# Internal Audit of the Republic of India Country Office

December 2015



Office of Internal Audit
and Investigations (OIAI)
Report 2015/28

unicef

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# Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the India country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited India from 9 April to 6 May 2015. The audit covered the period from January 2014 to 9 April 2015.

The country programme for 2013-2017 consists of 10 main programme components: *Reproductive and child health*; *Child development and nutrition*; *Water, sanitation and hygiene*; *Education*; *Child protection*; *Policy, planning and evaluation*; *Disaster risk reduction*; *Advocacy and communication*; *Communication for development*; *and Programme review and monitoring.* There is also a cross-sectoral component. The total approved budget for the country programme is US$ 750 million, of which US$ 210 million is regular resources (RR) and US$ 540 million was 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 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 the capital, New Delhi. It has 13 field offices. At the time of the audit (May 2015), it had a total workforce of 390 posts (39 international professionals, 202 national officers, and 149 general service). The total expenditures during the period 2013-2015 (May) were US$ 221.3 million.

## Action agreed following the audit
In discussion with the audit team, the country office has agreed to take a number of measures. Two are being implemented as high priority – that is, to address issues that require immediate management attention. They are as follows.

- Strengthen oversight and quality assurance in the utilization of, and reporting on, the funds received from donors.
- Institute measures to strengthen controls over contracting, including better oversight and a stronger quality assurance review mechanism; and obtain local legal advice on its third-party contracting.

## Conclusion
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit.

The India country office, the Regional Office for South Asia (ROSA) and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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## Objectives

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

The audit observations are reported 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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**,  including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had prepared a training plan for staff development in 2014 and 2015 and followed up the implementation of the plan. It had also systematically monitored staff performance. The completion rate for staff performance assessments 2014 had been 99 percent, while that for phase one for 2015 was 80 percent. The office was in the process of conducting a staff capacity assessment as part of the mid-term review.

At the time of the audit (May), the office had begun to prepare an action plan to strengthen those areas that were identified for improvement in 2014 global staff survey.[1] The office had

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[1] UNICEF's Global Staff Survey, first launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including

invited all staff to participate in the preparation of the action plan and assigned a specific committee to finalise the plan and follow up on its implementation. Twenty-six staff members were required to complete the online training on integrity and awareness and a further 339 were recommended to; all but four had done so (although those four were amongst those for whom it was mandatory).

However, the audit also noted a number of areas where governance process could be strengthened.

## Assignment of authorities

Each office is required to maintain a manual Table of Authority (ToA), setting out the authorities delegated to each staff member. The Representative should review the ToA periodically (preferably quarterly) 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. Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with other functions that support programme implementation and operations.

Representatives approve the provisioning of VISION user IDs and their corresponding roles, using the guidelines in UNICEF Financial and Administrative Policy No. 1: *Internal Controls and its supplements*. An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments. A key requirement is to ensure, as far as possible, adequate segregation of duties, so that no single staff member can carry out a whole process (for example ordering, receiving and payment) without checks and balances.

The office regularly updated its ToA to reflect changes in staffing. The office had formally notified staff members of the authorities delegated to them and the staff had acknowledged awareness of the associated accountabilities. The office had assigned roles to staff members, mapped these roles in VISION and updated them as and when needed. In addition, the representative had delegated authorities to staff as authorizing, purchase-order releasing, receiving, certifying, approving and paying officers.

However, the audit noted the following.

***Alignment of roles with staff functions:*** Some roles assigned to staff members were not aligned with their functional responsibilities. For example, purchase order (PO) release L2 role was assigned to 13 programme staff and, as a result, programme (non-procurement) staff could release POs in VISION. The programme L2 role was assigned to four operations staff and the programme L3 role was assigned to one operations staff member. This meant that non-programme staff could perform programme functions, including approval and liquidation of direct cash transfers (DCTs) in VISION.

***Segregation of roles:*** Some roles were not adequately segregated. For example, a staff member had been assigned PO release L2 role, and at the same time also had that of a receiving officer. The staff member could thus acknowledge the receipt of goods and services even if they were not in accordance with the specifications in the PO – which they could

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internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymized.

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originally have raised. Also, bank reconciliation had been assigned to a staff member who had been assigned the travel administrator and the accounts receivable L1 roles as well. As such, abnormal receipts and travel transactions posted by the staff member could remain undetected during the bank reconciliation.

**Recording of roles in VISION:** Some roles registered in VISION did not match the approved ToA. For example, the authorizing role had been delegated to finance and human resources managers, but this delegation was not registered in VISION. The approving role had been delegated to the chief of human resources and the chief of supply and procurement, but again, this was not registered in VISION. The audit found several other examples. (In contrast, the paying role had been registered to a staff member in VISION although the Representative had not delegated it to them.)

**Signatory panel:** The bank signatory (paying officer) panel was maintained by the country office and had been updated for staff changes as and when needed. However, four of the 11 bank signatories or paying officers who signed cheques and bank transfer letters to effect payments from the UNICEF bank account, had not acknowledged awareness of accountability and acceptance of delegation.

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

   i.   Periodically review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties and alignment of roles with staff functions.
   ii.  Periodically review the registration of the table of authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.
   iii. Secure acknowledgement by the signatory panel members on their awareness of accountability and acceptance of delegation.

Staff responsible for taking action: Deputy Representative, Operations; APPROVA focal Point; ZVISA focal Point
Date by which action will be taken: August 2015

## Country Management Team

The Country Management Team (CMT) held three meetings in 2014. It had clearly defined terms of reference (ToR). Programme and operations staff, including the field offices, were represented fairly, as was the staff association. However, the general service staff were not represented.

The audit reviewed the minutes of the CMT and noted that it had not consistently reviewed important programme and operations matters, including (but not limited to) management indicators and resource mobilization strategy. Neither did the minutes show consistent review of key action points from previous CMT meetings, as specified in its ToR. The office said that management indicators and programme implementation were reviewed in the monthly programme and operations meetings. The audit reviewed the minutes of four meetings of each type and found that key programme and operations indicators were indeed reviewed during these meetings. However, the status of programme implementation had not been adequately covered; moreover the key points from these meetings had not been presented to the CMT, which is the body ultimately charged with reviewing progress and advising the Representative.

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The audit also noted that the CMT did not always establish action points to address the issues brought up in its meetings. Where it did do so, the staff member responsible and the deadline for taking the action were not specified. Further, the action points were not systematically followed up, nor did the CMT keep abreast on the status of their implementation. The office stated that it had started to follow-up on the CMT action points since March 2015.

**Agreed action 2 (medium priority):** The office agrees to strengthen the functioning of the Country Management Team (CMT) by making sure that:

   i.    The general service staff are represented in the CMT.
   ii.   Action points with assigned staff and deadlines are established and systematically followed up to address issues identified during the CMT meetings.
   iii.  The CMT is adequately briefed on the progress and results of programme implementation.

Staff responsible for taking action: Representative; Chief, Policy, Planning and Evaluation; Deputy Representative, Programme
Date by which action will be taken: December 2015


## Risk management

Offices are expected to regularly assess risks and implement relevant mitigating controls. Under UNICEF's Enterprise Risk Management (ERM) policy, they should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risks to 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.

The office had conducted systematic risk assessments in both 2014 and 2015, had developed corresponding action plans, and had followed up the status of their implementation. The 2015 assessment had identified 21 risks in 11 risk categories. Two were assessed as high risk, under the risk categories of fundraising and external stakeholder relations, and natural disasters and epidemics.

However, the office did not ensure the involvement of all staff in the RCSA exercise. Only the chiefs of sections, the chiefs of field office and the operations officers in the 13 field offices participated. In addition, the office did not adequately document the RCSA process and update the risk and control library to maintain an inventory of all identified risks that could be used in future risk assessments.

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

   i.    Involve staff at all levels in the Risk and Control Self-Assessment (RCSA) process.
   ii.   Establish measures to adequately document the RCSA process.
   iii.  Update its risk and control library with an inventory of risks identified during the RCSA.

Staff responsible for taking action: Deputy Representative, Operations
Date by which action will be taken: January 2016

## Office priorities

Offices are expected to set priorities, assign responsibilities to staff members, periodically monitor their performance against those responsibilities, and review overall achievement of the office's priorities through the use of performance indicators.

The office had identified its priorities for 2014 and 2015 in its rolling management plans (RMPs). For each priority, it set the expected results/targets, assigned the responsible staff, and identified the performance indicators. However, the identification of the priorities was not fully risk-informed. For example, the office had identified funding and external stakeholder relations as medium risk in its 2014 RCSA exercise (see previous observation, *Risk management*), and escalated it to high risk in its 2015 RCSA. However, the office had not included funding and external stakeholder relations as one of its management priorities for 2014 and 2015.

Moreover, some key priorities were not embedded in staff performance planning. For example, the office had set improved programme monitoring and HACT[2] as priorities for 2014; and assigned these priorities to some staff members. However these priorities were not clearly articulated in the 2014 performance plans of the assigned staff.

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

   i.   Revisit its priorities for 2015, taking into account the risks identified in the risk and control self-assessment.
   ii.  Include key priorities in the performance plans of assigned staff.

Staff responsible for taking action: Deputy Representative, Operations
Date by which action will be taken: 15 October 2015

## Human resources management

Selecting staff in an effective, efficient, fair and transparent manner is a critical function that has a significant impact on UNICEF's ability to deliver results for children. In view of this, the executive directive CF/EXD/2009-008 (updated CF/EXD/2013-004) sets out the provisions for the selection of staff members aimed to place the right person in the right job in the quickest possible time. Country offices are expected to also ensure that staff have the knowledge and skills required to support the implementation of the country programme and achievement of planned results. The audit reviewed the recruitment process and noted the following.

*Recruitment plan:* At the time of the audit (April 2015), the office had 47 posts to fill, of which eight were international professional (IP), 24 national officers (NO) and 15 general service (GS). The office had a table showing the status of recruitment and updated it regularly. However, it had no recruitment plan for the vacant posts and had not set management indicators/target dates for measuring performance of recruitment activities. Instead, the HR unit initiated recruitments for vacant posts based on requests from the hiring sections. These requests were approved by the Representative, but not against an overall plan.

*Recruitment by third-party contractor:* In view of the number of applicants, the office had outsourced the shortlisting process to a contractor for the recruitment of national staff in

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[2] HACT is the Harmonized Approach to Cash Transfers. See observation on p18 below.

2014 and 2015. The office advertised vacant posts for national staff in local newspapers and local job websites, and the applicants then sent their job applications directly to the contractor; the latter reviewed the applications and sent the office a shortlist of applicants who met the requirements. The office had also, on occasion, used the third-party contractor for headhunting of staff for vacant posts.

However, there was no assurance that the shortlists included only those applicants who applied and were qualified. The contractor could also have excluded from the shortlist those who did meet the requirements. Also, the office did not have any information on the number of applications received by the service provider for any job opening.

The practice of outsourcing shortlisting in this way could jeopardize the transparency of UNICEF recruitment process and might expose UNICEF to reputational risk. The office informed the audit that it had reduced its use of the contractor for this purpose since November 2014. However, it had still used it for the shortlisting of applicants in 11 of 50 recruitment cases conducted since that date.

*Assumption of office:* The audit selected a sample of 12 recruitment cases completed in 2014 and 2015 and noted that the duration of the recruitment process for national posts — from advertisement to offer letter — averaged 83 days, which was within the standard of 90 days. However, the offer letters often did not state the date by which the candidate should join UNICEF. In one case, a candidate who was offered a temporary appointment to meet seasonal workload joined the office seven months after acceptance of the offer letter. This could adversely affect programme implementation, particularly when the office needs to fill the post quickly.

*Academic credentials:* The office had checked the references of the candidates prior to offering the job to the selected candidate. However, it had not validated their academic credentials.

*Selection criteria:* The office had used various methods, including technical/written assessment and interviews in its selection process. However, it did not systematically establish the criteria for selection and their relative weights in the selection process.

In one case, when recruiting for two posts, the office had selected a candidate who would not have been the best one had the criteria for the selection of candidates been applied properly. Based on the technical/written assessment, eight candidates were qualified for the competency-based interview (CBI).[3] One of the eight qualified candidates withdrew. There were still three qualified applicants, which is the normal number for interview. Despite this, the office lowered the qualifying marks for technical/written assessment from 60 to 55, resulting in the inclusion of two more candidates in the interview stage. In this, the candidate who had secured the highest marks in the technical/written assessment, and one of the candidates who qualified for interview after lowering of the qualifying marks, performed

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[3] Candidates for UN posts must receive a competency-based interview in which they should demonstrate the core "competencies" that the organization is seeking. In a competency-based interview, a candidate is asked to demonstrate that they have the necessary skills and experience ("competencies") by explaining occasions on which they have dealt with the challenges they are likely to meet in the post for which they are applying. The competency-based interview is the only mandatory interview in the recruitment process, and covers core competencies sought by the organization as a whole. However, the recruiting unit may, if it wishes, conduct a further interview or test based on the functional skills sought for the specific job.

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equally. It was the latter who was offered the post, although the former candidate had relevant past experience for the vacant post and his past performance evaluation reports were better. The office said that the qualifying marks had been lowered in order to assure gender parity.

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

i.    Develop a recruitment plan to cover all its vacancies.
ii.   Ensure that job applications for all advertised posts are submitted to UNICEF, and that the shortlists – whether by a third party or the office – are based on the application received.
iii.  Incorporate, in the offer letter, the anticipated date by which the successful candidate will take up the post.
iv.   Adhere to set selection criteria and their assigned weights in the recruitment process, and strengthen oversight so that due selection process is followed.
v.    Institute measures to systematically validate the academic credentials of successful candidates before issue of offer letters.

Staff responsible for taking action: Chief, Human Resources
Date by which action will be taken: October 2015


## Governance area: 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 governance, as defined above, were generally established and functioning during the period under audit.

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# 2      Programme management

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

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. For instance, the 2013-2017 country programme action plan (CPAP)[4] was aligned to the Government's 12th Five-Year Plan and National Policy for Children, and aligned with the UNDAF.[5] The CPAP outcomes had been revised to align with UNICEF's 2014-2017 strategic plan, since the former was developed prior to the finalization of the strategic plan.

The office had drawn up guidelines for rolling workplan (RWP) development,[6] with specific emphasis on the identification of high-impact activities that contributed to agreed office priorities. RWPs were developed at national and state levels, in close consultation with relevant implementing partners. All the workplans reviewed had been endorsed by government partners. Indicators were defined at output levels, and in 2014 the office had also introduced the definition of milestones to enable determination of progress towards planned

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[4] 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.

[5] 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.

[6] UNICEF offices agree workplans with their implementing partners. They can be developed on an annual or multi-year basis, or as rolling workplans. In the latter case, the workplan is subject to interim review – for instance, it may be for two years, but the government and UNICEF will agree to periodic technical review of its outputs, say every six months, with an adjustment based on the review of the remaining 12 months. At the same time, an additional six months will be added on to the rolling workplan to make up a new two-year cycle.

outputs.

The office had a strategy for implementing MoRES;[7] it included formation of an oversight taskforce, and creation of technical groups and technical team leaders to take implementation forward. The office had also established a programme monitoring framework in 2014; this fixed monitoring levels according to current organizational guidance – for each level, the frequency of reviews and outputs from each were highlighted. The office had integrated monitoring and evaluation plans (IMEPs) for 2014-2015 and 2015-2016, with a total estimated budget of US$ 5.5 million and US$ 11.3 million respectively. Of the 18 activities in the 2014-2015 IMEP, seven had been completed, eight were continuing into 2015 and three had not commenced as yet.

The office had carried out mid-year and annual review meetings with implementing partners at state and national levels. Year-end reporting on progress against planned results was undertaken and consolidated by the office in New Delhi, in consultation with field offices. The Regional Office had reviewed the quality of the office's reporting of progress against planned outputs, and had advised the office accordingly. A mid-term review of the country programme was scheduled for the third quarter of 2015.

The office's controls related to funds allocation and utilization were satisfactory. The office had clear mechanisms for planning and allocation of funds, based on the recently defined programme priorities and the high-impact activities identified at state level. There was evidence allocation of funds was based on the priority of activities.

The office analysed mid- and year-end utilizations against plan, reviewing it by state, output and by programme. It then used these analyses to compile estimated budgets for subsequent years and made them available to section chiefs, to assist advance planning. The office's funding status was regularly reviewed during programme chiefs' meetings and by the CMT.

However, the audit also noted the following.


## Programme mechanisms

The emphasis of the programme had been shifting upstream, away from direct implementation and towards advocacy and policy work. This had included working closely with the central government to ensure that children's rights were reflected in policies and programmes, and providing overall programme guidance, quality assurance and management support through field offices, using different programme strategies as appropriate.

The office had five cross-cutting programme strategies, all designed with the ultimate aim of developing and supporting high-impact (and scalable) interventions in order to deliver results. The office had developed indicators and means of verification to track progress of these strategies. The office's overall advocacy and communications agenda aimed to inform and sustain an active and productive public discourse on key child rights issues, and evidence-based advocacy and policy dialogue with decision-makers and key influencers. The focus on was on five areas for advocacy, and strategic partnerships had been developed with a broad base of stakeholders.

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[7] MoRES is the Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged. It highlights the fact that there are critical conditions or determinants which either constrain or enable the achievement of results for particular groups of children.

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The audit reviewed this strategy, both in programme documentation, and in discussion with national- and state-level partners in two states visited during the audit, and noted the following issues.

***Collaboration with Government ministries:*** Discussions with both UNICEF staff and some partners noted that these partnerships were not working as envisaged, especially when dealing with cross-sectoral components such as advocacy, communications for development, and social policy. The absence of clear leadership roles within UNICEF for cross-cutting functions when interacting with Government ministries was mentioned as a constraint. The office did have mechanisms to assist focus on programme priorities, but these mostly served internal collaboration and interaction.

During discussions with implementing partners on the quality of UNICEF's technical support, the audit was informed that there was lack of clarity on who to deal with in UNICEF regarding broader advocacy messages; and to messaging in the support for production of Information, Education and Communication (IEC) materials. These areas were managed under the Communications for Development (C4D) and Advocacy and Communications programmes. These sections agreed there was a lack of clarity and said that while overall coordination had improved in 2014, the absence of overall coordination and oversight tended to dilute UNICEF's voice.

***Messaging:*** The programme staff told the audit that there was insufficient consistency between UNICEF's resource-leveraging and advocacy messages, so that there may be a risk of their being perceived as contradictory. Both C4D and Advocacy and Communications sections agreed that speaking with one voice would reduce the risk.

***Internal programme mechanisms:*** Internal mechanisms for programme planning, monitoring, implementation, review and reporting had not been sufficiently adjusted to reflect the labour-intensive processes entailed in supporting upstream engagement. Staff commented that there were still processes designed for heavy programme implementation—especially in terms of contracting. An example was given of a contract for a study of education in tribal areas that had taken nine months (June 2014–March 2015) to finalize. The study had been undertaken on the request of the Governor's office to assist in shaping the equity roadmap for the state. The delay did not reflect well on UNICEF's ability to respond in a timely manner. Senior management told the audit it was aware of the fact that internal mechanisms had not been sufficiently adjusted to support the emerging programme focus; however, this focus was relatively new, and there was a need to first learn lessons that would help establish the types of processes now needed.

***Monitoring and reporting mechanisms:*** All programme staff met in the two field offices visited, as well as the office in New Delhi, thought that reporting requirements were heavy, and did not sufficiently reflect the varied operating environments, especially at state level. They were also seen as not reflecting the current emphasis on increased technical support to implementing partners.

For example, each specialist in a field office was required to report at mid-year, year-end and in between on progress against outputs and outcomes. This process required constant dialogue with all output managers in Delhi—including for cross-cutting areas. So, for a programme component with five outputs, for example, a programme specialist would need to speak to five output managers, including three for each cross-cutting output. This

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contributed to a significant reporting burden for state offices, and tended to reduce the time available to follow up on technical support and monitoring with implementing partners at state and district levels.

The office said that the processes were evolving, and that the importance of ensuring accuracy and consistency required due diligence in this regard. It stated that efforts were underway to rationalize reporting. However, the audit noted that there were weaknesses in reporting on results that resulted in multiple consultations and revisions in order to meet UNICEF's standards in reporting on results/outputs.

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

   i.   Implement suitable mechanisms that address emerging bottlenecks specific to cross-cutting functions, including reviewing both structural and accountability issues, as necessary.
   ii.  Review its current mechanisms, including responsibilities for the relevant functions, in order to improve coordination and consistency in messaging.
   iii. Review its monitoring and reporting framework, and rationalize reporting requirements without compromising the quality and rigour of reporting against results.

Staff responsible for taking action: Chief, Advocacy and Communications; Deputy Representative, Programme; Chief, Policy Planning and Evaluation; Chief, Communication for Development
Date by which action will be taken: January 2016


## Availability and quality of data and information

The office was supporting development of disaggregated data in critical sectors, and the development of national databases. These were complimented by research, commissioned on the basis of thematic, programme and/or sector gaps. The office had also done a comprehensive analysis of the situation of children and women in the country in 2011 to inform the current country programme.

The audit reviewed controls related to the availability and use of data and information, and noted the following.

***Qualitative data and analysis:*** The office had been collaborating with national and state governments and with professional research institutions on research activities aimed at generating data on children's issues. Discussions with programme staff and implementing partners noted that there was generally sufficient data to guide programming on most of the areas supported by UNICEF (except on some child protection issues).

However, there was still insufficient qualitative data – that is, information that illuminates underlying reasons, opinions, and motivations, and provides insights into the causes of issues affecting children. This constrained adequate targeting and leveraging of central government, state-level and corporate resources.

The quality of data analysis in some areas was also weak. During three separate discussions with implementing partners from state government offices, research institutions and NGOs, as well as with programme sections, the audit heard that issues pertaining to protection,

education and adolescents lacked sufficient analytical data. For some data on the most marginalized areas, there was insufficient disaggregation.

The audit verified some of these concerns through a review of the office's records, which stated that constraints and bottlenecks included non-availability of reliable and timely data at district and sub-district levels. Also, dissemination of evidence generated by UNICEF to practitioners at district and block levels was insufficient, and not always in formats they would understand. Implementing partners expected UNICEF to invest in a long-term strategic research agenda that included newer methodologies for the gathering, analysis and timely use of data, to capture emerging issues on children. This would be in line with UNICEF's heightened role in evidence-based policy advocacy.

The office told the audit that, in most cases, UNICEF was not in a position to support extensive data gathering, because of the high given the magnitude and diversity of its operating context. However, the audit considered these issues as important for the office to address, in order to strengthen the perception of UNICEF as a solid knowledge organization on current and emerging children's issues.

This would also be in line with the *Evaluation of UNICEF's Strategic Positioning in India* in 2011. The primary focus of the evaluation, which was commissioned by the UNICEF office in India, was to assess the extent to which the UNICEF strategy, including its strategic approach to policy advocacy, had helped to accelerate and strengthen the achievement of higher-level results. The evaluation noted that many issues required much more socio-cultural research in order to determine the best strategies for addressing specific social problems. It further noted that this was an area where UNICEF could help address long-term ingrained social attitudes and practices. It recommended that UNICEF try to change the image of UNICEF as a technical organization to that of one with a strong research and policy analysis capacity.

**Agreed action 7 (medium priority):** The office agrees to review its overall evidence-generation strategy and draw up a framework to support the improvement of qualitative analysis and dissemination (in client-appropriate formats) of data on children, including in administrative data systems; and to support advocacy through a strategic research agenda.

Staff responsible for taking action: Chief, Policy Planning and Evaluation; Deputy Representative, Programme
Date by which action will be taken: February 2016


## Planning
Country offices are expected to define baselines and targets for their programmes, and indicators with which to measure progress. Within the 2013-2017 CPAP results framework, key performance indicators were given for each outcome,[8] with baselines, sources and means of verification. Moreover the office had updated its results matrix in 2015 to reflect updated programme priorities. There was coherence in the overall CPAP

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[8] 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.

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results chain, in which four outcomes have been defined. The office had reduced its outputs from 75 to 31 at the time of audit, and adjusted cross-cutting strategies to reflect their contribution to the four outcomes; and had defined two-year indicators for each output.

The audit reviewed the country office's actions pertaining to its programme structure and noted the following.

***Registering programme outcomes outline in VISION/SAP:*** Within its CPAP, the office had outlined four outcomes (then called PCRs) with approximately 75 indicators. However, to assist assignment of roles to programme section chiefs, and enable the definition of multiple programme components, the office had started the country programme with 10 programme components entered as outcomes in VISION, to reflect the programme's structural composition. In fact, the 10 programme components so described in VISION included strategies such as communication for development (C4D), advocacy and communications, and policy, planning and evaluation. However, these were areas of activities to support the achievement of outcomes, not outcomes in themselves.

These issues had been discussed at length with the Regional Office and relevant HQ divisions at the time the CPAP was written. However, in the view of the audit, the misrepresentation in VISION of activities as outcomes could lead to inaccuracies in reporting on progress. The audit noted that there was scope to reflect the actual four outcomes in VISION and then attribute the relevant outputs to each. This would reflect the programme components as they pertained to each outcome, and enable allocation of roles and budgets. Most importantly, this would enable the programme structure to accurately reflect its key outcomes, instead of a programme structure that represents how the office had structured itself to support the achievement of those outcomes.

***Externally leveraged funding for programmes for children:*** Leveraging Government and corporate sector resources for children's programmes at state and national levels was a key strategy of the office. Although these activities were generally included in workplans and reported upon in annual reports, the office lacked a systematic mechanism for pursuing such resources. The office stated that the absence of organizational guidance in this area was a constraint.

One field office did have systematically-collected figures for such activities. It was able to show that in 2014, it had leveraged approximately US $73.5 million from state-level government departments, research institutions, NGOs and the private corporate sectors. These funds contributed to activities related to mothers' and children's health, water and sanitation, and nutrition. To achieve this, the field office in question had used US$ 7.9 million in annual budget, excluding staff costs. The audit noted that there was scope for the country office to consolidate such efforts into a systematic mechanism that would inform UNICEF's emerging efforts in this regard. The audit also noted that there was room to improve activity-based costing which, at the time of audit, was premised largely on rounded estimates based on prior-year activities.

**Agreed action 8 (medium priority):** The office agrees to, in collaboration with the Regional Office for South Asia (ROSA) and NHYQ, consider reflecting the correct outcomes and outputs of the next country programme in the planning outline in VISION.

Staff responsible for taking action:  Deputy Representative, Programme
Date by which action will be taken: June 2016

**Agreed action 9 (medium priority):** The office agrees to systematize the planning and recording of leveraged resources in national and state offices, and to provide guidance on costing of activities during the development of workplans.

Staff responsible for taking action: Deputy Representative, Programmes; Chief, Policy Planning and Evaluation
Date by which action will be taken: June 2016

## Resource mobilization[9]

The office had been classified by UNICEF's Private Sector Fundraising and Partnerships (PFP) Division as a "Stage 3" country office with an unrestricted local fundraising market. It rated resource mobilization as a high risk area, since India still rates low on the global human development index. It had drawn up a resource mobilization strategy in March 2012; this highlighted the need to diversify funding sources, and noted some opportunities that included working with the private sector and increasing the focus on in-country fundraising. It had also initiated new corporate partnerships, taking advantage of the Government of India's new corporate social responsibility (CSR) laws of 2014, which required all private companies to allocate 2 percent of their profits to social causes.

However, the audit noted the following.

***Funding-gap analysis:*** In 2013, the office had developed a partnership framework outlining its strategic focus in terms of working with the corporate sector and other stakeholders. The office's analysis showed that there was great scope for leveraging resources for children in-country through a focus on the transformation of business practices, in line with CSR laws. However, the office had not yet finished a comprehensive funding gap analysis for the remaining two years of the country programme by priority and geographical areas, to enable planning of specific and targeted resource mobilization. The audit was informed that this work was in progress.

***NCSR Hub:*** The National Corporate Social Responsibility (NCSR) Hub, located within the Tata Institute for Social Sciences (TISS) was formally launched in March 2011. As part of its mandate, the TISS CSR Hub, with support from UNICEF, had developed a strategic framework for application of the national laws on CSR. The strategy had been approved by the Department of Public Enterprises.

The Hub has a core team of 10 programme managers, with a total team of about 40 programme officers, administrative and support staff. These are not supported by UNICEF, but the latter had provided support for a full-time consultant since November 2012. The consultant was intended to support ongoing activities of the CSR Hub as well as provide technical inputs to, and create funding opportunities for, UNICEF. The audit was informed that this partnership had helped UNICEF obtain reliable and relevant information from the Hub to support focused fundraising efforts, and link suitable UNICEF projects with public sector requirements.

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

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In discussions with the TISS CSR Hub Secretariat, the audit noted – and the Secretariat agreed – that there was need to determine the way forward for the Hub, especially since there had not been any substantive review of progress of the Hub's activities against prior agreed objectives. Such a review would enable the Hub Secretariat to determine the feasibility for scaling up its activities to meet the current demand, and to seek alternative sources of financial and other support. Discussions with UNICEF revealed that the entire partnership with the TISS CSR Hub was under consideration.

***Other Resources (OR) ceiling:*** As of 4 May 2015, the country office had a planned ceiling of US$ 713.5 million, including both OR and RR; of this total, US$ 320.8 has been acquired. This would indicate a funding gap of 51 percent. However, the office said that its funding status was adequate, and there were no significant funding gaps overall. Based on programme funding requirements and expenditures for 2013-2014, which amounted to about US$ 100 million annually, the country programme OR ceiling (as approved by UNICEF's Executive Board) of US$ 540 million was considered by the office to be an over-estimate. The office said it would seek approval for the adjustment of country programme budget planned ceiling as part of the mid-term review process.

**Agreed action 10 (priority medium):** The office agrees to:

i.     Undertake a funding gap analysis on the basis of which projections can be made to inform both in-country fundraising, and the revision to the overall Other Resources ceiling for the remainder of the country programme duration.
ii.    Support a comprehensive review of UNICEF's support to the National Corporate Social Responsibility Hub, based on its support objectives, and, specifically for the office, outline an exit strategy pertaining to UNICEF's current financial support.

Staff responsible for taking action: Deputy Representative, Programme; Chief, Resource Mobilization and Partnerships
Date by which action will be taken: December 2015

## Harmonized Approach to Cash Transfers (HACT)
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 the 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, while maintaining sufficient assurance on the use of funds. HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly.

HACT therefore includes micro-assessments of implementing partners expected to receive US$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities are expected, at a minimum, to include spot checks, programme monitoring and scheduled audits. Implementing partners that have received more than US$ 500,000 during the programme cycle are subject to at least one scheduled audit during that cycle.

HACT is also required for other UN agencies, and offices should cooperate with them where possible when implementing HACT, for example through joint assessments of partners that are common to more than one agency.

The office had implemented HACT since 2009. It had issued local guidance to implement HACT and had established HACT focal points for each section in New Delhi and for each field office. In addition, two overall HACT focal points had been appointed to oversee HACT implementation. However, the audit noted the following.

*Macro-assessment:* A macro-assessment of the public financial management system in India had been done in 2013 in time for the country programme 2013-2017. UNICEF (on behalf of other UN agencies) had appointed the Institute of Public Auditors of India (IPAI) to do the assessment.

The macro-assessment had found the basic framework of the accounting structure in Government to have been well defined in the Constitution of India. The form of accounts is common to both the Union and the State Governments. External audit by the Comptroller and Auditor General (C&AG) of India had contributed to transparent financial management by repeatedly raising audit observations relating to budgetary and expenditure control, deficiencies in revenue collection, wastage of public resources, inappropriate accounting, poor returns on investments, diversion of funds, and system deficiencies. The assessment also found that the capacity of the C&AG to impart regular and relevant professional training to its staff at all levels was admirable. However, although the World Bank had accepted the C&AG as an independent auditor for the certification of accounts on their assistance, the UNICEF office had yet to enlist and rely on the C&AG to conduct audits of government implementing partners.

Notwithstanding its comments on the C&AG, the macro-assessment found key risk factors in the implementation of HACT. Among them were the procedure for direct cash transfers (DCTs), including external assistance to implementing agencies; this procedure was widely accepted and advocated, but had thrown up accounts-related issues such as accountability for unspent balances in the banks of the implementing agencies. Moreover many of the Panchayati Raj institutions (the units of local government and development in India) and NGOs (implementing agencies) are currently not within the audit mandate of the C&AG; many NGOs also are not. This calls for mitigation measures.

The macro-assessment also noted that, while Ministries and Departments had internal controls, the internal audit function did not provide periodic assurance that they were adequate and working properly; instead it restricted itself to reporting on non-observance of rules and regulations and routine audit issues. It did not serve as a critical management tool and lacked independence. Several reports of the C&AG had confirmed certain weaknesses in internal control and internal audit in Government.

*Micro-assessments:* Since its implementation of HACT in 2009, the office had micro-assessed government and NGO implementing partners. In 2014 alone, it had conducted micro-assessments and simplified financial assessments of 217 implementing partners. However, the office did not systematically use the results of the micro-assessments to decide which method to use for transferring resources. Apart from a few reimbursements, direct cash transfers (DCTs) were mostly provided regardless of the partners' risk ratings. In addition, the audit noted during its visits to implementing partners that the office did not require a

discussion on the results of the micro-assessments (including the recommendations) between the accounting firm that had conducted the micro-assessments, the partners and the office. This would have ensured an understanding of the issues raised and the related mitigation measures.

*Assurance activities:* Prior to issue of a revised HACT policy and procedures in August 2014, the office had established an assurance activity matrix that set the scope and frequency of assurance activities depending on the risk ratings of the implementing partners, and the value of cash transfers released to them. The scope and frequency of assurance activities were in fact more stringent than required by the revised HACT procedures.

On the basis of the assurance activity matrix, each field office prepared an assurance plan. In the country office in New Delhi, each section did so. However, the individual plans prepared by the sections and the 13 field offices were not consolidated, and rather than conducting assurance activities by implementing partner, the assurance activities took place according to the implementing partners with which each section or field office had partnered. This resulted in unnecessary number of assurance activities per implementing partner. In 2014 alone, the office conducted 780 spot checks, 875 programmatic visit, and six audits.

However, the audit checked a sample of 28 implementing partners and found that in spite of the number of assurance activities, the office had not conducted programmatic visits, financial spot checks or audits of two of the 28 sampled – one of which had received US$ 885,227 in 2014 alone. In addition, there had been no spot check or audit of a further seven implementing partners. Although the office was applying more stringent standards of scope and frequency than those in the current HACT procedure, it actually did not meet the required standard for 12 of the 28 sampled implementing partners.

*Follow-up of implementation of recommendations:* The office had templates to ensure uniformity in reporting of activities, including the follow-up of recommendations arising from programmatic visits and spot checks. In 2014 it had carried out a desk review of the reports from programmatic visits and spot checks to identify areas for improvement. However, while the office required recommendations from micro-assessments, programmatic visits and spot checks to be followed up in subsequent visits, it did not systematically track their implementation. It said it had no system for doing so.

**Agreed action 11 (medium priority)**: The office agrees to strengthen the management of the Harmonized Approach to Cash Transfers (HACT). In particular, it agrees to:

   i.   Secure agreement with the Comptroller and Auditor General for the latter to conduct scheduled and special audits of Government implementing partners.
   ii.  Determine the most appropriate type of cash transfer for each implementing partner depending on risk level. If direct cash transfers are deemed the only viable option for implementing partners assessed as high or significant risk, they should be accompanied by an increase in the level of assurance activities.
   iii. Require accounting firms conducting micro-assessments to, as part of their terms of reference, discuss the results (including the related recommendations) with the partner and the office before finalizing the micro-assessment reports.
   iv.  Implement a comprehensive and consolidated assurance plan that includes scheduled and special audits, spot checks and programmatic visits.
   v.   Establish mechanisms to systematically follow up on the implementation of the recommendations from the macro-assessment of the public financial management

system, and those arising from micro-assessment of partners, spot checks, programmatic visits, and scheduled audits.

Staff responsible for taking action: Deputy Representative, Operations; Chief, Administration and Finance; Programme Specialist, Monitoring for Development
Date by which action will be taken: November, 2016


## Programme Cooperation Agreements

The office had established a Programme Cooperation Agreement Review Committee (PCARC) with appropriate terms of reference and membership. The PCARC reviewed proposals for Programme Cooperation Agreement (PCAs) before they were concluded between the office and the implementing partners. However, in its review of 11 sampled PCAs, the audit noted the following:

- The programme documents that detailed expected results, activities, budget and workplans, among other things, were not included as an annex to the PCA and were therefore not agreed upon and signed by both parties.
- The expenditure budgets of nine of the 11 sampled PCAs were not prepared in accordance with the activities in each quarter. The quarterly instalments were therefore not the estimated expenses for the quarter's activities.
- The office had not established standard rates for frequently incurred expenses. This would have assisted in planning and budgeting DCTs and their reporting and liquidation thereafter.
- In two of the 11 sampled PCAs, the start date of the agreement was upon signature by the two parties, but that date was not indicated in the PCA.

The audit also noted that PCAs concluded by the office had no reference numbers and could not be tracked. Although the signed PCAs were registered, separate registries were maintained for each section in New Delhi and the 13 field offices. It was therefore impossible to determine the number and total value of PCAs concluded with each implementing partner without going through the registers of each of the sections in New Delhi and the 13 field offices.

**Agreed action 12 (medium priority)**: The country office agrees to strengthen oversight of the application of controls over management of Programme Cooperation Agreements (PCAs). Specifically, it agrees to:

i.    Improve the functioning of the PCA Review Committee (PCARC), including ensuring that three-month activity budgets are submitted to it with the PCA and that proposed instalments are in accordance with the quarterly budget.
ii.   Establish standard rates for frequently incurred expenses, preferably agreed with other UN agencies in the country.
iii.  Make sure that programme documents being referred to as Annex 1 in the PCA template and made as part and parcel of the PCA are agreed upon and signed; and the dates of signing of the PCAs are reflected in the PCAs.
iv.   Implement a procedure for referencing each PCA concluded by the office and for registering them in a consolidated register or database for the entire office.

Staff responsible for taking action: Programme Specialist, Monitoring for Development
Date by which action will be taken: September 2015

## Donor reporting

The office had detailed processes for donor reports, for which primary responsibility rested with programme chiefs in collaboration with chiefs of field offices (for preparation and quality assurance), and the resource mobilization chief (for oversight review and submission). The Deputy Representative for Programmes gave final approval of donor reports prior to their submission. Online training for all programme officers on quality of reporting was provided in 2014.

The office submitted a total of 63 donor reports in 2014. Of these, 96 percent were sent on time. The audit reviewed three donor reports—two final donor reports and one progress update—that had been submitted in 2014, and noted that they complied with the reporting requirements, with an emphasis on results.

However, the audit also selected a sample of four other donor reports submitted in 2014 specifically to review utilization of funds. It noted that the categories of expenditures reported by the office to donors in utilization reports did not consistently match the categories agreed in donor proposals/agreements. In three of the four reports, the office submitted detailed expenditure reports, parts of which could not be traced to the original proposals/agreements to validate if the expenditures were covered by the donor agreement. The office said that due consideration was given to results-based budgeting in new proposals submitted to donors, which would address this in future.

The descriptions of the transactions in the detailed expenditure report were unclear. For example, the transaction description, in many cases, was recorded as "the requisition has been amended to increase funding" or "amendment: to increase the funding as follows: At item 10-L". This affected the clarity of the reported expenditures, as the reader could not establish whether the expenditures were in accordance with the donor agreement/proposal. In one case, the office had incurred and reported project support cost in excess of the agreed donor agreement/proposal. While the project support cost in the donor agreement/proposal was 7.5 percent of the budget, the office incurred almost 20 percent of the US$ 21 million received, with 15 percent pertaining to staff cost.

**Agreed action 13 (high priority)**: The office agrees to strengthen oversight and quality assurance in utilization of, and reporting on, the funds received from donors to ensure that:

  i.   The expenditures are reported according to the budget categories in the donor agreement/proposals.
  ii.  The commitments and financial transactions in VISION are clearly described.
  iii. The funds received from donors are utilized and reported in accordance with the donor agreements/proposals.

Staff responsible for taking action: Deputy Representative, Programmes
Date by which action will be taken: November 2015

## 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

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules, Regulations, 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 for inventory management (due to the insignificant value of inventory, and a lack of uncontrolled risks). Regarding procurement and contracting, the audit concentrated on services rather than programme supplies as the office spent far more on the former during the period under audit (US$ 37.2 million against US$ 3 million).

The audit found that controls were functioning well over a number of areas. The office had standard operating procedures for a number of processes, such as hiring and managing institutional contractors, individual contractors and consultants; procurement of programme supplies; and use, acquisition and management of ICT equipment. All payment processes were centralized in the New Delhi office, with payments due to be effected within a maximum period of two working days after posting of payment requests. The office also prepared bank reconciliation statements at the end of each month and promptly followed up any outstanding items.

The office conducted pre-delivery inspection of all programme supplies that required it, and had a process for evaluation of the performance of suppliers/contractors. It had also conducted a physical asset count in 2014 and recorded the results; there were no unreconciled differences.

The office had ensured compliance with the minimum operating security standards (MOSS) for the office in New Delhi and all 13 field offices. It had also established minimum operating residential security standards (MORSS) for the international staff. In addition, it had installed smoke detectors, maintained functional safety and security alarm systems in the office premises; and conducted fire and earthquake drills in 2014.

However, the audit also noted the following.

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## Vendor master records

UNICEF's Supply Manual and the relevant VISION guidance notes provide guidance for the creation, maintenance, and use of, and access to, vendor records in VISION. The creation of vendor master records should be done centrally by the designated staff member(s). An office is expected to ensure the completeness of the vendor's details in the master record – especially the payment method and the banking details, as this information is required for processing of payments.

It is also important to avoid creation of duplicate vendor master records, as these could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or double payments. Duplicate records may also allow implementing partners to receive DCTs despite having previous cash transfers outstanding for more than six months.

The office had a process for the creation and maintenance of vendor master records in VISION, and had assigned the role to five staff members wherein each was responsible for the maintenance of specific categories of vendors, e.g. implementing partners, suppliers, or individual consultants. However, no one individual had been assigned overall responsibility for the maintenance of the vendor master records – which was especially important since the five staff members were in various sections.

Prior to the audit, the office had conducted a vendor master record clean-up by identifying duplicate records and marking some of them for deletion and/or blocking them from posting. Once the vendor master record is marked for deletion, UNICEF headquarters will delete it centrally at a given time. Meanwhile, if the vendor master record is blocked from posting, transactions can no longer be posted to the account of this vendor.

The clean-up exercise, however, was insufficient. The audit found that vendor master records were duplicated for 363 vendors, totalling 845 of the 8,494 vendor master records. The 363 vendors included NGOs that had vendor accounts both as implementing partners and, at the same time, as field-office vendors (e.g. suppliers); while others were both suppliers and individual contractors, or both staff members and individual contractors.

The vendor master records had been created without ascertaining whether vendor master records for those vendors had previously been created in the system and appropriately categorized. The duplication had also occurred during the data migration from the legacy system to VISION when it was introduced in 2012, since there was insufficient review of vendor master records before their migration. A further cause was that some individual contractors/consultants had been vendors in several countries; in these cases, they should have been established as global vendors. Duplication of this sort creates an added risk of duplicate payments (although the audit did not observe any that had arisen for that reason).

The office had also identified inactive implementing partners. It added the prefix "Do-not-use" to the names of 1,248 of 2,552 vendor master records of implementing partners considered to be inactive, and blocked them from posting. The office thought that by doing so, only active implementing partners would be displayed and selected in the processing of DCTs. Unlike the legacy system, however, VISION did not have the facility of selecting active implementing partners only. With the renaming of the master records of the implementing partners, vendor master records became indistinguishable, especially since 138 of the 1,248 vendor master records had been renamed simply to "Do not use". This would prevent identification of the implementing partners and analysis of previous years' transactions with them.

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Should there be a need to post transactions related to the inactive implementing partners, the pertinent vendor master records would have to be unblocked for posting. According to the office's established procedure, the Deputy Representative (Operations) had to authorize the unblocking of the vendor master records.  Furthermore, aside from blocking the vendor master records from posting, the office had marked them for deletion even though transactions had been posted to these vendor master record accounts. In order to maintain an audit trail of the transactions, vendor master record accounts with posted transactions should not be marked for deletion.

**Agreed action 14 (medium priority)**: The office agrees to:

i.   Revise the process for requesting and creating vendor master records to ensure that:
   a.  There are checks to ensure there is no existing master record for a vendor in VISION before another vendor master record is created; and,
   b.  No vendor master record is created if the same vendor has existed in another office. The office should instead request the office concerned to classify the vendor as a global vendor.
ii.  Reinstate the names of the implementing partners that had been considered as inactive, and review the need for blocking them from posting and marking them for deletion.
iii. Assign responsibility for overall oversight of creation and maintenance of vendor master records.
iv.  Periodically review the vendor master records in order to ascertain validity of vendors with multiple master records, and block and mark for deletion master records considered invalid or duplicate; and prevent duplication and ensure completeness and accuracy of records.
v.   As an administering office, identify the global vendors with India as the location, and tag them as such. Also, inform the other country offices affected of the existence of these global vendors, and ask these country offices to block the duplicate vendor master records they have created from future use.

Staff responsible for taking action: Procurement Specialist
Date by which action will be taken: September 2016


## Processing of cash transfer payments
The audit reviewed whether transactions in relation to cash transfers were processed appropriately, promptly and completely and in accordance with UNICEF Financial Regulations and Rules.

*Release of direct cash transfers (DCTs):* The audit reviewed 30 sampled payments of direct cash transfers and noted that the Funding Authorization Certificate of Expenditure (FACE)[10] forms were not properly filled in. Some FACE forms did not state the period of activities for which direct cash transfers were being requested. Also, the activity description in a number of FACE forms did not reflect the activities in the agreed workplan. In a few of these cases, the

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[10] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

budget items or the name of the programme were given as the description of the activity. This meant there was no assurance that the requested amounts were for the activities agreed in the workplan. It was also noted that the office did not maintain a record of the authorized representatives of the implementing partners and their specimen signatures. There was therefore no certainty that the cash transfers were requested by the partners' authorized representatives.

DCTs to partners were not processed and released on time. The processing of 30 sampled requests for cash transfers (with an aggregate value of US$ 3.0 million) took an average of 25 days from the time of request to release of payments. The processing time ranged from four to 108 days. This exacerbated delays already caused by the late submission of the requests by the implementing partners. On average, the requests were submitted on the activity start date; only six of the 30 DCTs sampled were provided to implementing partners before the planned start dates of the activities.

Further, six of the 30 sampled requests for cash transfers were recorded with the wrong general ledger account. Although the main activities in those requests pertained to training, they were not classified as such, and the recorded expenditures did not accurately present the nature of the transactions.

*Liquidation of cash transfers:* DCTs are meant to be liquidated within six months of their release. At the time of the audit (May 2015), the office had outstanding (unliquidated) DCTs worth approximately US$ 9.1 million. About US$ 400,000 of this had been outstanding for over six months; of that, about US$ 21,483 (less than one percent of the total outstanding DCTs) had remained unliquidated for over nine months. The nine-month figure was within the corporate threshold of one percent.

The audit reviewed a sample of 16 liquidations of DCTs. It noted that there was limited assurance that the reported activities and expenditures were in accordance with those agreed and authorized. None of the 16 liquidation transactions sampled included the previous FACE forms and the related budget details against which the expenditures were being reported.

It had taken the office an average of 19 days (in three cases, over a month) to approve and verify the liquidations following receipt of the liquidation documents from the implementing partners. The protracted process of approval and verification of reported expenditures also affected subsequent releases, as UNICEF policy is not to release DCTs to implementing partners with previous cash transfers outstanding for over six months.

*Reimbursement of cash transfers:* The audit reviewed a sample of six cases of reimbursements of cash transfers made to implementing partners. In four of the six sampled cases, the implementing partners had not secured approval prior to incurring the expenditures; despite this, the office reimbursed the amount.

Following discussions with implementing partners, and with the office staff, the audit noted that the shortcomings above were generally due to an insufficient understanding of the relevant procedures, particularly on the use of the FACE form and the release and liquidation of cash transfers – notwithstanding training that had been conducted by the office.

**Agreed action 15 (medium priority)**: The office agrees to institute mechanisms, including training, to improve implementing partners' and office's understanding on the use of the FACE form and the release and liquidation of cash transfers. It also agrees to strengthen the

processing of cash transfer payments and establish measures so that:

    i.    The implementing partners fill in the Funding Authorization Certificate of Expenditure (FACE) forms properly when requesting direct cash transfers (DCTs), correctly indicating on the FACE forms the activities in the workplan and the duration of the activities.

    ii.    The implementing partners submit requests for direct cash transfers with ample time for the office to process payments before the planned start date of the activities.

    iii.    The office processes requests for DCTs, and their liquidation, quickly.

    iv.    Cash transfer payments are recorded with the appropriate general ledger account code.

    v.    The documentation for the liquidation of DCTs is accompanied by the previous FACE forms and the related budget details against which the expenditures were being reported.

    vi.    The implementing partners secure the office's approval before they incur expenditures to be reimbursed later.

Staff responsible for taking action: Programme Specialist, Monitoring for Development; Chiefs of Field Offices
Date by which action will be taken: September 2015

## Service procurement

The office had standard operating procedures for hiring and managing institutional service providers, individual consultants and contractors and for supply procurement. It had maintained a roster of suppliers and service providers and concluded long-term arrangements with a number of suppliers and service providers. There was also a checklist of required documents.

The country office spent US$ 3 million on programme supplies and US$ 37.2 million on services during the period from January 2014 to March 2015. In its review, the audit concentrated on service procurement as it constituted a far greater part of the office's expenditure.  It noted the following.

***Third-party contracts:*** The office had used third-party contractors to "hire consultants to work for the government to provide technical assistance for the Flagship Programmes that are within the UNICEF mandate, and specific UNICEF-supported interventions".[11]  Typically, the consultants were administratively managed by the third-party contractors, but were in government premises and under the technical supervision of the office.

Given the risks associated with third-party contracting, the office had commissioned a firm of chartered accountants to conduct an assessment of the third-party contracting and audits of the contractors' management of the consultants, and their compliance with the provisions of their respective contracts. Based on the results of the assessment and the audits, the office issued guidance specifically dealing with the third-party contracting.

However, the office had not obtained legal advice with respect to third-party contracts to ensure that the office was not exposed to legal action – especially since the office was the

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[11] Quote is from a December 2014 memo from the Representative to all Chiefs of sections and field offices explaining, and providing guidance on, various contractual arrangements.

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consultants' technical supervisor, approved their travels and paid their fees to the contractors based on their attendance/outputs. The office said that it has previously requested UNICEF's legal adviser for his opinion on this method of contracting but had not received it.

***Authorizations of requests for services:*** The audit reviewed 10 sampled contracts with an aggregate value of US$ 3.1 million, and noted that the requests for services relating to seven of the 10 sampled contracts were authorized late. They had been authorized either after a proposed contract had already been reviewed by the Contract Review Committee (CRC), or when it was about to be issued. Consequently, the contracting process, including bidding, had taken place before funding had been secured.

***Terms of reference (ToR):*** Although the ToRs relating to nine of the 10 sampled contracts were reviewed and approved, they were not clear and specific regarding (for example) the timeline for recruitment of consultants by the third-party contractor, the tasks and the deliverables, and the deadline for submission of the deliverables. There was confusion between the tasks and deliverables in some of the contracts, to the extent that the only deliverables were monthly reports. This was particularly prevalent in third-party contracts where the consultants being recruited by the third-party contractors were for posting in the government. These consultants were mainly paid based on their attendance instead of their outputs. The inadequacy of ToRs presented a risk that the required outputs/results might not be delivered/achieved.

***Contract provisions:*** The deliverables, their scheduled deliveries and the payment terms were not clear or specific in any of the 10 contracts sampled by the audit. They could therefore be subject to misunderstandings. Also, the payment terms were not linked to the scheduled deliveries of the deliverables. The deliverables specified in the contracts were either the name of the consultancy/support/activity, the first of several deliverables, or the fee.

The scheduled delivery dates were mostly the end of the contracts, instead of the submission dates of the deliverables. This situation was partly due to the inappropriate recording of the deliverables, their scheduled deliveries and the payment terms in VISION; and partly due to the lack of clarity and specificity of the ToRs (see above).

***Competitive selection:*** Seven of the 10 sampled contracts had gone through a competitive selection process. However, two did not, and a third did not have documentation of the competitive selection on file. In one of the two contracts not subjected to competitive selection, the section requested an exemption due to "paucity of time". In the second contract, the office selected the contractor on the basis of the contractor's response to a request for proposals a year earlier. It was also noted that the same contractor was no longer considered as a partner in its area of expertise at the time of the contract. The lack of competitive selection jeopardized the office's ability to obtain the right services at the most competitive price.

***Out-of-pocket expenses (OPE):*** In the case of third-party contracts, the consultants administratively managed by the contractors were allowed to incur expenses and seek reimbursements for OPE. The pertinent contracts, however, did not specify the types of OPE that could qualify for reimbursement. The contracts simply stated that OPE "includes DSA [*daily subsistence allowance*], mobility, communication, contingency and rent". Consultants may therefore claim reimbursements for expenses that the office may not have considered as OPE.

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***Open contracts:*** When a contract is raised and released, the related funding is committed and is not available for other expenditures. This will remain the case even if the contract is cancelled or the funding is not used in full, unless the contract is closed properly in VISION. Of the 1,011 contracts that were valid up to 31 December 2014, 202 contracts with a net value of US$ 949,607 had remained open at the time of audit (April 2015). Given the months that had elapsed, it seems likely that the services in question had either been completed and invoiced or the services were no longer required at the time of audit (April 2015). This meant that any remaining funds could have been used for other activities.

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

   i.    Follow up with the legal adviser for his legal opinion on the third-party contracting.
  ii.    Institute measures including oversight and quality assurance review mechanism for contracting, and take the following steps:
      a.  Authorize requests for services prior to identification and selection/bidding of contractors.
      b.  Clearly define the tasks and deliverables, with their specific deadlines, in the terms of reference.
      c.  Clearly define all deliverables, with specific scheduled delivery dates, in the contracts, linking them with the payment terms.
      d.  Identify and select contractors by competitive selection.
      e.  Specify the types of out-of-pocket expenses that are allowable for reimbursement.
 iii.    Identify any contracts that have passed their validity periods and have remained open. If the deliverables and invoices are no longer expected, the contracts are to be closed systematically in order to release the funds for other activities.

Staff responsible for taking action: Chief, Supply and Procurement; Deputy Representative, Operations; Programme Specialist, Monitoring for Development
Date by which action will be taken: November 2015

## Information and communication technology (ICT)

The office had a standard operating procedure for the granting, modifying and revoking user access to ICT resources. It used electronic standard access form (eSAF) to provide users with access to core UNICEF ICT resources, such as the network, email, Intranet and VISION. The audit noted the following.

***Access requests:*** The Human Resources (HR) section submitted access requests for authorization by the chief of section in New Delhi or field office. Upon authorization, the ICT section verified, approved and submitted electronically the request to the Global Help Desk in UNICEF Headquarters. Having HR section initiate the request should have ensured the correctness of the names and the accuracy of the contract expiry dates, since the HR section maintained the employment records of staff members. However, since the Supply and Procurement section recruited the individual consultants and maintained their employment records, the HR section was not in the position to ascertain the names and employment status of the individual consultants.

***User access to ICT resources:*** A review of the access of all 411 ICT users in India country office at the time of the audit noted that 13 of them had access to ICT resources for more than a month beyond their contract expiry dates. In seven of these cases, it was for more than a year

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(and up to two years) beyond their contract expiry dates. A further user who had already left still had access to ICT resources up to April 2016. At the same time, 55 users had their access rights set to expire before the expiry of their contracts.

In addition, the names of 98 registered system users were inconsistent between VISION and the employment contracts; this could prevent the staff from acquiring their pension fund benefits, among other things.

Furthermore, 14 generic user accounts had been created for the service desks in New Delhi and the 13 field offices. The use of generic accounts precludes accountability. These service desks were manned by employees of institutional contractors. The office provided access, including access to the shared drive, to these employees without obtaining memoranda of understanding/non-disclosure agreements, which are intended to protect information security.  Similarly, the office provided access to individual consultants using another domain name — unicefindia.org — without obtaining non-disclosure agreements.

*System application:* The office had implemented, on a test basis, an application "Travel2field" to allow the raising of travel authorizations for official travel within the country, although travel authorizations are raised in VISION. The application had been developed by the Sri Lanka country office and had been installed in the office under the auspices of the Regional Office. The application had yet to be certified. Corporate ICT policy (CF/ITSS/Policy/2012-002) specifies that "only certified software will be allowed to run on the ICT infrastructure". It also stipulates that "alternative products must not be certified if they replace, duplicate or contravene the established standards for operating systems, network, ICT security, telecoms, hardware, corporate applications or any software already in the globally certified list".

The above shortcomings increased the risks of unauthorized access and/or inappropriate transactions, resulting in potential loss of resources and data integrity.

**Agreed action 17 (medium priority)**: The office agrees to:

i.     Strengthen the established procedure, including oversight, for the application of controls over access to information and communication technology (ICT) resources.
ii.    Review the accuracy of the names of users, together with their respective contract expiry dates, and ensure that they are appropriately registered in VISION and in the system for provisioning and de-provisioning of access to ICT resources.
iii.   Establish procedures to ensure that consultants and service providers sign a non-disclosure agreement ahead of provisioning access to UNICEF systems.
iv.    Avoid creating generic accounts which are unwarranted, and using another domain name for its consultants.
v.     Regularly reconcile period of access to UNICEF systems with the expiry dates of staff contracts to ensure that they are consistent.

Staff responsible for taking action: Chief, Information and Communication Technology
Date by which action will be taken: September, 2015

**Agreed action 18 (medium priority)**: In accordance with CF/ITSS/Policy/2012-002, the regional office agrees to refrain from implementing applications which have not yet been certified by the Regional Chief of Information and Communication Resources and/or the IT Solutions and Services Division.

Staff responsible for taking action: Regional Chief, Information and Communication Technology
Date by which action will be taken: The office reports the action as having been taken.


## Business continuity

Effective business continuity management is critical to ensure that the office is prepared for potential incidents that could threaten the achievement of its core mission, and to enable it to restore critical business processes after events such as building fires, earthquakes or pandemic diseases. In this regard, the office had developed separate business continuity plans (BCPs) for each office location in New Delhi and the 13 field offices.

However, the 14 plans were stand-alone and were not integrated or linked. There were no provisions for the various office locations to coordinate action in an event affecting more than one office location.

The office locations in New Delhi and the 13 field offices had conducted simulation tests of their respective BCPs during 2014-2015. The results of the tests were documented, the lessons learnt were identified, and each office drew up action plans accordingly. However, the implementation of the action plans was not monitored. Following a request from the audit team, the office in New Delhi had to ask the field offices for updates on the implementation of the action plans. In addition, some BCPs were not kept up-to-date. For example, the office in New Delhi had yet to update the list of critical staff and delegation of authority, among others, due to staff movement and reorganization. Also, the BCP still referred to Lotus Notes, which was no longer in use.

**Agreed action 19 (medium priority)**: The office agrees to strengthen oversight over business continuity planning. Specifically, it agrees to:

   i.    Link the various business continuity plans (BCPs) of the office locations in New Delhi and the 13 field offices.
   ii.   Monitor the implementation of the action plans arising from the results of the simulation testing of the BCPs.
   iii.  Regularly update the BCPs to reflect changing conditions.

Staff responsible for taking action: Deputy Representative, Operations
Date by which action will be taken:  February 2016


## 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.

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## Annex A:  Methodology, and definitions 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 of 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.