Internal Audit of the Cambodia Country Office

September 2015

Office of Internal Audit
and Investigations (OIAI)
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children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Cambodia country office. 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 June 2015. The audit was conducted from 11 May to 5 June 2015.

The 2011-2015 country programme includes six programmatic components: *Maternal, newborn and child health and nutrition*; *Water, sanitation and hygiene; Basic education; Child protection*; *Local governance for child rights*; and *Policy, advocacy and communication*. The country programme has an approved budget ceiling of US$ 107.5 million, comprised of US$ 32.5 million regular resources (RR) and US$ 75 million of 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 OR.

The country office is in Phnom Penh and there are four zone offices, in Battambang, Kampong Cham, Preah Sihanouk and Siem Reap. The office has a total workforce of 119 posts (22 international professional, 49 national officers, 44 general service and four UN Volunteers).

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. Two of these are being implemented by the country office as a high priority – that is to say concerning issues that require immediate management attention. They relate to the following issues.

- Key aspects of the harmonized approach to cash transfers (HACT) were not implemented: a macro-assessment was not conducted; micro-assessments were not implemented as planned; and assurance activities were not implemented as planned. The office has agreed to take action to strengthen HACT implementation.
- Cash transfer payments were not properly authorized, payments were delayed and some cases exceeded the agreed budgets, and some transfers were improperly reprogrammed. Office has agreed to take appropriate corrective actions.

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 control processes over the country programme were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Cambodia country office has prepared action plans to address the issues raised.

The Cambodia country office, with support from the East Asia and the Pacific Regional Office (EAPRO), and OIAI will work together to monitor implementation of these measures.

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.

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.
- **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 actions to promote ethical behavior and to ensure that staff are aware of UNICEF's ethics and zero tolerance fraud policies, and procedures for reporting and investigating violations of these policies.

All the areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had updated the assignment of responsibilities in the table of authority. The effectiveness of segregation of duties was regularly reviewed and mitigation actions were implemented to address segregation-of-duties conflicts.

Advisory and statutory committees, such as the country management team, contract review committee and programme cooperation agreement committee, were established and functioning. Annual management plans (AMPs) were drawn up in 2014 and 2015 using a template provided by the Regional Office. The AMP included annual priorities. The office had also defined key management performance indicators and assigned responsibilities to staff.

In order to strengthen office operations and programme management, the office had set up a VISION hub for its office and zone offices.

The office had taken action to promote ethical behaviour and increase staff awareness of UNICEF's ethical policies and procedures and anti- fraud policy. The office had organized ethics training in the local language. Also, an ethics eLearning module had been made available and all staff had completed the training.

However, the audit also noted the following.

Office staffing and recruitment

The Cambodia staffing structure was reviewed in 2013 after the mid-term review of the country programme. The revised structure approved by the programme budget review (PBR)[1] included 113 posts changes. The staffing changes included 57 abolished posts, 26 new posts, 22 reporting changes, seven conversions related to the changing of funding source and one upgrade. The changes included closure of two zone offices. In 2015, there were additional changes introduced in preparation for the 2016-2018 country programme. The adjusted staffing structure included 46 posts with 16 abolished posts, 11 posts created, six title changes, nine reporting changes, two post conversions and two downgrades.

The abolition, creation, upgrading and downgrading of posts resulted in staff changes through departure of staff on abolished posts and recruitment of staff on new posts. The office indicated in the 2016-2018 country programme management plan (CPMP)[2] that the continuous decrease of staffing level and downgrading of posts were linked to the decreasing throughput of the programme and the organizational cost savings.

The office commented to the audit that there was no defined mechanism to obtain specific support from the Division of Human Resources (DHR) in critical times of transition like this. Without it, significant and consecutive staffing changes can affect the office working environment and programme implementation. For most of 2014, there were 15 vacant posts (20 percent of staff). At the time of audit there were seven vacant posts. The vacancies included critical posts such as Chief Communications, Chief WASH (Water and Sanitation) and Chief Field Office (Siem Reap).

The audit noted that in some instances, the recruitment took more time than 90 days (this was the office's own standard key performance indicator, or KPI, for recruitment, from advertisement to assumption of post). Seven out of 19 recruitments of national staff exceeded the KPI – with a maximum of 153 days, for the post of WASH Officer (not the same post as Chief WASH mentioned above). For international staff, 17 out of the 19 recruitments exceeded the KPI. It took more than 200 days to recruit the Chief Social Policy and the Community Officer.

Delays in the recruitment of staff could reduce the office's capacity to adequately implement the country progamme. While the office had analysed the reasons for delays and said that the

[1] The 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.

time-consuming recruitment processes were a major constraint, it had not taken corrective action.

Agreed action 1 (medium priority): The office agrees to identify recruitment bottlenecks in a timely manner and develop a strategy to expedite the recruitment process when there are major changes to the staffing structure.

Target date for completion: October 2015
Responsible staff members: Human Resources Specialist

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 are expected to include in the CPMP five to 10 of the most significant specific risks to the achievement of planned programme results and management objectives, along with identified mitigation measures. Also, EAPRO requires country offices to include their risk profile in the rolling Annual Management Plans (AMPs).

The office had updated its risk profile in 2014. The risk profile described risks, their root causes and an action plan to mitigate the risks identified. However, the risk profile did not identify specific risk owners as such; this did not assist accountability in risk identification and mitigation. Moreover, while the 2016-2018 CPMP mentioned risks and opportunities in five broad areas, the corresponding mitigation measures were not identified.

In the AMP the office did identify 11 specific risks, together with their description and risk rating. There were several high risks, of which some were stated to be very high, with a probable trend to increase. There was however no information on action taken to address these (which included fraud and misuse of resources, funding and external stakeholder relations and human resources).

It was noted that there were various inconsistencies in the risks and risks ratings between the risk profile and the AMP. For example, the office risk profile, updated as part of the RCSA in 2015, identified three high risks – one high risk on results management, measurement and reporting, and two medium-high risks (governance and accountability, and natural disasters and epidemics). However, these were not consistent with the very high risks identified in the 2015 AMP.

The office said it thought an orientation session on the ERM was needed, especially given that new staff had joined the office in 2014 and 2015.

Agreed action 2 (medium priority): The office agrees to strengthen its risk-management process by training staff on Risk and Control Self-Assessment (RCSA) and taking the following steps:

i. Identifying specific risk owners for all risks and ensure that they understand their roles and accountabilities in the management of assigned risks.
ii. Updating and identifying mitigation actions for key risks included in the 2016-2018 Country Programme Management Plan in the next RCSA.
iii. Ensuring that there is consistency between the risks identified in the RCSA and those included in the annual management plans.

Target date for completion: December 2015
Responsible staff members: Chief of Operations

Governance: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, the controls and processes over governance, were generally established and functioning during the period under audit.

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. Progress in implementing the country programme was reviewed against planned workplans with key implementing partners through the mid-year and annual reviews.

The office had conducted a situation analysis of children and women (SitAn) in 2013; this had included a causal analysis of the status of most deprived and excluded. In 2014, the office had organized a Theory of Change workshop combined with strategic reflections in preparation for the development of the next country programme. The workshop involved various types of analysis to help staff identify and agree on programme priorities for the next country programme.

In 2015, the office developed a funding and leveraging resources strategy that was included in the 2016-2018 CPMP. It has effectively mobilized 97 percent of its resources against the revised OR ceiling as of 31 December 2014. All 46 donor reports due in 2014 were submitted on time, as were all 18 due in 2015 up to the time of the audit. The donor reports reviewed were of good quality in terms of content and formats.

The office had a multi-year integrated monitoring and evaluation plan (IMEP) that included evaluations planned for the country programme cycle. This multi-year IMEP was reviewed and updated on an annual basis. The yearly IMEP activities were costed. Key evaluation recommendations were identified and followed up for implementation. To strengthen programme management, an Evaluation Specialist post was created in Cambodia to support the Evaluation Function in Cambodia, Myanmar and Malaysia.

However, the audit also noted the following.

Results-based programme planning

The audit reviewed the planned results for the country programme as shown in VISION. It noted that some outputs were not SMART.[3] For example, output 2.1, was given as 'enhanced support for children and families leading to sustained use of safe drinking water, adoption of adequate sanitation (use of toilets) and good hygiene practices (hand-washing with soap at critical times)'. Similarly, Output 2.2 was 'increased national and sub-national capacity to provide access to sustainable safe drinking water and adequate sanitation'. Again, these outputs expressed the intention of the activities but did not lend themselves to measurement, and were therefore not well formulated. Results that were not SMART were also noted in other programmes reviewed, such as *Maternal, new-born and child health and nutrition*, *Basic education*, and *Child Protection*.

Besides the planned results of the country programme, the audit also reviewed the workplans. These are the documents that operationalize the programme, and are drawn up in cooperation with implementing partners. The audit found that all annual workplans included annual milestones for each expected output and included planned activities that contributed to the achievement of the stated milestones.

However, the workplans also had some inconsistencies in use of measurement parameters (indicators, baselines and targets). For example, the 2015 water, sanitation and hygiene workplan output 2.1 mentioned above included the following milestones: 'By the end of 2015, a) 100,000 school children reached with group hand-washing facilities and received hygiene education; b) 36 target schools developed O&M plan; and have functional toilets, hand washing stations, water sources, that are maintained in good condition and clean school environment free of rubbish and waste.' However, the Indicators, baselines and targets were defined in terms of villages and households and not in terms of school children.

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

i. Establish a quality review process over the development and formulation of results statements and ensure they are SMART.
ii. Ensure that outputs have appropriate measurement parameters (indicators, baselines and targets) and ensure cohesiveness of the results statements.

Target date for completion: November 2015
Responsible staff members: Deputy Representative, Planning monitoring and Evaluation Specialist

Harmonized Approach to Cash Transfers (HACT)

Offices are expected 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

[3] Specific, measurable, achievable, relevant and time-bound.

demands from the partner, thus cutting bureaucracy and transaction costs.

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

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

Cash transfers were a major UNICEF input in Cambodia. In 2014, a total of US$ 9.4 million was disbursed to various implementing partners as cash transfers, and US$ 2 million in 2015 (as of 31 May). During 2014 and 2015, the office collaborated with 180 partners. Of the 180 partners, six had received more than US$ 500,000 since the beginning of the programme cycle in 2011. The audit considers that the number of the implementing partners to be high for effective collaboration.

The office had developed an integrated Access-based HACT assurance database that captured various types of information on implementing partners, including risk assessments, planned disbursements, planned and actual assurance activities, etc. Each section used the micro-assessment risk ratings and annual expected disbursement levels to prepare assurance activities such as annual spot checks, programme visit and scheduled audits. The plan was then uploaded to the HACT database, which was maintained by the staff assigned as HACT focal points.

The following was however noted:

Macro-assessment: A macro-assessment should be undertaken at least once per programme cycle, and is used to determine whether a country's Supreme Audit Institution (SAI) will be used for audits of Government implementing partners. A macro-assessment was conducted in October 2012 in preparation for the current country programme, and it was decided not to use the National Audit Authority for audit of government implementing partners. However, no further macro-assessment had been undertaken as part of preparation for the new (2016-2018) country programme.

Micro-assessments: In 2014, there were three planned micro-assessments; however, they were not done. For 2015, the office had planned 15 micro-assessments, plus the three not done in 2014. All 18 had been carried by the time of the audit in June, but the assessment reports were not finalized and the risk rating for those 18 implementing partners was not yet recorded in VISION. The office said that this would be done when the final micro-assessment reports had been received and discussed with the partners. The remainder of the office's partners that received over US$ 100,000 were to be subject to spot-checks instead of micro-assessments; this is in accordance with the new HACT procedure, under which those partners not micro-assessed are considered high risk and are subject to spot-checks instead. However, it was not clear whether these spot-checks would take place – see following paragraph on assurance activities.

Assurance activities: A review of the inSight[4] 2014 HACT status report in VISION noted that there was no planned programmatic visits. Furthermore, the report showed that the implementation of other planned assurance activities was very low. Of 123 planned financial spot-checks, only 32 took place. The office said this was due to limited internal capacity to carry them out. The audit also noted some shortcomings in the spot-check template and the way the reports were followed up (see *Financial spot-checks*, below).

The 2014 plan also included scheduled audits of all implementing partners that received more than US$ 500,000 during the programme cycle. However, none of these 11 audits were done. This included audits of five partners that received over US$ 500,000 in a year; these in particular should have been carried out.

For 2015, the HACT assurance plan uploaded in the HACT database had identified 167 programme visits and 64 financial spot-checks. The office said that, in view of its limited internal resources, it was considering outsourcing some assurance activities.

Assurance-activity reports were uploaded to the HACT data database and for each specific recommendation, the database provided a recommendation status (i.e. open, progress, closed). There was however no "one-stop" record of all significant recommendations included in the assurance reports so that they could be systematically followed up to ensure that they had been carried out.

Financial spot-checks: Spot-checks aim to review the financial records to ensure direct cash transfers are supported with sufficient documentation to justify the disbursements. In the absence of a standard UNICEF financial spot-check template, the office had produced its own. However, this was designed to align with the old HACT framework (a new one was introduced in 2015), and therefore had a limited focus on the review of the financial records. For example, in the sampled spot-check reports reviewed, the financial spot-check had covered disbursments made over one or two years; discussions with staff who conducted the spot-check also revealed that, due to time constraints, there had been a limited review of financial records. At the time of audit, the UNICEF-wide Spot-Check Guidance had yet to be issued.

Agreed action 4 (high priority): The country office agrees to strengthen the implementation of the Harmonized Approach to Cash Transfers (HACT) by adopting the revised HACT policy and procedures, and more specifically by:

i. Completing a macro-assessment as part of the preparation of the new country programme.
ii. Recording the risk rating of all implementing partners that have been micro-assessed.

[4] InSight (sic) is the performance component in UNICEF's management system, VISION (Virtual Integrated System of Information). InSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

iii. Allocating sufficient resources to planned HACT assurance activities so that the frequency of spot checks and programme visits for each partner is sufficient to obtain assurance that funds are used as intended.
iv. Establishing a plan for auditing all implementing partners that are expected to receive more than US$ 500,000 during the programme cycle.

Target date for completion: December 2015
Responsible staff members: Chief of Operations, Deputy Representative, HACT focal point, Finance Officer

Programme management: 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 Programme management, as defined above, were generally established and functioning during the period under audit.

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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **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. The office equipment was clearly identified and recorded. The office had a travel plan and had established a system of blanket travel authorization that is based on staff travel plan for a fixed period. The system simplified the travel authorization process for agreed trips linked to the staff members' workplan.

The business continuity plan and disaster recovery plan 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

Cash transfer expenditures for 2014 amounted to US$ 9.4 million as of 31 December (46 percent of the total programme budget). Unliquidated direct cash transfers (DCTs) amounted to US$ 4.3 million as of 6 May 2015, but very little of it was long-outstanding. Only 6 percent had been outstanding for more than six months, and none for more than nine months.

The office had standard rates for daily subsistence allowances and regional rates that were used by all programmes in budgeting and accounting for cash transfers transactions in the FACE forms.[5]

[5] 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 audit reviewed 46 cash transfers transactions: 20 direct cash transfers (DCT), two direct payments and 26 liquidations. The audit noted that, although some direct cash transfers requests were submitted prior the start of the activities (up to 21 days in advance), others were received late – in one case, 122 days after the start date of the activities. In 10 cases, requests dates did not match the activity dates; there were also discrepancies between actual outstanding amount in VISION and reported amount stated on the FACE form.

It was also noted that in 14 instances, the FACE form was not adequately completed. For example, in four cases, the vendor name and activity period were not recorded, and they had very many manual amendments that indicated that the implementing partners were not correctly completing the FACE forms.

In 10 out of 26 liquidations sampled, the implementation period exceeded three months; in one instance DCT transfers were released for one year's activities. There had been an agreement with donors, UN agencies and government partners that UNICEF's contribution to health sector was to be released at once for the entire year. However, the office had not obtained authorization from the Division of Financial and Administrative Management (DFAM) to make the transfer for a year.

Payments and Project Cooperation Agreements (PCAs): A review of payments made to seven NGOs noted that in two cases, the total amount disbursed to NGO exceeded the budgeted amount in the project cooperation agreements (PCAs).

In one instance, the budgeted amount in the signed PCA was US$ 362,356 and the total amount disbursed as cash transfers amounted to US$ 365,507; there was therefore an overpayment amounting to US$ 3,151. There was also an amount disbursed to the NGO that, according to the office, was a reimbursement amounting to US$ 12,601 that was not included in the PCA but was supported by separated documents (letters/emails). This meant in effect that the reimbursed sum was a cash transfer to the NGO not covered by any formal agreement.

In the other case, the PCA signed amounted to U$ 2,773,783 and funds disbursed amounted to U$ 2,795,376, indicating an overpayment of US$ 21,593. The office said however that there had been some refunds, and that the total disbursements made therefore remained within the PCA budgeted amount. However, while the eventual net payments fell within the agreed PCA amount, it had been temporarily exceeded. It was not clear why this had occurred. The audit attributed the causes to an inadequate review process over payments before the cash transfers were approved.

Furthermore, audit noted that 14 transactions with that NGO, amounting to U$ 221,542, had been reprogrammed due to delays in programme implementation. A detailed review by the audit noted that reprogramming was considered by the office because programme implementation had been delayed. This is contrary to UNICEF cash-transfer policy.

Agreed action 5 (high priority): The office agrees to strengthen cash-transfer procedures, by ensuring that the authorizing and certifying officers diligently perform their roles, and by taking the following steps:

i. Process release of funds and liquidations in a timely manner.
ii. Review Funding Authorization Certificate of Expenditure (FACE) forms for accuracy and completeness.

iii. Release funds for an implementation period that does not exceeded six months and seek authorization for any exceptions as per UNICEF policy.
iv. Ensure cash transfer amounts do not exceed the budgeted amounts in the relevant Project Cooperation Agreement.
v. Carry out reprogramming only in accordance with UNICEF cash-transfer policy.

Target date for completion: September 2015
Responsible staff members: Representative

Procurement of goods and services

The office had a contract review committee (CRC) that had met 15 times in 2014 and reviewed 21 cases valued at an approximately US$ 2.5 million. The procurement of goods amounted to US$ 1 million of this. The office reported that expenditure on goods declined in 2014 with the programme shift toward upstream policy work. The value of service inputs reached US$ 1.5 million, mainly covering technical assistance, consultancies, research and advisory services.

Contracts for services: The audit reviewed a sample of 17 contracts for services. Controls were mostly functioning well. However, the audit noted that, in five out of 17 sampled transactions reviewed, deliverables were not adequately defined. Examples included monthly fees/salaries or consultancy fees. In defining payment as a salary or monthly fee, the office was not linking payment instalments directly linked with satisfactory deliverables. It was also noted in one instance that the contract payment schedule was different from the actual payments. The contract payment was defined in terms of three instalments, but the actual payments were distributed over 11 months.

There were no evaluation reports attached to payments for any of the 16 contracts for services reviewed. For two of the contracts, interim payments were made after six months but no interim evaluation reports were attached to the payments documents to certify that the work had been satisfactorily carried out.

In three instances, the services were not provided on time, but the contracts were not amended to reflect the actual date of completion of work; payments were therefore made against an expired contract. There was also a discrepancy between the numbers of airings of TV spots delivered (186) compared to the number stated in the signed purchase order (194).

There was also a contract in the amount of US$ 148,345 for the construction of 275 wells. On 1 April 2015 only 249 had been constructed and payment was processed for the full quantity even though 26 wells were yet to be acknowledged as delivered by the beneficiary. The office indicated that they paid the full amount because the grant that was expiring. This was poor management of grant funds and could result in loss of funds.

Agreed action 6 (medium priority): The office agrees to strengthen the certifying and paying function in the contracting process, and to:

i. Adequately define the terms of reference, deliverables and payment schedules of contracts for services, and amend contracts properly if necessary.
ii. Adequately document all payments for service contracts, with signed evaluation forms that certify completion of the work.
iii. Process payments for goods and services only when delivered, regardless of the expiry dates of grants.

iv. Adequately document delays and amend contracts as needed.

Target date for completion: October 2015
Responsible staff members: Representative and Chief of Supply and Procurement

Operations support: 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 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'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.

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.