officers, approve payment runs in VISION as well as sign the cheques/payment letters. The signatory panel (list of UNICEF paying officers) is included in the office's table of authority and is sent to the bank, and corresponds to information included in VISION.

The office operated four bank accounts. In one bank account, the list of paying officers was not correctly reflected in VISION. Further, the list of paying officers in the signatory panel differed from that in the letter sent to the bank.

The office acknowledged that there were discrepancies between the information in the signatory panel and that in VISION. It said this was a technical problem that occurred during the transition of the bank management platform from country offices to HQ in 2015. Since July 2015, all bank and cash account information has been centrally managed by the Division of Financial and Administrative Management (DFAM). After the migration, the office noticed that three out of nine staff in the office signatory panel were not registered in the VISION record managed by DFAM. The office had brought the matter to the DFAM's attention. At the time of audit, the discrepancy had yet to be corrected, creating a risk of processing incorrect transactions or reducing the office's ability to process payments.

Agreed action 10 (medium priority): The office agrees to follow up with the Division of Financial and Administrative Management regarding discrepancies identified between the signatory panel information in VISION and that communicated to the bank, so that they are consistent.

Target date for completion: The office reported the action as being completed
Responsible staff members: Finance Assistant

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Annex A: Methodology, and definition of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

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Conclusions

The overall conclusions of an OIAI audit fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over [audit area] 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 [audit area], as defined above, 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 [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an *unqualified* conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a *qualified* conclusion will be issued for the audit area.

An *adverse* conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.