Internal Audit of the Brazil Country Office

March 2015

Office of Internal Audit
and Investigations (OIAI)
Report 2015/07

unicef

_____

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Brazil Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities, and covered the period from January 2013 to 10 December 2014.

The budget for the 2012-2016 programme is US$ 94 million, of which US$ 3.75 million is Regular Resources (RR) and US$ 90.25 million is 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 such as a particular programme, strategic priority or emergency response, 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 Other Resources.

The country office is in the capital, Brasilia. There are eight zone offices grouped into three platforms, as the office calls them: the Semi-arid platform (three zone offices), the Amazon platform (three zone offices), and the Urban Centres platform (two zone offices).

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 to address all the issues raised in this report. Four of these are being implemented by the country office as a high priority – that is to say, they concern issues that require immediate management attention. These measures are as follows:

- The current office staffing structure had not been based on a staff gap analysis. In order to manage staff workload, the country office hired a number of contractors performing staff jobs that increased each year during the last three years, reaching 93 contractors in 2014. This number represented 107 percent of the total approved positions for this country office. The office has agreed to perform a capacity gap analysis to define the adequate and affordable staffing structure (including contractors) to implement the country programme approved by the board; and to establish a clear strategy for a long-term regular staffing solution.
- The country office was operating eight zone offices that were, in most cases, established more than 20 years ago. The office had not submitted a justification for retaining these to any of the five Programme Budget Reviews held since 2011, and the roles of platforms and zone offices were not defined. The office has agreed to define the terms of reference, governance mechanisms and reporting procedures of the current platforms and zone offices. It has also agreed to conduct, as part of the preparation of the next country programme, a cost-benefit analysis to assess the zone-office structure required for the implementation of the country programme.
- The country office has agreed to hold annual programme reviews with Government counterparts and other implementing partners, and to take into consideration the programme review recommendations in the subsequent workplans.
- The office had partially implemented the Harmonized Approach to Cash Transfers (HACT). It has agreed to prepare and implement a comprehensive HACT assurance plan, to allocate the required resources for preparation and implementation of HACT assurance plan, establish clear staff accountability, train staff and implementing partners, and

_____

ensure that the results of assurance activities are followed up.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office, as defined above, needed improvement to be adequately established and functioning. The measures to address the issues raised are presented with each observation in the body of this report. The Brazil country office has prepared action plans to address the issues raised.

The country office, with support from the Latin America and the Caribbean Regional Office, and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations   March 2015

_____

Contents

_____

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.

The audit observations are reported upon 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 programme.
- **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 behavior, 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, except ethics, were covered in this audit.

Office priorities and performance measurement
Country offices are expected to prepare an annual management plan (AMP) in which they establish key priorities, and assign staff responsibilities for them. Progress on these priorities should normally be monitored by the office's country management team (CMT), which advises the Representative on the management of the country programme and on strategic programme and operations matters.

The office had prepared AMPs for 2013 and 2014. The 2014 AMP had 11 management priorities and eight programme priorities, and the office had assigned staff responsibilities in the AMP for implementing programme priorities.

_____

The audit noted that the programme priorities were just a summary of activities planned in the respective annual workplans (AWPs) prepared with the implementing partners. Regarding the management priorities, most were not specific and measurable. There were no performance indicators or targets against which progress towards the management priorities could be measured, and responsible staff had not been assigned for them. In addition, out of 11 office management priorities defined in 2013 AMP, 10 had been carried over to 2014.

The office stated that progress towards achievement of priorities had been monitored through several supervisory bodies, such as meetings of the Programme Group and CMT. However, the audit did not find any evidence of this in the minutes of either body. Furthermore, the office did not conduct a formal annual management review at the end of 2013.

The 2014 AMP included a set of 28 management indicators, without specific targets assigned to them. The audit could not find evidence that all these indicators were monitored by the office. However, the audit noted that the Deputy Representative's unit was closely monitoring eight indicators (the DCT pending for more than six months, the grants expiring in three months, donor reports, unallocated funds and unexpended amounts for grants reaching the financial closure). Three of these indicators were part of the office management indicators.

Agreed action 1 (medium priority): The office agrees to conduct annual management reviews or establish alternative means to assess management performance. It also agrees to ensure the following during the development of annual management plans:

   i.   The office priorities are specific and measureable, and responsible staff are assigned to each one of them.
   ii. Management indicators have targets assigned to each one to serve as benchmarks against which progress will be measured.
   iii. Procedures are established to monitor the office priorities and all management indicators, and take corrective action in case of poor performance.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Risk management
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. Offices should review the relevance of their risk assessment, at minimum during annual and mid-year reviews and update the risk assessment section of the Performance Management Dashboard, when significant risks change. As a further risk management strategy, offices should also take measures to ensure they can maintain essential functions in an emergency.

The audit noted the following.

RCSA: The country office had prepared an RCSA in 2012, and identified 30 risks of which three were rated high, nine medium high, nine medium low and nine low. The three high risks

_____

related to ability to change, talent management, and safety and security in Rio de Janeiro zone office. Action plans were drawn up for all the 12 high and medium high risks.

However, the RCSA had not been updated since 2012 and had not been reviewed following the release of the latest guidelines in 2013. Neither had the implementation of the RCSA action plan been monitored.

Business Continuity Plan: An additional risk-management measure in country offices besides the RCSA is the business continuity plan (BCP), which ensures that the office can resume its functions as quickly as possible after a major incident or disaster.

The audit was shown a copy of the BCP drafted in June 2014. However, it covered only the main office in Brasilia, and not the eight zone offices. Furthermore, it defined testing of the BCP and exercises as the principal tools for maintaining and updating it, and set the frequency of the tests at every six months. The office provided the audit with correspondence between sections regarding the testing of a remote payment procedure during the 2014 Football World Cup, as evidence of the mentioned BCP testing procedure. However, it was not clear how the sections' preparedness capability had been assessed, or how the results were used to improve the BCP.

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

   i.   Review and update its Risk and Control Self-Assessment (RCSA) regularly, and whenever a major change in the environment occurs.
   ii.   Establish a process and accountability for timely implementation and periodic monitoring of the RCSA action plan.
   iii. Complete its Business Continuity Plan (BCP) document by including the emergency measures for the zone offices.
   iv.   Conduct regular full simulation exercises of the BCP and use the results to improve the plan.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: March 2016

Supervisory structures

The country office had established statutory committees and advisory teams, including the Country Management Team (CMT), Human Resources Development Committee (HRDC) and the Joint Consultative Committee (JCC). Related terms of reference (ToRs) and membership had been updated in 2013 and 2014 AMPs. The audit reviewed a selected sample of the meeting minutes of the CMT, HRDC and JCC, and noted the following.

CMT: The CMT's overall purpose is to advise the Representative on major issues related to the office's priorities, and on allocation and use of human and financial resources to ensure their best use in both programme delivery and in operations. The audit review of the CMT minutes showed that decisions taken in the CMT meetings were not always specific, with clear assigned responsibilities and deadlines. Moreover, the CMT meetings did not always follow up on the previous meeting decisions, and as a result, some issues were raised repeatedly. (See also observation *Office priorities and performance management*, p5 above.)

_____

HRDC: The HRDC is intended to strategically identify, plan and implement learning and development needs and activities, aligning them to the organizational priorities. As per its ToRs, the HRDC was to meet three times a year, to prepare the office training plan at the beginning of the year and monitor its implementation at mid- and end-year. At the end of the year, the HRDC was also supposed to make recommendations to the Head of Office on the learning priorities for the following year. However, the HRDC met only twice during the period under audit – in April 2013 and May 2014, for the review of the previous year learning plan and the preparation of the current annual learning plan.

JCC: This is a mandatory mechanism for communication between the office management and staff representatives. According to its ToRs, this committee is expected to meet at least twice a year. It had met only once in 2013-2014. The staff association chair explained that the other meetings were cancelled because staff did not propose any agenda for JCC discussion. However, there had been major changes in the working environment of the country office (reduction of number of posts and increased use of contractors performing staff functions). In this situation, JCC meetings were needed to bring management and staff together in order to find solutions to the issues raised either by management or staff. As a mitigating measure, the office indicated that a staff wellbeing committee had been established that met twice in 2013 and once in 2014. However, the audit noted that this committee did not include the management.

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

   i.   The office Committees meet and function in accordance with their terms of reference.
   ii.   Action points of the Country Management Team (CMT) are specific and time-bound, and accountability for their implementation is assigned to relevant staff.
   iii. CMT meetings systematically review and record progress on action points from the previous meeting.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Staffing structure
At the time of the audit, the country office had a total of 84 approved posts, of which nine posts were vacant (three National Officer and six General Service) and 34 out-posted in eight zone offices.

According to the approved 2011 PBR[1] and 2012-2016 CPMP,[2] the country office had 106 posts of which 83, or 78 percent, were funded by Other Resources (OR). UNICEF's human resources policy requires a country office to provide proof of at least one year's up-front funding to secure staff contracts charged to OR. As the OR funding of the Brazil country office comes

_____

[1] 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.
[2] 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.

_____

mostly from individual pledge donors on a monthly basis throughout the year, it could not meet this requirement.

To meet the up-front funding requirement, therefore, the office had obtained loans from HQ divisions – from Private Fundraising and Partnerships (PFP) in 2013 and then the Division of Financial and Administrative Management (DFAM) in 2014. These loans were conditional on the office optimizing its staffing structure. In order to fulfil this condition, the country office performed a staffing review in 2012, which was the first year of implementation of the 2012-2016 country programme. As a result, the staff complement dropped from 106 to 89, with 67 posts, i.e. 75 percent, being funded by OR. The number of posts funded by OR had been thus reduced by 16.

The office could not provide any skills-gap analysis or similar documentation as to how this review had been done, and the audit concluded, from the review of the PBR documentation, that the changes made were mainly budget driven. (An office's staff complement should be based on the needs of its programme.)

Furthermore, the office used a large number of contractors performing staff functions to relieve staff in support of operations and programme implementation. It had hired 37 contractors in 2012, then 68 in 2013, an increase of 84 percent; and 93 in 2014, an increase of 151 percent compared to 2012. This suggested a lack of control of the office over its staffing support. Indeed, the audit noted that the recruitment of these contractors was based on the needs expressed by chiefs of section and platforms, and that there was no overall established system to analyze and rationalize the staffing support needs or review affordability. The audit estimated the cost of hiring individual contractors at more than US$ 10 million over the five year cycle 2012-2016.[3] In addition, given the high number of contractors hired, the office did not develop a clear strategy for a long-term regular staffing solution as stipulated by the UNICEF guidance.

Agreed action 4 (high priority): The country office agrees to, in consultation with the Regional Office:

  i.   Perform a skills-gap analysis to define an adequate and affordable staffing structure (including contractors, where appropriate) to implement the country programme approved by the board.
  ii. Establish a clear strategy for a long-term regular staffing solution.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: March 2016

Office structure

The country office was operating eight zone offices across the country, grouped into three platforms: the Semi-Arid Platform (three zone offices), the Amazon Platform (three zone offices), and the Urban Centre platform (two zone offices). Each platform was headed by a chief reporting to the Deputy Representative.

Establishment and continuation of zone offices: The eight zone offices were established in

_____
[3] Source: contractor data in VISION, contractor' information provided by the country office and cross-checks undertaken by the audit.

_____

1980s and 1990s. The country office had submitted no justification for the need to retain the eight zone offices to the PBRs held since 2011, although there had been five of these (one on the 2012-2016 country programme, the remainder on aspects of it).

The evaluation conducted by the office of the Municipal Seal of Approval,[4] and Government partners met by the audit, all confirmed that UNICEF's presence at sub-national level was a strong asset and a distinctive comparative advantage to other UN agencies and organizations that are present in the country. This decentralized presence allowed UNICEF to operate at the level of states and municipalities, where the greatest needs were. However, the programmatic and management strategies of the country office had changed over the 20 years since most of the zone offices were established, and it was not clear whether the number and physical location of the zone offices, their missions and their current staffing were still adequate to meet current needs.

Management of platforms and zone offices: The audit review noted that monitoring of platforms and zone offices was an on-going activity, conducted by the Deputy Representative with respect to platform chiefs, and by platform chiefs with respect to zone offices. This included weekly or more frequent communications as needed, through various channels, e.g. phone call, radio/video conference or email. The Deputy Representative also performed weekly monitoring on liquidations of direct cash transfers (DCTs), donor reporting and utilization of allocated funds, and chaired the Programme Coordination Team, which included the chiefs of platforms. However, the audit noted that neither the platforms nor the zone offices had formal approved ToRs, established governance mechanisms, or specific management indicators for which they would report on regular basis in order to monitor their performance.

Moreover, the platforms and the zone offices implemented activities related to their areas that were recorded in the various 14 AWPs prepared at the level of the main office (with inputs from the zone offices). In order to establish the accountabilities of a zone office, it was necessary to go through these 14 AWPs and identify the activities for which that office was responsible. There was no single consolidated document that clarified the zone offices' accountabilities and that could be used as a basis on which to assess their performance. The country office stated that this was a work in progress; however, the audit noted that a draft of ToRs for the Amazon platform had been ready since December 2013 but had not yet been finalized.

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

   i.   Conduct, as part of the preparation of the next Country programme, a cost/benefit analysis to assess the zone office structure required for the implementation of the country programme, and submit it to the Programme Budget Review for approval.
   ii. Define the terms of reference, governance mechanisms and documented reporting procedures for the current platforms and zone offices, including definition of performance indicators specific to platforms and zone offices.

_____

[4] The UNICEF Municipal Seal of Approval is a broad communication and mobilization strategy that monitors and awards the municipalities that have managed to improve the quality of lives of their children and adolescents.

_____

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: March 2016

Delegation of authority and segregation of duties

Each office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. The Representative should review the ToA periodically to confirm its continued accuracy and appropriateness. The ToA should be reflected in the roles assigned within UNICEF's management system, VISION (from Virtual Integrated System of Information), which was introduced in January 2012.

A key requirement is to ensure, as far as possible, adequate segregation of duties; this is an important internal control that involves the distribution of tasks and associated privileges for specific business processes among multiple staff, with the primary objective of preventing errors and fraud. This is achieved by assigning different roles to different staff members in such a way as to avoid situations whereby one individual is being responsible for an entire transaction cycle, without any other checks by another individual.

Delegation of Authority: In the approved manual ToA dated 6 October 2014, the audit found five cases of delegation of authorities (involving four staff members) that were not recorded in VISION. Conversely, in the ToA report generated from the system on 6 November 2014, which showed the actual authorities running in the system, the audit found that 13 authorities delegated to nine staff members in the system were not recorded in the approved manual ToA. Out of these nine staff members, five were delegated authorities as OIC back-ups even when the principal was present in the office. One staff member had left the office but her delegated authorities had not yet been removed from VISION. Two staff members had authorities in VISION that had been removed from the manual approved ToA. One staff member had been delegated authority in VISION but not in the manual ToA, because of an oversight while preparing the latter.

The audit review also found that 22 staff, with 60 delegated authorities approved in the manual ToA, had not signed the notification of acceptance of delegated of authorities. The signed acceptances of delegations were mostly collected in 2013, and staff who had joined the country office or had their roles assigned since had not signed.

The audit noted that the office had not establish a mechanism to ensure, on a regular basis, that the roles delegated in VISION tallied with the approved manual ToA, and that all staff delegated authorities had confirmed in writing their understanding and acceptance of them.

Segregation of duties: The audit review showed two cases of segregation-of-duties conflicts, involving two staff members who could authorize sales orders and release the related purchase orders. These conflicts were signaled in the system as being mitigated; however, the office had not in fact established mitigating controls and did not conduct spot checks to ensure that these conflicting roles were not exercised.

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

i.   Conduct periodic review of the delegated authorities to ensure consistency between the approved manual table of authority and the authorities recorded in VISION.

_____

    ii.   All delegated authorities are acknowledged in writing by the staff to whom they have been allocated.

    iii.   Address the segregation-of-duties conflicts noted, either by removing the conflicting roles, or by establishing mitigation measures and monitoring their implementation.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: April 2015

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over governance, as defined above, needed improvement to be adequately established and functioning.

_____

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 time bound (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.

Situation analysis
UNICEF-supported programmes should be evidence-based, both to bring about the best outcomes for children and women, and to ensure that advocacy on their behalf is also evidence-based. In planning a new country programme, offices should perform a situation analysis (SitAn) that presents as accurate as possible a picture of the situation of children and women in the country.

In the absence of an updated SitAn, the country office reported in the country programme document (CPD)[5] that the preparation of the 2012-2016 country programme had been based on strategic priorities set out by the Government, the Common Country Assessment carried out by the UN agencies, the United Nations Development Assistance Framework (UNDAF)[6] 2012-2015, and consultations with a variety of partners nationwide. The office informed the audit that it also relied on the results of a strategic moment of reflection held in 2009, as well as individual analyses and studies that were available to each programme section (for example, a draft analysis of out-of-school children that was available in 2011).

_____

[5] This is the description of the proposed five-year programme that an office submits to UNICEF's Executive Board for approval.
[6] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

_____

However, the audit found no evidence that the office had used the information available to draw an overall picture of the main issues facing Brazilian children that would have provided the basis and focus for the design of the current programme. As evidence of the need for such analysis, at the beginning of 2013 the Regional Director had asked the office to plan for the preparation of an equity-focused comprehensive SitAn, which could serve as a solid basis for evidence-based advocacy and programming. The audit also noted that in 2012 staff accountable for one of the key programme components had felt the need to compile a situation analysis for use in the preparation of the programme annual workplans (AWPs) and as basis for discussions with the Government counterparts.

Country offices can draw up a country programme without a formal SitAn if they wish, provided sufficient other sources of information are available. However, a SitAn is strongly recommended; and in this case the audit judged that a lack of a comprehensive analysis of the situation of children and women, including a good understanding of the causes of main issues, created a risk that the office might not support the right activities and make best use of its comparative advantage and available resources.

At the time of the audit the office was conducting a comprehensive SitAn for the Amazon Region (the first draft was expected in December 2014), but had yet to establish an overall plan for the preparation of an equity-focused, comprehensive SitAn for the whole country.

Agreed action 7 (medium priority): The office agrees to identify, as part of the preparation of the next country programme, the knowledge gaps in child-related issues, and establish and implement a plan for obtaining the missing information.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Causality and country programme results

As part of the transition to UNICEF's new 2014-2017 organizational Strategic Plan, the Regional Office advised the country office on how to translate PCRs and IRs into outcomes and outputs respectively, while strengthening the results structure.[7] The Regional Office highlighted in particular the issue of some PCRs that combined multiple results at different levels. The audit reviewed the latest version of the programme results matrix provided by the office and confirmed this fact. As an example, the PCR 1 statement included six different results that lump together different results (for example, Health with Early Child Development), different target groups (pregnant women and children) and different levels (two results at impact level, two results at outcome level and two results at output level). The audit noted the same issue in some IRs such as the IR 2.2. *Learning achievements and quality education*, which included no less than eight results.

Furthermore, a number of IRs were overlapping, and the coherence of the programme results

_____

[7] UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) 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 (previously known as an intermediate result, or IR) 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.

_____

chain was not always clear. As an example, the office's 2013 Annual Report stated that in 2011, 3.7 million children aged between five and 17 were working in Brazil and that child labour continued to be one of the key causes of school drop-out. This issue was not included as contributory factor in the Education programme, but had been included in the Child Protection programme. There was no mechanism to ensure that the related output contributes to the Education outcome.

The audit review concluded that these shortcomings were due to the lack of a "causality analysis" that should have been used as basis for the design of the programme results matrix. For a programme to address all that needs to be addressed, the main contributing factors of a problem and their causal relationship need to be identified. Government, other development partners and UNICEF should reach agreement on the priority issues related to the realization of the rights of children and women. The causality analysis records agreement on these issues and analysis of their underlying and basic causes is recorded in the causality analysis. The more specific the causality analysis of a problem, the more useful it is in establishing the programme results chain and in identifying interventions for the achievement of the planned results.

Agreed action 8 (medium priority): The office agrees to, with the assistance of Regional Office, review the programme results matrix to remove overlaps, place the results at the proper level and ensure coherence.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: June 2015

Programme results indicators
The country office should establish and use indicators to measure, monitor and assess progress against expected programme results, and ensure that it has the required means of verification to inform the status of the indicators when needed.

The audit reviewed the programme results matrix, and found that a number of indicators were not specific, did not have baseline, could not be measured during implementation and had no targets (e.g. two indicators of PCR 2) or no specific targets, and there were no means of verification (MOV) for all the indicators.

Agreed action 9 (medium priority): The office agrees to ensure that programme indicators are specific, measurable, the information for missing baselines and targets is collected and that appropriate means of verification are identified for each indicator.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: March 2016

Programme budget planning
The Programme structure recorded in VISION was aligned with the CPD and the Country

_____

Programme Action Plan (CPAP).[8] However, the planned budget for the programme components did not tally with either. In VISION, the total budget planned for five of the seven programme components, was approximately 20 percent lower than the Board-approved level, while the planned budget for the cross-sectoral programme was almost double. The audit noted that the office had not recorded the discrepancies or their impact on the achievement of the expected results.

Agreed action 10 (medium priority): The office agrees to establish procedures and accountabilities to ensure that planned amounts recorded in VISION at the programme component level are aligned with the Board-approved budget, and that the rationale for any significant adjustments of budget ceilings, and the impact of those adjustments on planned results, are documented.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: April 2015

Work planning
Workplans outline the activities to be undertaken to achieve the results as identified in the CPAP. UNICEF programme officers, their Government partners and where applicable NGO partners, jointly prepare the workplans during planning meetings that typically follow a technical review of the previous implementation period.

All workplans that include responsibilities to be undertaken by UNICEF and one or more partner should be confirmed in writing by the partner(s) and, where required, by the coordinating government agency. This endorsement should be obtained either through signature on the workplan cover page or through an exchange of correspondence. It should be done, at the latest, by two months after the start date of the WP — and normally much earlier in the year, to enable disbursements to begin.

The audit reviewed 2013 and 2014 annual workplans (AWPs) and noted that the same template was used for them all. This template allowed inclusion of detailed information on the planned activities, inputs, indicators, partners, budget and planned period of implementation. However, the audit noted that although the AWPs were signed by the relevant responsible programme staff and approved by the Representative or Deputy Representative, they were not endorsed by a Government counterpart.

The CO explained that the AWPs had been prepared in consultation with various stakeholders including Government partners; however, it supported activities involving various Government partners at the federal, state and municipal levels, and as per the Brazilian "federative pact", no federal Government entity could commit itself to actions that were under the responsibility of states and municipalities. However, the audit noted that the office did not establish a mitigating process that provided the Representative with reasonable assurance that the key Government counterparts were in agreement with the activities and targets recorded in the AWPs before validating them.

_____

[8] 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.

_____

The audit met with the Brazilian Agency for Cooperation, which is, as per the signed CPAP, the coordinating body for the country programme supported by UNICEF, and other key Government partners (Ministries of Health and Education). All indicated that they were ready to discuss alternative ways to signify their agreement with the AWPs.

Agreed action 11 (medium priority): The office agrees to establish mitigating measures to ensure that internally approved workplans are supported by evidence of the involvement and agreement of key Government counterparts.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: April 2015

Advocacy

Brazil being an upper-middle-income country, the Government has the capacity to technically and financially implement significant programmes. In this context, advocacy is a key component of UNICEF role in Brazil, to ensure support for changes in legislation, policies, systems or practices aimed at fulfilling the rights of women and children.

In its 2014 annual management plan, the office stated that "multi-level, upstream, evidence-based advocacy work by UNICEF" would "influence equity-driven policies, laws, budgets and result-based planning processes at State and Municipal levels. Policy advice to the Brazilian government in the implementation of global normative standards concerning children and adolescents rights will continue to be provided at the Federal, State and Municipal levels".

The audit review of the 2014 AWPs showed that they did include advocacy activities, such as bringing the health of indigenous to the top of the priorities of the Ministry of Health, and the initiative "Out-of-school-children just won't do". The office had also seized the opportunity of the general election in October 2014 to prepare an advocacy document titled *Agenda for children 2015-2018, Challenges and proposals*. This document had been used to bring children's rights into the election debate.

However, the office did not have an advocacy plan for the period 2012-2014 and there was no consolidated accountability framework for advocacy. At the time of the audit the office was preparing a new communications strategy based on UNICEF's global communications and public advocacy strategy for 2014-2017. The country office's strategy, yet to be finalized, would clarify the role of communication in the public advocacy, but the advocacy strategy targeting governments, corporations, and the influential had yet to be prepared. The office expected its strategy to be implemented by March 2015.

Agreed action 12 (medium priority): The country office agrees to prioritize the preparation of an advocacy plan/strategy, assign responsibilities to relevant staff, and ensure a process for monitoring its implementation.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: August 2015

_____

Resource mobilization and allocation

Country offices are expected to develop and implement a resource mobilization strategy to secure approved Other Resources (OR) in support of the Country Programme. The strategy should set specific targets for the programme period and outline how, where, when and with whom resource mobilization activities will be undertaken.

Out of the approved OR ceiling of US$ 90.25 million, US$ 56.7 million, or 63 percent, had been raised at the time of the audit, which was the third year of the current country programme. The total income raised in 2013 from all sources was US$ 14.3 million,[9] of which US$ 8.2 million, i.e. 58 percent, was generated from local Private Sector Fundraising (PSFR). Information about the income raised in 2014 was not available at the completion of the audit.

The overall fundraising performance might seem satisfactory if compared to the benchmark that it should be 60 percent at the end of the third year of the country programme. However, VISION data showed that there were some programme components and some outputs that were significantly underfunded.[10] Where programme components were well-funded, with an overall availability of OR of more than 60 percent, there were still some outputs with notable funding gaps, such as output 2.5 of the programme *Learn* and output 5.3 of the programme *Be an adolescent*; these were only 16 percent and 24 percent funded respectively.

This lack of funding had a negative impact on the implementation of the programme, as there were some key activities that could not be implemented in 2014. They included the development of the C-section strategy (*Health* programme), support to three states to prepare action plans to fight against the homicide of adolescents (*Child protection* programme) and technical assistance to eight states in the semi-arid platform to design and implement their MTCT (mother-to-child transmission) action plans (*HIV/AIDS* programme).

The audit noted that the office did not have a resource mobilization strategy for the period 2012-2014, and had not established a process to monitor on a regular basis the status of OR funding against the planned amounts in the CPD and the CPAP. In the absence of a resource mobilization strategy, the CO indicated that the planning for fundraising activities was done on an *ad hoc* basis in the CMT or Senior Management Team (SMT) meetings.

Furthermore, the office did not clearly assign resources mobilization responsibilities to specific staff members. The audit reviewed a sample of performance evaluation reports (PERs) of programme staff (Deputy Representative, Education Chief, Programme Manager South-South cooperation and Child Survival and Development Specialist) and noted that they focused more on the quality assurance over donor proposals and reports, rather than on specific fundraising targets.

According to the office, these shortfalls were due to historical circumstances, as the Resource Mobilization and Partnership (RMP) Chief post had been vacant for two years (although it was filled at the time of the audit), and the fundraising activities were split between different staff members working in different programme sections. The office also informed the audit that

_____

[9] 2013 trial balance extracted from SAP/VISION.
[10] The programme components least funded, as of October 2014, were *Child protection*, *HIV/AIDS* and *Cross-sectoral*, with OR funding of 28 percent, 30 percent and 28 percent respectively. The outputs least funded were *National strategy to prevent MTCT* (mother-to-child transmission of HIV*), Family competencies for child care*, *Justice with equity* and *Policies for child protection*, with OR funding of 5 percent, 12 percent, 13 percent and 14 percent respectively.

_____

there were ongoing discussions with PFP in the Regional Office to develop the office PFP strategy for 2014-2017, and that this process could be used to develop a consolidated office fundraising strategy.

Allocation of flexible funding: Since 2012, the PSFR strategy had been focusing on increasing the amount of flexible funding from individual donors and corporate partners. As a result, the office had increased the un-earmarked funding from individual pledges by 20 percent from 2012 to 2013, and the results achieved as of October 2014 (same result as of end 2013) showed that this upward trend would be maintained in 2014. In addition, the office was receiving significant amounts of thematic funding from the Government (US$ 2.6 million from the Ministry of Education in 2014), meaning that there would be more flexible funding to fund the country programme in the future. However, the office had yet to establish specific criteria for the allocation of flexible/un-earmarked funding. Instead, the allocations were decided on a case-by-case basis, within a committee led by the Representative and comprised of the Deputy Representative, RMP Manager and the Planning Officer.

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

   i.   Assign responsibilities for the management and monitoring of resource mobilization activities, and reflect those responsibilities in the performance evaluation reports of relevant staff.
  ii.   Prioritize the development and finalization of a fundraising strategy that integrates private sector Fundraising and regular programme fundraising, with specific fundraising targets and monitoring mechanisms.
 iii.   Establish a mechanism to monitor, on a regular basis, the funding status of the outputs against planned amounts, and take appropriate action as needed.
  iv.   Establish a procedure with defined criteria for the allocation of the flexible funding raised.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Annual programme review

Offices are expected to conduct annual programme reviews with key partners. The annual reviews should assess progress towards planned programme results, particularly for disadvantaged children; identify constraints, challenges and opportunities; strengthen the results architecture and indicator framework; and draw conclusions and recommendations for the design of the following workplans. It should also take stock of any new information on the situation of children and women, and review any implications it may have for the country programme.

The 2013 annual programme review was undertaken by the programme sections internally. Coordination and guidance was provided through the programme group meetings as part of preparation of inputs to the Results Assessment Module in VISION, and to the annual report. The programme staff interviewed by the audit stated that the views of concerned Government counterparts and other implementing partners were gathered during routine exchanges and meetings throughout the year. However, there were no formal meetings with them as part of the review. The office did not therefore have an annual programme review report for 2013 that showed agreement between the Government, other partners and UNICEF on what had

_____

been achieved, the constraints and the lessons learned to improve the following AWPs.

The audit did note, through the minutes of some programme group meetings, that the Deputy Representative had reminded the programme staff of the importance of consultations with partners for the annual review process, and of having a unified report to be used as support to provide feedback to the CMT. However, this guidance was not reinforced through defining concrete arrangements for the proceedings and monitoring of the annual programme review.

Agreed action 14 (high priority): The country office agrees to ensure that annual programme reviews are held with Government counterparts and other implementing partners, that they are documented, and that the programme review recommendations are taken into consideration in the following workplans.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: April 2015

Field monitoring

Country offices are expected to establish mechanisms, guidance and standards for on-site monitoring of programme implementation, and for systematic follow-up on the recommendations arising from trip reports.

The office prepared monthly travel plans that were approved by either the Chief of Section, Deputy Representative or Representative. An indicator for field visits had been included in the office management indicators (it was the average number of days spent on official in-country field travel per professional staff member). However, no benchmark was set and periodically monitored.

The CPMP included field-monitoring trips and follow-up action in its results-based monitoring mechanisms for PCAs and platforms. However, the office had not established standard operating procedures (SOPs) for field monitoring of programme implementation, with defined standard forms for trip planning and reporting, and a procedure for monitoring implementation of the trip-report recommendations.

Agreed action 15 (medium priority): The country office agrees to establish, and adhere to, adequate standard operating procedures and management indicators for field monitoring of programme implementation.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Harmonized Approach to Cash Transfers

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 the individual implementing partners, and assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

The office had started implementing HACT in 2008. For 2014, an assurance activity plan had been prepared by the designated HACT focal point (Finance officer), following consultations with the Deputy Representative and the Chief of Operations, and had been shared with staff by the Deputy Representative on 3 October 2014. It included 56 spot-checks and 31 micro-assessments.

The 2014 assurance plan included one spot check for each implementing partner regardless of the level of risk, and the programmatic (field-monitoring) visits were not planned. The office stated that all the partners were subjected to the same minimal assurance activities because the assurance plan was finalized late and there was only one staff member (Finance assistant) in charge of all the spot checks, with support of zone office assistants in some cases.

As of the date of the audit in December, only 14 out of 56 spot checks and 10 out of 31 micro-assessments had been completed. The direct cash transfer (DCT) transaction testing showed that two implementing partners that had received over US$ 100,000 each year in 2013-2014, and one implementing partner that had received more than US$ 100,000 in 2013 had not yet been micro-assessed during the current programme cycle (HACT guidelines require that this be done above US$ 100,000 of DCT).

Furthermore, the 2014 assurance plan did not include programmatic visits and audits. According to the office, the planning of programmatic visits was left to the programme sections and the office used the audits undertaken by the partners themselves when needed. However, the office could not provide the audit with the list of partners that were expected to be audited.

From interviews with programme staff, the audit noted that they had limited knowledge of the HACT framework in general and of assurance activities in particular. According to the office, the last training it had organized had been 2008; most of the current staff had joined the office after that date. The office also stated that partners were trained as part of the micro-assessment process. However, the 2013 Country Office Annual Report reported that capacity development of high-risk implementing partners was off track.

As per the date of the audit there was no monitoring system for the implementation of HACT assurance plan, and no established process to analyze and use the results of the micro-assessments and spot-checks results. As a result, the same significant weaknesses identified during one spot check were found again during the next spot check undertaken one year later.

The office had no accountability framework for HACT. The office indicated that the common understanding was that responsibility is shared between Deputy Representative, programme managers and planning officer. The HACT focal point did not have ToRs that clarified the responsibilities related to this function; the role was limited to operational aspects, i.e. planning the micro-assessment and spot checks, identifying the staff to implement them, and organizing the field visits.

Agreed action 16 (high priority): The country office agrees to:

  i.   Establish clear staff accountabilities for planning and implementation of the

_____

ii.   Harmonized Approach to Cash Transfers (HACT), and assign responsibilities accordingly.

ii.   Implement a comprehensive HACT assurance plan that also includes programmatic visits and audits.

iii.   Allocate sufficient resources to ensure that all assurance activities are implemented in accordance with the risk level of each partner and that their results are analyzed and followed up.

iv.   Ensure that all staff members and implementing partners are trained on HACT, are aware of HACT guidance and understand HACT assurance activities.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: June 2015

Integrated monitoring and evaluation plan (IMEP)

The audit reviewed whether the office's research, monitoring and evaluation activities were realistically planned and timed. Monitoring and Evaluation (M&E) activities are set out in advance in the Integrated Monitoring and Evaluation Plans (IMEP). There are two IMEPs in an office at any one time – a multi-year IMEP, covering the whole five-year programme cycle, and a rolling IMEP covering one or more years, so that the office can update its M&E activities as the programme progresses. The office had annual IMEPs for 2013 and 2014, as well as an overall IMEP for the 2012-2016 country programme.

The M&E section consolidated the inputs to the annual IMEP from chiefs of sections/areas and finalized it following a review with the Representative. However, this review, and the criteria on which it was based, were not recorded. The implementation of the annual IMEP was monitored by the M&E section through a monitoring spreadsheet that was updated quarterly by the programme sections.

As of end of 2013, out of 26 studies, surveys, and evaluations scheduled for completion in the reporting year (including carryover from prior years), only nine were completed (five studies out of 17, and three surveys out of seven and one out of two evaluations). Furthermore, eight studies and surveys not completed in 2013 were not carried over to 2014, including important activities such as an equity study on the economic growth with social inclusion and a study on the situation of children orphans of HIV/AIDS.

In the 2014 IMEP, in addition to the activities carried over from the previous year, there were seven new activities (five studies and two assessments), while the five-year IMEP did not include any study or survey for 2014.

The office stated that these shortcomings were due to planning challenges (delay in the identification of the partners) and lack of funding. The audit confirmed the issue of lack funding, as out of 13 surveys and studies planned in 2014, two were partially funded and four were not funded; further, two evaluations planned since 2012 had yet to be undertaken due to lack of funding. In addition, the audit noted that the office had not defined in writing any criteria for the selection of IMEP activities, and had not established effective controls over the monitoring of their implementation.

Low completion rate of the annual IMEP and insufficiencies in its design create a risk that the programme may lack critical information needed for decision-making, and might thus

_____

compromise the efficiency and effectiveness of programme implementation.

The office conducted many studies (five studies completed in 2013 and 17 planned in 2014); however, it had no overall mechanism to ensure that the results of these studies were used. Instead this was done occasionally, as in the case of the out-of-school study, where a specific dissemination strategy had been prepared with specific products for various target audiences.

Agreed action 17 (medium priority): The country office agrees to strengthen oversight over the preparation, implementation and follow-up of the integrated monitoring and evaluation plan (IMEP), through:

    i.   Defining written criteria and rationale for selection of the IMEP activities.
    ii.   Improving oversight over the implementation and follow-up of the IMEP.
    iii.   Establishing a work process that ensures that the results of completed studies are communicated and used effectively.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: December 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over Programme management, as defined above, needed improvement to be adequately established and functioning.

_____

3   Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **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, 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, except procurement of supplies and inventory management (the supply component of the programme was very small, and the office did not have a warehouse).

Financial controls
The audit assessed the financial controls in the office and noted the following.

Vendor master records: Duplication of vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of incorrect payments. It could also lead to implementing partners receiving cash disbursement despite having advances outstanding for more than six months.

The vendor master records creation in VISION was also centralized in Brasilia and was performed by two Finance assistants. The audit noted that there was no established process to verify the accuracy of vendors' information or confirm non-existence of duplicate records before creating new vendors.

According to the information retrieved from VISION, the office had created 2,592 vendor records. A review of the vendor master data showed that at least 134 vendor records were duplicated. These duplicated master records were created either during the migration of data from UNICEF's previous management system, ProMS, in November 2011, or through creation of new master records without checking whether they existed already. The audit noted that in several cases, vendors with duplicate master records were identified, blocked from posting and marked for deletion. However, a review of a sample of 50 duplicated vendor records showed that in 10 instances the duplicated vendor records had not been blocked.

Controls over payroll: Payroll represents the largest input of the programme, with 45 percent

_____

of total expenditure in 2013 and 44 percent as of October 2014.

During the period 2013-2014, 13 requests for salary advances were approved for a total amount of US$ 53,512. The audit noted that in two instances the request was to retroactively cover pension-fund deductions that had been omitted from previous payrolls for a total amount of US$ 14,504. Furthermore, the review of a sample of payrolls showed that in January, June and August 2014 there were retroactive adjustments of dependency allowances due to insufficient checking of personal information before payroll processing.

Travel management: The office's travel expenditure amounted to US$ 1.4 million during 2013, and US$ 1.1 million in 2014 as of November. A review of a sample of official travel showed that 80 percent involved participation in meetings, conferences, workshops and support to zone offices. This review revealed also that the office did not monitor the lead time between the approval of a travel request and the departure date. A review of 37 travel authorizations showed that in 65 percent of trips reviewed (24 of the 37 sampled travel authorizations), travellers submitted travel requests less than 15 days before the departure date. This practice limited the lead time for processing and reduced the office's ability to obtain the best prices.

Agreed action 18 (medium priority): The office agrees to:

   i.   Strengthen the controls over the vendor master records in order to avoid duplication, and ensure that recording of new vendors is based on adequate supporting documentation.
   ii. Establish mechanisms to verify, on a regular basis, the accuracy of the personal data of staff members recorded in VISION.
   iii. Establish procedures to ensure that travel requests are submitted, when possible, at least two weeks before the planned departure date to secure best use of office resources.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: October 2015

Management of funds raised by Private Sector Fundraising

The net contribution collected through PSFR in Brazil amounted to US$ 8.2 million in 2013, and US$ 9.2 million in 2014 as of 9 October.[11] Fundraising activities included: face to face campaigns to raise funds from individual donors; telemarketing services through call centres; licensing agreements to sell merchandise with UNICEF logo; corporate partnerships that included the collection of funds by utility companies through their clients' bills; and TV spots campaigns. The audit also noted that cash and cheques were received as donations by normal post.

Collection of cash contributions received by post: The management of cash involves a high risk of misuse or misappropriation.

As per VISION data, the office received US$ 16,000 in 2013 and US$ 11,500 as of November 2014. These contributions were often sent by anonymous contributors or persons that

_____

[11] Trial balance generated from SAP/VISION.

_____

provided incomplete personal data. The Finance section received these envelopes directly and recorded the number of envelopes that had come in. There was no segregation of duties between reception and recording of funds received. The envelopes were then kept in the office's safe. In order to ensure transparency, the presence of a staff member from the Resource Mobilization and Partnership (RMP) section was required when each envelope was opened. However, the audit noted that the total amount counted was not recorded and certified by the staff member who witnessed the opening of the envelopes.

Bank service agreements: According to information retrieved from VISION, the bank charges in 2013-2014 for processing payments from donors amounted to US$ 368,063. The audit reviewed the current agreements signed with three banks that process office's PSFR transactions and noted that the fees charged varied between 0 percent and 2.9 percent. Given that the banks would charge a fixed fee for each donation pledge, the bank charges reduce significantly the amounts raised – the more so given that the success rate of collection of pledge funds is estimated at 85 percent by the RMP section. PFP guidance encourages country offices to negotiate the lowest bank fees possible, or even free banking services. The office did not carry out such negotiations during the period under audit.

Agreed action 19 (medium priority): The office agrees to:

i.   Strength the controls over funds received by cash or cheque via mail by ensuring segregation of duties between receipt and recording of incoming envelopes, and by documenting and certifying the amounts received after opening.
ii.   Negotiate lower banking services fees so as to maximize the funds collected through PSFR.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: Immediate

Service contracts management

As part of the centralization of transactions, the office had established a standard operating procedure related to the contracting function, whereby all contracts related to consultants and individual contractors in the different zone offices were managed by the Brasilia office. The zone offices participated in the selection process by agreeing to the final shortlist, participating in the interview panel and in the final decision as to the candidate to be chosen.

According to VISION, the office issued 193 contracts for a total amount of US$ 8.3 million in 2013-2014. Of the 193 contracts, 26 were for consultants, 84 for individual contractors and 83 for corporate contractors. The audit noted that eight out of 84 contracts for individual contractors , amounting to about US$ 73,000, were single-sourced – as were seven out of 26 contracts for consultants (27 percent), amounting to about US$ 130,000. Six out of 83 contracts for corporate contractors (7 percent), amounting to about US$ 101,000, were also single-sourced.

The audit reviewed a sample of 26 contracts (16 local corporate contracts and 10 consultant and individual contracts). Eight of the sample were single-sourced, and the justification for this, as recorded, was not adequate (for example, extension of an existing contract to include additional tasks, and services for a new phase of the project that were not covered in the original contract). The audit also noted the following.

_____

- In three out of the 10 consultant and individual contractor contracts, specific deliverables and performance indicators were missing.
- Twelve contracts (i.e. 43 percent) were signed after the start date of the assignment.
- One corporate contract amounting to US$ 55,622 was not submitted to the Contract Review Committee (CRC), even though the threshold for submission (which is set by the office) was US$ 50,000.
- In another case, a consultant's contract exceeding the threshold had been submitted *post-facto* to the CRC, four months after the start date of the assignment. The contract was originally released for US$ 60,638 and with a validity period of September 2012 – October 2013, without CRC submission. However, the contract was changed and the original amount was split in two: US$ 38,587.54 for the period September 2012 – April 2013 and US$ 22,050 for the period May 2013 – September 2013. There was no explanation for this change.

Agreed action 20 (medium priority): The office agrees to:

i.   Ensure that all contracts are awarded based on a competitive process and that any exception is in accordance with established policy.
ii. Adhere to UNICEF policy on the management of contracts for consultants and individual contractors by specifying the deliverables and performance indicators in the contracts.
iii. Ensure that each contract is signed by both parties before the start date.
iv. Strengthen controls over the Contract Review Committee (CRC) function by ensuring that all contracts exceeding the established threshold are reviewed by the CRC and before the start date.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: June 2015

Asset management

Offices are expected to establish systems and controls to ensure that all their assets are accurately identified and recorded, that the inventory database is independently checked against physical inventory and reconciled, and that there are defined procedures for the identification and disposal of non-expendable property.

According to information retrieved from VISION, as of 21 November 2014 the office had recorded a total number of 558 items of property, plant and equipment (PP&E) with an assigned original value of US$ 827,596. The audit noted that validity, accuracy and completeness of this record could not be established due to the following discrepancies.

Asset master data in VISION: No inventory numbers were assigned to 58 items with a value of US$ 85,940; the same inventory number was assigned to two different items; and 281 items amounting to US$ 449,577 had not been identified (or at least not updated) in the last physical count. Thirty-five items amounting to US$ 33,147 had a pending Property Survey Board (PSB) status (that is, they were supposed to be reviewed for disposal).

Two different location codes had been created for the same zone office (Belem). Moreover, the analysis of the inventory items by location showed many inaccuracies. For five zone offices

_____

(Belem, Fortaleza, Recife, Salvador and São Luis), the PP&E items recorded in the database were limited to photocopying machines and air conditioners while the remaining items were assigned to either the Brasilia or São Paulo offices. Seventeen out of 46 items located in São Paulo were assigned to the Brasilia office and 208 out of 326 items located in Brasilia were assigned to São Paulo zone office. These shortcomings were due to lack of dedicated staff assigned to PP&E management, and to insufficient training on the maintenance of the asset master data in VISION.

Verification of physical existence: The audit noted a lack of visits from the Brasilia Operations Section in 2013 and 2014 to the zone offices to provide oversight/quality assurance in managing PP&E. The reports of the physical counts carried out in all the offices in October 2014 were not signed and included a high number of items not found (e.g. 10 out of 30 PP&E items in Manaus). During a visit to São Paulo zone office by the audit, out of a sample of 30 inventory items assigned to that office in VISION, 18 could not be found.

The items not found in the physical inventories had not been submitted to the PSB for a decision as to whether to write them off.

Tagging: The audit noted that the office did not ensure that all PP&E items were tagged prior to issue/use. During a visit to the Manaus zone office, audit noted that the tagging only identified ownership as UNICEF or Ministry, without assigning an inventory number.

Agreed action 21 (medium priority): The country office agrees to strengthen management of its assets by ensuring that:

  i.   A dedicated staff is assigned to the management of property, plant and equipment (PP&E) in the country and zone offices and that these staff members are provided with adequate training.
  ii. Controls related to maintenance of the asset master data in VISION, reconciliation of database with physical counts, and tagging of PP&E and Property Survey Board (PSB) processes are strengthened.

Staff responsible for taking action: Representative and the CMT
Date by which action will be taken: June 2015

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, the control processes over operations support, as defined above, were generally established and functioning during the period under audit

_____

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 (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.

Conclusions

The conclusions presented at the end of each audit area 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 the country office *[or 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.