Internal Audit of the Kosovo Office

November 2015

oiai

Office of Internal Audit
and Investigations (OIAI)
Report 2015/37

*References to Kosovo shall be understood to be
in the context of Security Council resolution 1244 (1999).*

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Kosovo[1] office. The audit sought to assess the office's governance, programme management and operations support. The audit covered the period from January 2014 to June 2015.

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The office is based in Pristina, and has a zone office in Zvečan, Northern Kosovo. It has a total workforce of 29 posts, and four temporary staff members (three international professionals, nine national officers, 17 general service, one international technical assistance, one local technical assistance, and two UN Volunteers).

Action agreed following the audit
In discussion with the audit team, the office has agreed to take a number of measures. One is being implemented as high priority – that is, to address an issue that requires immediate management attention. It is as follows:

- The office has agreed to establish a quality review process over the contents of the annual report and will ensure that the results reported are corroborated by appropriate evidence.

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[1] References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999).

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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 Kosovo office were generally established and functioning during the period under audit. The office has prepared an action plan to address the issues noted.

The office, with support from CEE/CIS Regional Office, and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI)   November 2015

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Objectives

The objective of the 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 programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the office's priorities and expected results and clear communication thereof to staff and to partners.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical 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 the audit.

The audit noted a number of areas where controls were functioning well. Office priorities and expected results were clearly identified and communicated to staff. Priorities were reviewed annually. Each sectoral area worked with their respective counterparts to define broad areas of institutional priority.

The office had established the expected statutory and advisory committees such as the management team, the contracts review committee and the learning committee. The committees had appropriate terms of reference, to monitor and guide their operations and the implementation of the programme. Meetings of these committees were properly minuted.

Three to four times per year the office organizes an "All Staff Meeting", to involve all staff in discussions of polices and priorities; this also aims to ensure good communication across the

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entire team. All staff participate, and all discussions in the meetings, and agreements made in them, are recorded.

Delegation of authorities and responsibilities is conducted primarily through the table of authorities (ToA). On an annual basis the ToA is reviewed by the Head of Office and the Operations Manager and staff are issued a letter of responsibilities in VISION.
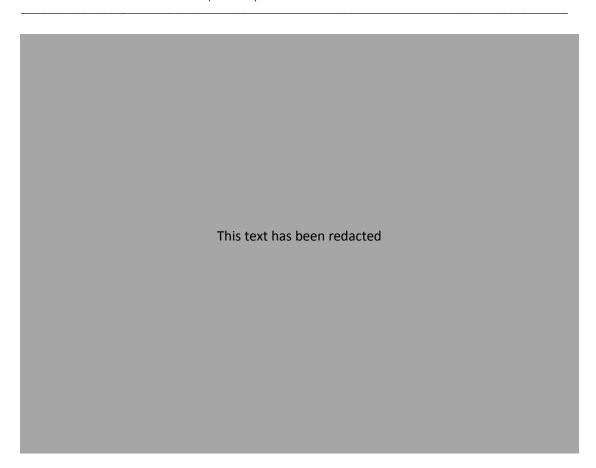
The office also ensured that staff performance appraisals were included in the office's priorities and were prepared on time.

However, the audit noted the following.

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Risk management

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

In 2011, the Kosovo office performed its first risk assessment using UNICEF's ERM Guidelines. This risk assessment included a systematic analysis of the risks in the key programme, operations, and fund-raising functions, and development of an action plan to mitigate them. The office did two further RCSAs over the period 2012 and 2014. The risks identified in 2012 were incorporated in the Kosovo programme management plan (KPMP), the 2014 Annual Management Plan,[5] and in the development of the new 2016-2020 programme.

The latest assessment, in 2014, had identified 11 risks, and classed three as high-risk. These related to budget and cash management; funding and external stakeholder relations; and results-based management and reporting. A further seven risks were rated medium, and one

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[5] An office's Annual Management Plan ensures that that office's human, financial and other resources remain focused on the office's programme and its hoped-for outcomes for children and women. To this end, it establishes key priorities, and assigns staff responsibilities for them. Progress on these priorities should normally be monitored by the office management team (OMT), which advises the Representative or Head of Office. It consists of senior staff from Programme and Operations sections, and staff representatives.

as low. The office recorded the RCSA in inSight.[6] It also drew up comprehensive action plans for mitigation of the key risks.

However, although the office stated that it knew which staff were responsible for the action plans, it had made no record of this; neither had it recorded target dates for review of implementation. The audit also noted that the risk library did not record all risks including the medium risks and low risks. The office stated that they were required to assess only the key risks that would be entered in inSight. However, it is important to document and track other risks, especially the medium risks, as they can escalate or decline.

The office has a zone office in Zvečan, in the north, with three staff members. Although the office addressed some risks related to Zvečan as part of the RCSA, it did not cover some key risks related to the operation of the zone office. For example, the zone office has certain unique differences and challenges, such as being as non-family duty station, a complex political situation etc., that were not covered in the risk assessment.

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

i.   Update its risk and control library and ensure that all the risks of operating in Kosovo are included in the Risk and Control Self-Assessment (RCSA); that there are clear risk mitigation actions, with responsible staff, for each risk; and that key risks are linked to the management priorities included in the Kosovo programme management plan (KPMP) and in the annual management plan.
ii. Develop a risk and control library for the zone office in Zvečan, document risk mitigation actions and the staff responsible for each one, and consolidate key risks into the main Kosovo RCSA, so that it accurately reflects all the identified risks for UNICEF in Kosovo.

Staff responsible for taking action: Operations Manager and Programme Officer Zone Office
Date by which action will be taken: December 2015

Ethics

Ethical standards should be systematically promoted within the UNICEF offices, including awareness of, and compliance with, UNICEF's ethical policies and procedures. Offices are also expected to communicate UNICEF anti-fraud policies to partners and consultants. The audit reviewed whether the office had developed and communicated a clear ethical direction and vision.

The audit's review of personnel files indicated that 13 out of 28 staff had completed online ethics courses during 2014. The office has encouraged all staff to take the course. The last formal ethics orientation session to all staff was conducted in May 2015. The office stated that in 2014 it had appointed an ethics focal point to further support training of staff. The Head of Office and ethics focal point have already reminded staff of the need to complete the on-line ethics training all staff are required to complete by October 2015.

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

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However, the office did not always verify whether non-staff parties such as consultants, contractors and partners had established ethical and anti-fraud policies and principles similar to those of UNICEF, as stipulated in the Policy Prohibiting and Combatting Fraud and Corruption (CF/EXD/2013-008).

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

  i.   Continue conducting ethics orientation training, as planned, for all staff members.
  ii.   Systematically verify whether partners and vendors have in place ethics and anti-fraud policies.
  iii. Communicate and/or give training on UNICEF ethical principles to non-staff parties such as consultants and partners, in accordance with UNICEF's ethics policy.

Staff responsible for taking action: Operations Manager and Ethics Focal Point and Programme Assistant Zone Office
Date by which action will be taken: February 2016

Governance area: Conclusion
Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over Governance, as defined above, were generally established and functioning during the period under audit.

2   Programme management

In this area, the audit reviews the management of the approved programme – that is, the activities and interventions on behalf of children and women. 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 programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and time bound (SMART); planning resource needs; and forming and managing partnerships with governments, 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 office had adhered to UNICEF guidelines for donor reports. It had also established a procedure for their development and quality control. Emphasis was placed on demonstrating results achieved rather than simply reporting on activities. The reports were issued on time.

Resource mobilization[7]
The 2011-2015 Kosovo programme had an OR ceiling of US\$ 27 million.

Kosovo had not been successful in mobilizing all the required resources to support planned programme activities. Consequently, [Redacted] it has been requesting RR allocations from UNICEF headquarters to support programme and operational costs. As of 27 May 2015 (in the last year of the current programme), the office had mobilized US\$ 14.9 million out of a planned programmable amount of US\$ 25.1 million, i.e. 59 percent. Some outputs, in particular, were significantly underfunded – such as *Communication*, *Improve quality of youth services*, and *Youth and adolescent laws and policies*, which were only 6 percent, 8 percent and 11 percent funded respectively. However, the office did not establish a resource mobilization task force and action plan until July 2014, more than three years after the start of the programme. The office stated that prior to this date, the planning

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[7] 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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and implementation of fundraising activities had been done on an *ad hoc* basis.

Agreed action 5 (medium priority): The office agrees to establish a mechanism to monitor, on a regular basis, the implementation of its resource mobilization action plan, and take action as needed to address funding gaps for individual programme outputs.

Staff responsible for taking action: Head of Office and members of the resource mobilization task force
Date by which action will be taken: December 2015

Harmonized Approach to Cash Transfers (HACT)

Offices are expected to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on 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.

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.

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

The office was finalizing the macro-assessment of Kosovo's public financial management system at the time of the audit.

The audit reviewed the 2015 assurance activities plan and noted some discrepancies. For example, two implementing partners [Redacted] were both categorized as non-assessed. However, one was subject to two programmatic visits and three spot checks, and the other was subject to four programmatic visits and no spot checks.

In another case, a low-risk implementing partner had six programmatic visits, while another implementing partner rated as moderate risk had only one programmatic visit; both of these partners had the same number of spot-checks (four). Based on this, the audit considered that the office's existing system did not establish standards for the frequency of HACT assurance activities according to the risk level of the partners. The audit noted that the HACT quality assurance plan for 2014 stated that spot checks would be conducted regularly by UNICEF programme assistants for each instalment and liquidation. However, this was not in line with the risk-based approach of HACT, which fixes the frequency of assurance activities according to the risk level of the partner. In practice, the determination of assurance activities had been

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left to each programme section. The audit also noted that the office had no procedure to monitor the implementation of HACT assurance activities in order to compare it with what had been planned.

The audit reviewed a couple of spot-check reports, and noted that they did not review the partner's financial management internal controls and did not record any changes or inconsistencies against the most recent micro-assessment as per the organizational guidance.

Agreed action 6 (medium priority): The office agrees to improve the management of the Harmonized Approach to Cash Transfers (HACT) by:

   i.   Establishing standards for the frequency of HACT assurance activities according to the level of risk of the partner, in line with the organizational guidance.
   ii. Ensuring that spot checks include a review of the implementing partners' financial management internal controls and document any changes against the most recent micro-assessment.
   iii. Establishing a process to monitor the status of implementation of HACT assurance activities plan.

Staff responsible for taking action: Deputy Head of Office, Operations Manager, HACT focal points, Heads of Sections and Programme Assistants
Date by which action will be taken: December 2015

Programme review
The office undertook quarterly sectoral reviews. There was also an annual programme review held in December 2014.

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The audit reviewed the key conclusions of these reviews and noted that they were, in many cases, not specific. For example: "A need for reviewing the programme implementation modalities that will contribute to demonstrate tangible results for children"; "Ensure effectiveness"; "Sustainability and scalability of the municipal engagement for equity-based services delivery"; "Strengthen partnership with key players who have the potential to implement outreach action for children"; etc. The audit could not track any of these conclusions to the updated workplans, to verify that they were taken into consideration.

Agreed action 7 (medium priority): The office agrees to ensure that programme review recommendations are specific and taken into consideration in subsequent workplans.

Staff responsible for taking action: Deputy Head of Office and the Heads of Sections
Date by which action will be taken: March 2016

Evaluating impacts and outcomes
The office had a five-year integrated monitoring and evaluation plan (IMEP). In this, five evaluations were planned (one in 2011, one in 2013, two in 2014, and one in 2015). The Kosovo office had updated the IMEP in 2014 and 2015, and now called it PRIME (Planning for Research, Impact Monitoring and Evaluation). However, only the evaluation planned for 2011

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had been completed so far (End-of-Project Evaluation of the Joint Programme "Improving Health of Women and Children in Kosovo 2007-2010"). In 2014, the Kosovo office had recruited a consultant with support from the Regional Office to develop ToRs for an independent evaluation taking place in 2015.

The office said that the low rate of implementation of planned evaluations was due to an ambitious evaluation plan, compounded by involvement in three regional multi-country evaluations and two results-oriented monitoring exercises by European Union (EU).

Agreed action 8 (medium priority): The office agrees to strengthen oversight over the preparation, implementation and follow-up of the evaluation plan.

Staff responsible for taking action: Head of Office and Child Rights Monitoring Specialist
Date by which action will be taken: March 2016

Annual Report

Information reported by an office in its annual report should be accurate and reliable, especially given that it is used to provide input to organization-wide reporting on results for children and women, and to contribute to organizational learning.

The audit reviewed the 2014 annual report and noted numerous editing issues, for example duplicated paragraphs, outputs already discontinued but still included in the report, and in some cases the achievements reported related to 2013 instead of 2014. This may diminish the readability of the report and compromises the fair reporting of the results achieved.

The audit also selected a sample of eight results reported by the different programme sections in the report, and found that it was not possible to corroborate four of them on the evidence provided by the office. For example, the annual report had indicated that four roundtables were conducted in 2014 but verification indicated that they were conducted in 2013.

Agreed action 9 (high priority): The office has agreed to establish a quality assurance process over the office annual report and ensure that the results reported can be corroborated by appropriate evidence.

Staff responsible for taking action: Deputy Head of Office and Heads of Sections
Date by which action will be taken: December 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over programme, as defined above, were generally established and functioning during the period under audit.

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3   Operations support

In this area the audit reviews an 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 of the above areas were covered in this audit, with the exception of asset, inventory and ICT management.

A security review by the UN Department of Safety and Security (UNDSS) found that the office in Pristina and the field office in Zvečan complied with minimum operating security standards (MOSS). The office Business Continuity Plan (BCP) had been updated every year since 2009 and had been tested, albeit partially.

However, the audit noted the following.

Contracts

Based on the report the audit obtained from VISION, during 2013 the office issued 130 individual contracts for consultants totalling US$ 849,148, of which 28 were single-source selection, 62 were through competitive selection, and 40 were not identified in VISION as either. During 2014, 88 individual contracts for consultants totalling US$ 739,871 were issued, of which only nine were single-sourced, and 60 were competitive sourcing; 19 were not identified in VISION as either.

The office said that, during the last two years, it had been taking necessary steps to reduce the number of contracts under single-source selection to the minimum. Detailed notes for the record were approved and attached to the supporting documentation for the selection process.

The audit also tested a sample of five contracts with an approximate amount of US$ 216,000, and noted that the contracting processes had been documented and approved at the appropriate level, and that key supporting documents were then uploaded to VISION.

Agreed action 10 (medium priority): The office agrees to issue contracts on a competitive

basis following UNICEF policy/guidance, and to correctly update VISION on the type of contract issued (single-source or competitive selection).

Staff responsible for taking action: Operations Manager
Date by which action will be taken: December 2015

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that 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

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

OIAI is firmly committed to working with 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 office reviews and comments upon a draft report before the report is issued in final. 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 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:

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[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the 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.