

Internal Audit of the Philippines Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Philippines Country Office. The audit team visited the office from 14 September to 6 October 2015. The audit sought to assess the governance, programme management and operations support over the office's activities, and covered the period from January 2014 to September 2015.

The 2012-2016 country programme has two major components: *Millennium Development Goals achieved with equity*, and *Social policy and risk mitigation*. There is also a cross-sectoral component. There are currently discussions about a possible extension of the current 2012-2016 country programme to 2018, to synchronize the programme cycle with the UN Development Framework (UNDAF) for the Philippines, and the new Philippines Development Plan that is likely to start in 2017. Meanwhile the budget for the existing 2012-2016 programme is US\$ 85,495 million, of which US\$ 15,495 million is Regular Resources (RR) and US\$ 70 million is Other Resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed; OR are contributions that may have been made for a specific purpose, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as Other Resources.

On 8 November 2013, 'Super typhoon' Haiyan (locally known as Yolanda), one of the most powerful and destructive typhoons ever, hit the country. A Level 3 emergency was declared by UNICEF's Executive Director from 11 November 2013 to 5 February 2014.

The country office is in the capital, Manila. There are three zone offices, in Cotabato, Tacloban and Zamboanga; however, Tacloban was to be closed by the end of November 2015 and Zamboanga by the end of December 2015. At the time of the audit (September 2015), the office had a total workforce of 143 posts (19 international professionals, 54 national officers, 68 general service, and two volunteers).

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address all the issues raised in this report. Five of these are being implemented by the country office as a high priority – that is to say, they concern issues that require immediate management attention. These measures are as follows.

- Strengthen the functioning of management committees, including clarification of the role of the operations management group and programme management team, and ensuring that the country management team monitors the key performance indicators in the Annual Management Plan.
- Improve the exit strategy from the Haiyan emergency, including support to, and monitoring of, remaining programme implementation.
- Implement a planning process that ensures adequate consultations with Government counterparts on work planning, a quality assurance process for workplans, and training on programme policy and procedures.
- Take a number of steps to improve implementation of the Harmonized Approach to Cash Transfers (HACT).
- Enhance controls over programme monitoring and review, including a standard operating procedure for field monitoring of programme implementation, with defined standard

forms for trip planning and reporting; annual programme reviews with implementing partners; and specific and realistic means of verification for all indicators.

Conclusion

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

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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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit observations

1 Governance

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

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

All the above areas were covered in this audit.

Annual Management Plan (AMP)

An office's Annual Management Plan ensures that that office's human, financial and other resources remain focused on the country 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 an office's country management team (CMT), which advises the Representative on the management of the country programme and on strategic programme and operations matters. The CMT consists of senior staff from Programme and Operations sections, and staff representatives.

The Representative is accountable for the preparation or updating of the AMP, with the support of the CMT, by 15 February. As part of the oversight function of the Regional Office, a copy of the AMP should be shared with the Regional Director. The preparation of the AMP

should involve most staff, to ensure transparency and ownership. If it wishes, an office can have a rolling AMP, or RAMP, which is drawn up for more than a year and will be updated as necessary in the course of its implementation; the Philippines office had done this. The Annual Management Review (AMR) is the mechanism to adapt and update the AMP.

The office stated that the 2014-2015 AMP was finalized in June 2014, and submitted to the Regional Office in November 2014. The office said the delay was due to the Level 3 emergency arising from Hurricane Haiyan; this was lifted as of 5 February 2014, but the office explained that the bulk of emergency activities were ongoing.

The revised 2014-2015 RAMP for 2015 was finalized at the time of the audit in September 2015. The office said that as it had just completed a Mid-Term Review (MTR) in January-April 2015, management felt that the timing was not right for a full revision of the AMP as well, and it was decided to delay it until after the CMT retreat in August 2015, which would include new members of the management team. The office also said that key elements of the 2015 RAMP had been available to staff in the first quarter of 2015. The audit could not confirm this for certain, and also noted that there was no Annual Management Review of the RAMP for 2014 that could have comprehensively informed the RAMP for 2015. Further, a review of documents related to the Mid-Term Management Review held in March 2015 showed that it had not included a comprehensive reassessment of key priorities, results and management indicators set in 2014.

Untimely preparation or update of AMPs, as well as the lack of comprehensive annual review of key priorities, results and management indicators, could weaken the overall management of the country office.

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

- i. Ensure timely completion of Annual Management Plans (AMPs) and their prompt submission to the Regional Office.
- ii. Hold a comprehensive annual management review to assess achievement of key management priorities and results.

Staff responsible for taking action: Deputy Representative/Chief of Operations

Date by which action will be taken: March 2016

Management committees

The audit reviewed the functioning of four committees; the CMT, the Joint Consultative Committee (JCC), Programme Management Team (PMT), and Operations Management Group (OMG) for 2014 and 2015. It noted the following.

Country management team: The audit reviewed the minutes of the CMT. These suggested that it was not systematically monitoring the key management indicators identified in the AMPs. The CMT briefing generally included funding updates (funds utilization, outstanding cash transfers, expiring grants, etc.), but not an update of other management or programme indicators such as staff recruitment performance indicators, status of results reporting or completion rate of staff performance assessments. The lack of consistent monitoring by the CMT of performance indicators as defined in the AMP could weaken the overall management of the office.

Operations Management Group: The OMG had not been formally established in the AMP as a management mechanism, and it had no Terms of Reference. The audit could not establish for certain how regular the meetings of the OMG were. However, it was provided with minutes for five meetings for 2014, and for two meetings for 2015 as of the time of the audit. Both the purpose and effectiveness of the OMG were unclear.

Programme Management Team: The PMT's ToRs stated that it should meet before the CMT so that its main recommendations and general feedback could inform the CMT members. No minutes were provided for the PMT from 2014, but those of 2015 meetings showed that it did not undertake a comprehensive review of programmatic performance indicators. The PMT's ToR did not specify this, but it would have been necessary for concrete input into CMT meetings. The audit could therefore not confirm that the PMT was an efficient use of time.

Joint Consultative Committee: The JCC is a forum for an office's Staff Association to discuss matters arising with the office management. In this case its ToRs said it should meet on a monthly basis. However, it met only once in 2014, according to the minutes made available. At the time of the audit in September 2015, the JCC had met only once during the year, on 6 April (again, according to the minutes supplied to the audit). Further, key members of the JCC such as the Chief of Operations and the HR Officer did not attend the meetings. Irregular JCC meetings and non-attendance of key members could reduce the effectiveness of the JCC.

Agreed action 2 (high priority): The office agrees to strengthen the functioning of management committees, and to take the following specific steps:

- i. Define terms of reference for the operations management group (OMG), and clarify how it, and the programme management team (PMT), feed into the country management team (CMT) meetings.
- ii. Ensure that key performance indicators identified in the Annual Management Plan are comprehensively and completely monitored by the CMT, or alternatively by the PMT or OMG as deemed appropriate.
- iii. Clarify, and adhere to, the frequency of joint consultative committee meetings, and ensure attendance by all members.

Staff responsible for taking action: Representative, Deputy Representative, Operations Chief and Chief Planning Monitoring and Evaluation

Date by which action will be taken: June 2016

Management of zone office

As the office was in the process of closing its emergency zone offices in Tacloban and Zamboanga, the audit reviewed the functioning of the Cotabato zone office, which would be the only remaining zone office after 31 December 2015.

The audit noted that neither the 2014-2015 RAMP nor the Country Programme Management Plan (CPMP)¹ clarified the roles and responsibilities of the zone office. As a direct consequence, the perception of that role varied within and between programme sections; some Manila-based units/sections involved the zone office more in the planning and

¹ When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

implementation, others less. Another consequence was that the responsibility of the zone office was not clear when it came to delivering in crosscutting themes/sectors such as social policy, Disaster Risk Reduction (DRR) and Communication for Development (C4D), which did not have designated staff at the Cotabato office.

The audit also noted that the RAMPs for 2014 and 2015 were not properly implemented at the Cotabato zone office, and that there were therefore no documented zone-office priorities and performance indicators. Finally there was no established programmatic progress reporting to the main office in Manila for monitoring purposes.

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

- i. Clarify the roles and responsibilities of the zone office in programme planning, implementation and monitoring and evaluation, particularly for cross-cutting themes/sectors.
- ii. Establish a mechanism for progress reporting to the country office in Manila.

Staff responsible for taking action: Representative, Chief of Field Office, Deputy Representative and Chief of Operations

Date by which action will be taken: June 2016

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 risks to an office's objectives and planned results, and the incorporation of actions to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library. Offices should continue to consider significant risks in preparing their AMPs. It is also advised that risks are reported in the inSight ERM tab of VISION;² this assists ongoing monitoring of the identified risks and the actions taken in mitigation.

The audit was informed that the last full RCSA occurred in October 2012, and that since then risks had been updated annually and trends highlighted, taking into account results of various reviews of programmes and operations. The RAMP for 2014-2015 included the country office risk profile. The risk profile included the risk area, description of the risk, the risk level and the trend (increase, decrease or identical). The risk profile did not however include important information about the identified risks, such as the root cause, the potential impact, the likelihood and actions taken to mitigate risks. There was therefore no complete assessment of the residual risk (that is, the risk remaining after mitigating actions had been taken). There was also no record of mitigating actions for high and medium-high risks, although the office said it was working on this.

Further, the audit noted that the office had private-sector fundraising activities, but there was no specific risk identification and management regarding those activities. Also, at the time of the audit, risks had not been reported in the inSight ERM table for 2014 and 2015.

² inSight (sic) is the performance component in UNICEF's management system, VISION (Virtual Integrated System of Information). inSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

Agreed action 4 (medium priority): The country office agrees to complete a new full Risk and Control Self-Assessment, including a complete identification of all risks attributes and mitigating measures, and update and monitor them in inSight. Specific risks related to private-sector fundraising activities should be considered.

Staff responsible for taking action: Chief of Operations, Chief Private Fundraising and Chief Planning Monitoring and Evaluation

Date by which action will be taken: June 2016

Exit strategy from the Haiyan emergency

On 8 November 2013, Typhoon Haiyan (locally known as Yolanda), one of the most powerful and destructive typhoons ever, hit the Philippines. Even in the world's third most disaster-prone country, where an average of 20 typhoons make landfall every year, the devastation was overwhelming. Major winds and a tsunami-like storm surge swept through communities in the central Philippines, claiming more than 6,000 lives. Houses, schools and health centres were flattened. Some 14.1 million people were affected. Over 4.1 million were displaced, including 1.7 million children. A Level 3 emergency was declared by UNICEF Executive Director, and lasted from 11 November 2013 to 5 February 2014. The Tacloban zone office was established to house UNICEF's response to the emergency (UNICEF had had very limited programme activities in the area before Haiyan).

There was no declared emergency level in Philippines at the time of the audit. The country office's Mid-Term Management Review summary document, dated March 2015, highlighted the Transition Plan for the Emergency Response to Typhoon Haiyan as follows:

- Haiyan-funded Temporary Appointment contracts would end in phases, on 30 June, 30 September, 30 November and 31 December.
- The Tacloban warehouse would be closed at the end of June 2015 and any remaining programme supplies would be relocated with government and other NGO partners.
- The Tacloban Emergency Zone Office would be closed on 30 November 2015.

The Transition Plan covered the period July-December 2015, and established criteria for retaining staff based on remaining programme implementation needs from July to December 2015 (the criteria were retaining emergency expertise and staff members' prior performance).

However, the Transition Plan did not include a strategy to continue programme implementation and monitoring in the Haiyan-affected areas after closure of the Tacloban office and the end of last temporary contracts. The office was to close on 30 November and some temporary contracts would not end until 31 December, and was not clear how the staff concerned – most of whom would move to Manila – would be involved in monitoring programme activities around Tacloban in the interim. That such monitoring would be required, was clear from the cold chain and warehousing issues identified in a later observation (see observation *Cold chain and warehousing in Tacloban*, p22 below).

Moreover some programme activities were planned to continue beyond 31 December. This particularly applied to the WASH (Water, Sanitation and Hygiene) and Health programmes. For WASH, there were 12 Project Cooperation Agreements (PCAs) with NGOs totalling about US\$ 12 million for which implementation would go up to 31 March 2016 as per the requests submitted. However, three would require cost extensions.

The office said that there was a further transition plan being developed, and that it had asked programme sections to submit their plans by 1 October 2015. In the absence of a final plan at the time of the audit, however, it was not possible to ascertain that issues raised above would be comprehensively addressed.

Agreed action 5 (high priority): The country office agrees to strengthen its planned exit strategy from the Haiyan emergency, including the following:

- i. Revisit the assessment of the expected completion dates of on-going WASH and Health programmes in the Typhoon Haiyan affected areas, and make necessary programme management arrangements.
- ii. Document a clear strategy to support programme implementation and monitoring after the office is closed on 30 November 2015, until completion of all planned programmatic activities.

Staff responsible for taking action: Emergency Specialist, Chiefs of Health & Nutrition and WASH, Chief of Operations, Chief of Supply & Logistics and Human Resources Unit

Date by which action will be taken: March 2016

Governance area: Conclusion

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

2 Programme management

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

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

All the areas above were covered in this audit.

Situation analysis

Offices prepare a situation analysis of children and women, known as a SitAn, at least once in the course of a country programme cycle. The SitAn should inform the design of the next country programme and ensure that it is evidence-based. It should include a disaggregated assessment of the status of, and trends in, the realization of children's and women's rights. It should also include a causality analysis, which is an analysis of the immediate, underlying and structural causes of shortfalls and disparities across various groups.

National ownership is necessary to build consensus on the analytical results. Involvement of the government, civil society and other national stakeholders throughout the SitAn process is a prerequisite for its acceptance in policy and strategy formulation, budget allocation, programme implementation, monitoring and evaluation.

The office had held a mid-term review of the 2012-2016 country programme in March 2015. As part of the preparation for this, the office had completed a SitAn to inform a possible programme extension (2017-2018) and later on the design of a new country programme. The audit reviewed this SitAn and found that it was just a compilation of data from various sources, of which some were dated back to 2009 and 2011, i.e. before the current country programme. It lacked the human rights-based approach; this could have been reflected through an analysis of the ability of people to exercise their rights, and the capacities of those who had a duty to deliver them. Also, there was inadequate analysis of the causes of the issues identified. In addition, the Government partners and other stakeholders interviewed by the audit

confirmed that they were not involved in the planning and review of this SitAn.

The SitAn has been performed by a consultant, and the audit noted that the ToRs had been very brief. They did not provide details on the rationale and objectives, or a description of the conceptual framework or outputs, or the profile of the consultant(s) needed. Also, the support of Regional Office was not sought to provide quality assurance over the planning and implementation of the SitAn.

Shortcomings in a SitAn can create a risk that an office may not support the right activities and may therefore not be making the best use of its comparative advantage and available resources.

Agreed action 6 (medium priority): The office agrees, with support from the Regional Office, to update the situation analysis of children and women according to UNICEF's organizational guidance, and ensure that it is completed in time to inform the next country programme.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: June 2016

Preparation of workplans

A country programme is operationalized through workplans that provide detailed activity planning and set out what will be accomplished during specific time periods. UNICEF programme officers, their Government partners and, where applicable, NGO partners jointly prepare the workplans during planning meetings. These typically follow a technical review of the previous implementation period. All workplans that include responsibilities to be undertaken by UNICEF and one or more partner should be confirmed in writing by the partner(s) and, where required, by the coordinating government agency. This endorsement should be obtained no more two months after the start date of the workplan — and normally much earlier in the year, to enable disbursements to begin.

As workplans are the basis for managing the implementation of the programme, they should include, among other elements, specific and measurable intermediate results contributing to the achievement of outputs, which can be achieved by the end of the workplan period; a realistic budget for each activity, based on the cost estimates of necessary inputs; and budget source or an indication that the activity is still unfunded.

With the implementation of the current country programme (2012-2016), the country office prepared rolling workplans³ for 2012-2013 that were formally shared with the implementing partners. At the end of 2013, new workplans should have been drawn up in consultation with the partners. Instead, however, the programme sections were instructed (by the then Deputy Representative) to proceed with the extension of the workplans without the requirement to have them signed by the office management and the relevant implementing partners. According to the office, this decision was based on an agreement reached with the

³ Workplans 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 18 months, 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 18-month cycle.

Government coordinating body (NEDA⁴). As a consequence, workplans prepared since 2014 had been endorsed by neither the office management and nor the Government counterparts; many programmes were operating based on their own internal workplans that had not been agreed with the partners involved, and some key partners were implementing activities with support from UNICEF without any form of workplan.

The audit met with NEDA and other key Government partners (Departments of Health and Education). All stated that this new approach was requested by UNICEF for unknown reasons.

The audit reviewed a sample of workplans and noted formats and durations that varied within the same section and between sections. The programme sections were not given specific guidance on the format and the duration of the workplans. Moreover, although the workplans covered more than one year (some up to four years), they did not include specific and measurable intermediate results that could have been used for monitoring execution of the workplan. They were also not broken down into specific periods to allow monitoring of implementation of activities.

The budget estimates for activities expected to last for more than a year sometimes covered the whole period, instead of being broken down into annual estimated budgets. Also, the budget estimate of the programme components were not in line with the planned amounts in the CPAP.⁵ For example, the workplan budget estimates of the Education programme represented 191 percent of the planned budget in the CPAP in 2014, but 64 percent in 2015. The workplan budget had been planned based on the funds already known to be available and not the planned amounts in the CPAP, which the office would be expected to raise.

The audit noted that the office did not establish a formal quality assurance process over the preparation and finalization of the workplans. Given that the workplans were not being formally endorsed, such a process was even more important than normal.

The audit also noted that out of six programme chiefs of sections, only one had attended Programme Policy and Procedure training in the last five years. However, it also acknowledged that the new programme management was aware of these issues; it had issued guidelines on work planning, and was preparing a quality assurance process for workplans at the time of the audit.

Agreed action 7 (high priority): The country office agrees to:

- i. Implement a planning process that ensures:
 - a) Adequate consultations with the Government counterparts;
 - b) Formal signature of all workplans are by both UNICEF and counterparts; and,
 - c) Use of these signed workplans as the basis for programme implementation.
- ii. Establish a quality assurance process over the preparation and finalization of the workplans to ensure that they include measurable intermediate results and activities with specific timelines, and reflect the approved planned budget.
- iii. Ensure that programme managers are trained on programme policy and procedures.

⁴ National Economic and Development Authority.

⁵ 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. Because the workplans are meant in effect to operationalize the CPAP, they should not contradict it.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Planning, Monitoring and Evaluation, Outcomes and Outputs managers

Date by which action will be taken: December 2016

Registration of the programme in the system

The programme structure (outcomes and outputs)⁶ recorded in VISION was aligned with the CPD⁷ and CPAP; however, the planned budget for the programme components in VISION was not.

The planned other resources (OR)⁸ amount in VISION for the cross-sectoral component was 417 percent higher than in the CPD (US\$ 19.8 million versus US\$ 4.7 million). This meant that the ORR planned for the other two programme components (*Millennium Development Goals achieved with equity* and *Social policy and risk mitigation*) was less than in the CPD (73 percent and 62 percent respectively). Furthermore, the planned RR amount in VISION for the cross-sectoral component represented only 49 percent of the amount in the approved CPD, the balance being allocated mainly to the programme component *Social policy and risk mitigation*. Programme support had been allocated RR and OR even though this was not included in the approved CPD. In addition, the activities registered in VISION were not aligned with those of the workplans used by the programmes.

The office could not provide an explanation to these discrepancies and the audit found no evidence that they had been noted or their impact analyzed. In general, the office did not have a quality assurance process to ensure that data recorded in the VISION was correct and up-to-date and that deviations were justified and documented.

Agreed action 8 (medium priority): The country office agrees to establish procedures and accountabilities to ensure that:

- i. The planned budget recorded in VISION at the programme component level is aligned with the Board-approved budget, and that the rationale for any significant adjustments of budget ceilings, and the impact of those adjustments on planned results, are documented.
- ii. Activities recorded in VISION are the same as those in the agreed workplans.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Operations, Chief Planning, Monitoring and Evaluation and Budget Specialist

Date by which action will be taken: December 2016

⁶ 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.

⁷ The CPD is the country programme document, which sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs for five years.

⁸ For a definition of regular resources (RR) and other resources (OR), please see the Summary at the front of this report.

Advocacy

According to the UNICEF's Programme Policy and Procedures Manual, a strong, purposeful and sustained advocacy plan, when properly prepared, will help raise awareness of children's issues among policy-makers and the public, and promote action in support of children's rights. UNICEF's advocacy role is further confirmed by the UNICEF Mission Statement, adopted by the Executive Board in 1996: "UNICEF is mandated by the United Nations General Assembly to advocate for the protection of children's rights, to help meet their basic needs and to expand their opportunities to reach their full potential."

The guidance document *UNICEF's Approach in Middle Income Countries*⁹ lists six core strategic roles for country offices, including:

- Advocating pro-child and gender policies, laws and/or budgets that lead to an enabling environment for children and women, and influencing national planning processes to ensure policy translates into measurable progress for the most disadvantaged families and children.
- Drawing attention to major disparities, exclusion and discrimination at national and subnational levels, including failures to protect children; and advocating national strategies and measures to eradicate them.

Such advocacy should be evidence-based and should spring from the principles of the Convention on the Rights of the Child (CRC).

The 2012-2016 Board-approved CPD stated that, within the context of limited investment in the social sectors, and guided by the human rights-based approach, UNICEF would advocate allocation of, and leverage, resources for children and promote efficient use of resources by the local government units (LGUs). It added that the office would build and strengthen partnerships, advocate reduction of disparities, and stress peacebuilding and disaster preparedness.

The 2014 and 2015 management plans included advocacy as one of the office priorities. Further, the office reported in its 2014 annual report that a series of advocacy activities undertaken in the areas of maternal and neonatal tetanus, nutrition, child protection against violence, and early learning for life. The office had also signed an agreement with an NGO in October 2014 to implement an advocacy project to secure legislative and policy reforms protecting the rights of children. Advocacy is therefore a key strategy of UNICEF interventions in the Philippines. However, at the time of the audit, the country office did not have yet a consolidated advocacy plan with defined expected results, an accountability framework, and monitoring mechanisms.

The office was aware of the need for an advocacy plan, and provided the audit with a draft that it had started to develop in April 2015 with assistance from NYHQ. This draft had not been finalized because the advisor from the Division of Communications had been providing assistance in connection with the Nepal earthquake. The office said it still needed additional help to complete the plan.

⁹ Division of Policy and Strategy, May 2010. The Republic of the Philippines is classified as a lower-middle-income country by the World Bank, and as Medium Human Development by the UN's 2014 Human Development Index.

Agreed action 9 (medium priority): The country office agrees to seek the support it needs, from whatever source, to finalize the draft advocacy plan, assign responsibilities to relevant staff, and establish a process for monitoring the implementation of the plan.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Communication and Chief of Social Policy

Date by which action will be taken: June 2016

Resource mobilization

As explained in the *Summary* (p2 above), country offices need to raise the bulk of the resources needed for their country programme themselves, as other resources (OR). To this end, they are expected to develop and implement a resource mobilization¹⁰ strategy that sets specific targets for the programme period, and outlines how, where, when and with whom resource mobilization activities will be undertaken.

According to the approved 2012-2016 CPD, the planned country programme budget amounted to US\$ 85.495 million, of which US\$ 70 million was OR – i.e. 82 percent. Out of the approved OR ceiling of US\$ 70 million (corresponding to a programmable amount of US\$ 65.1 million), US\$ 48.8 million had been raised as of September 2015.

However, there were some outputs that were significantly overfunded. Two outputs were overfunded by a factor of three: *Maternal and neonatal health* (US\$ 6.8 million funded versus US\$ 2.3 million planned) and *Early childhood care and development* (US\$ 9.6 million funded versus US\$ 3.2 million planned). Meanwhile, other outputs were significantly underfunded, such as *Child Protection (CP) information management system*, *Social protection and budgeting* and *Public advocacy and communication* with ORR funding of 11 percent, 17 percent and 19 percent respectively as of September 2015. The audit also noted that the office had no process to monitor on a regular basis the status of ORR funding against the planned amounts in the CPD and the CPAP.

Even though the country programme was in its penultimate year and OR represented 82 percent of the programme budget, the fundraising strategy had not been updated since February 2011. The office could not give a reason for this. It did say that, with the phasing out of Haiyan emergency funding, the need for a fundraising strategy had been identified as a priority, and that ToRs were being drawn up for a consultancy to draft the strategy. At the time of the audit, however, these ToRs were not yet drafted. Discussions with donors indicated that ODA¹¹ for the Philippines has substantially decreased as the country is a middle-income country. There is therefore a need for a well-thought out fundraising strategy if the office is to compete for reduced donor funds.

According to UNICEF's classification of countries for fundraising, the Philippines country office is classed as stage 4. This means that the office can generate a significant volume of predictable, flexible resources for the global organization, as well as covering its own operating expenses and part or all of their programme costs. In 2014, the office raised US\$ 4.8 million. The office had a procedure that the programme sections were required to follow in

¹⁰ 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.

¹¹ Official Development Assistance.

order to benefit from this funding. However, the audit noted that there was no formal and structured process for the coordination between programme sections and the office's private-sector fundraising (PSFR) section to ensure that the local fundraising efforts were geared towards the country programme objectives. In this context, the office had not updated its private fundraising strategy, and had not clearly documented how the PSFR strategy fitted into the overall country-office resource mobilization strategy.

(In the Operations context, the audit also made some observations on the management of funds that had been raised through PSFR; see observation *Management of funds raised by Private-Sector Fundraising*, p33 below).

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

- i. Prioritize the development and finalization of a fundraising strategy that integrates private-sector fundraising and regular programme fundraising, with specific fundraising targets and monitoring mechanisms.
- ii. Establish a process to monitor, on a regular basis, the funding status of the different outputs against planned amounts, and take appropriate action as needed.

Staff responsible for taking action: Representative and Budget Specialist

Date by which action will be taken: June 2016

Harmonized Approach to Cash Transfers

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs. HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. The risk assessment includes conducting a macro-assessment of the country's public financial management system, and micro-assessments of individual implementing partners (both Government entities and NGOs).

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 of partners (or periodic on-site financial reviews), programme monitoring, scheduled audits and (where required) special audits. The coverage, type and frequency of assurance activities should be guided by the level of risk associated with the particular partner, as determined through the micro-assessments. These should be performed on any partner receiving more than US\$ 100,000 in a year, and may therefore receive more than US\$ 500,000 during the country programme cycle. 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.

Partners assessed as high risk should be subject to more frequent assurance activities. Unfavourable findings from these should result in a review of the procedures and assurance activities used with the partner concerned. The assurance activities should also include at least one scheduled audit for each partner that is expected to receive a minimum of US\$ 500,000 within the programme cycle.

The country office disbursed US\$ 57 million to approximately 145 partners in 2014, representing approximately 62 percent of total programme expenditure (which was US\$ 92 million). According to the office, HACT had been implemented since 2012. The audit noted the following.

Macro-assessment: The UN coordination office, on behalf of the participating agencies (UNDP, UNFPA and UNICEF), had hired an external consultant to carry out a macro-assessment. It was completed in September 2013, within the current (2012-2016) country programme. The macro-assessment report assessed the national audit system – consisting of the Commission on Audit (CoA) – as low risk. The report indicated that the CoA has the authority to cover all national and local government expenditures. However, the country office had yet to decide, in consultation with the other UN agencies, whether the CoA should be requested to undertake audits of government implementing partners. At the time of the audit, the scheduled audits were being conducted by a private accounting firm with which the office signed a long-term agreement (LTA).

Micro-assessments: There were 106 partners that received more than US\$ 100,000 in 2014 (73 Government and 33 NGOs). As of the end of that year, 73 of the 106 had been micro-assessed. The partners that were not micro-assessed were mainly government partners (30 out of 73). This was because the office's own procedures required a micro-assessment of an NGO before signing a programme cooperation agreement (PCA) with it, and they therefore received priority.

The audit reviewed a sample of three micro-assessments and found that they were done in accordance with HACT guidelines and were well documented. They included recommendations to address the most significant risks.

Assurance plan: The country office prepared an overall assurance plan for all programme sections and zone offices, following discussions and exchange of information between the HACT focal point and chiefs of sections. The assurance plan was based on the frequency of assurance activities recommended in the UNICEF HACT guidelines.

However, the rate of implementation of the plan at the end of 2014 was low: 48 percent for programmatic visits (89 programmatic visits reported against 187 planned) and only 8 percent for spot checks (seven completed out of 124 planned). The office said that the sudden increase of the number of implementing partners due to the Haiyan emergency (from 54 in 2013 to 145 in 2014) meant it could not implement all the assurance activities and had prioritized the micro-assessments.

Besides spot-checks, programmatic visits are also considered as assurance activities under HACT, although they are not undertaken solely for that purpose. However, they were not linked to the field-monitoring plans.

In general, there was no structured process for regular monitoring of the status of implementation of the assurance activities plan. Further, it was not clear who was accountable for its implementation. According to the 2015 rolling annual management plan, responsibility for micro-assessments and for development and implementation of the assurance plan was split between the Representative, Chief of Operations, Admin & Finance Officer and Deputy Representative. The 2015 personal evaluation of the HACT focal point (who was the Admin & Finance Officer) included responsibility for the preparation and execution of HACT assurance

plan. However, the audit also checked the personal evaluation report of one of the section chiefs to see if any related responsibility had been recorded; it had not.

Follow-up on assurance activities: Assurance activities are obviously less effective if their findings are not followed up and action taken accordingly. The audit reviewed the office's reaction to the findings of assurance activities.

The office had sent the reports of completed scheduled audits to 29 implementing partners in August 2015, asking them to submit an action plan to address the audit recommendations. The audit met two of these partners and was informed that the audits were conducted more than seven months before they received the report. The office said this delay was due to late submission of the reports by the accounting company but also to an oversight by the office. As of the end of September, five partners had sent the office action plans to address the audit findings. The audit review noted that the office did not yet have a process for review and monitoring of the implementation of these action plans.

Regarding spot checks, the HACT focal point had prepared a summary of their findings from 57 partners that had each received over US\$ 100,000. The findings included a number of issues, such as expenditures with absent or incomplete supporting documents, expenditures not in line with the standard rates or the agreed budget items, expenditures not approved by the office, differences between the reported and actual expenditures, expenditures not yet incurred but reported as liquidated, expenditures not authorized by the partner's own authorizing officer and expenditures not traced to the partner's accounting documents. At the time of the audit, the office had yet to decide on how to follow up on these findings.

Agreed action 11 (high priority): The country office agrees to:

- i. Review the results of the macro-assessment, and, in consultation with the other UN bodies in the Philippines, decide whether the Commission on Audit could be used to conduct the audits of government implementing partners.
- ii. Ensure that programmatic visits planned in the assurance plan are included/taken into consideration in the field-monitoring plans of the programme sections.
- iii. Define an accountability framework for the implementation of assurance activities that involve the programme sections.
- iv. Establish a process for regular monitoring of status of implementation of the assurance activities plan.
- v. Establish a process for the review and monitoring of the status of implementation of partners' audit action plans and for follow-up on spot-check findings.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Operations, Chief Planning, Monitoring and Evaluation, Programme Section Heads, and HACT Focal Point

Date by which action will be taken: September 2016

Partnerships

To meet the demands of the humanitarian response to the Haiyan crisis that started in November 2013, the office had increased its number of implementing partners (including Government partners) from 54 in 2013 to 145 in 2014. With the passing of the crisis, this had decreased to 118 in 2015 was expected to decrease further with the decline of Haiyan funding. These trends had also been reflected in the number of PCAs signed. In 2013, the office signed

42 PCAs with NGOs for an aggregate value of about US\$ 23.4 million. In 2014, the office signed 74 PCAs and 10 small-scale funding agreements (SSFAs) with NGOs with an aggregate value of about US\$ 40.2 million. In 2015, the office signed 16 PCAs and six small-scale funding agreements (SSFAs) for US\$ 6.5 million.

Meanwhile the office had conducted an internal mid-term review of the country programme in 2015, to sharpen the programme strategy focus in view of new developments in the country. As a result, key changes in the programme strategies were introduced, such as the mainstreaming of the humanitarian response and recovery into the regular programme, and increasing focus on social policy. These changes required that the country office start a review of its partnerships. At the time of the audit, this review had covered the Government implementing partners but had not been extended to NGOs.

The audit reviewed the way in which PCAs were reviewed and concluded. The office had established a Programme Cooperation Agreement Review Committee (PCARC) with appropriate terms of reference and membership. It also had a tracking database for all the PCAs reviewed by the PCARC and concluded with NGOs.

The audit reviewed a sample of four PCAs for which the office contributed a total amount of US\$ 1.7 million. The composition of the PCARC was appropriate, its discussions were detailed and well documented and the conditions of the committee were generally fulfilled before approval. However, the audit noted the following:

- Supporting documents were not always provided the PCARC, even though it was confirmed that they were available in the submission forms. Examples included documentation of the selection process and the evaluation of prior cooperation with the concerned NGO.
- Programmatic assessments were not systematically completed and updated, especially where the NGO is expected to be involved in activities for which it did not have prior experience.
- Budgets were not always tied to quarterly disbursements.
- In some cases, the PCAs were signed before approval of the PCARC minutes.
- When a PCA overlapped with existing/ongoing PCAs, there was no systematic verification that there was no double payment of direct programme costs (the audit found one case of double payment for a direct programme support item).
- In cases where the committee did not meet face-to-face and the submission was circulated to members, comments/feedback of PCARC members was not recorded.

Agreed action 12 (medium priority): The office agrees to:

- i. Conduct a comprehensive mapping of partners, their approaches and activities to ensure that the office is selective and strategic in its engagement with NGOs.
- ii. Strengthen the Programme Cooperation Agreement Review Committee (PCARC) process by ensuring that:
 - a) PCARC members are provided with complete and updated information;
 - b) PCAs are signed after approval of PCARC recommendation;
 - c) budgets are tied to quarterly disbursements;
 - d) budgets of overlapping PCAs are systematically reviewed to avoid double payments; and,
 - e) feedback of PCARC members is documented in cases where the committee has not formally met.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: December 2016

Programme monitoring and review

UNICEF country offices should have mechanisms, guidance and standards for on-site monitoring of programme implementation, and for systematic follow-up on the recommendations arising from trip reports. This should ensure efficient and effective use of resources (cash and supply), detect implementation issues and allow timely application of corrective measures.

The field monitoring visits of programme sections and zone offices were planned on a monthly basis for both emergency and regular programme activities. Each programme section and zone office drafted its monthly travel plan and shared it with the Deputy Representative for approval.

The audit noted the following.

Standard procedures: At the time of the audit, the country office had not yet established standard operating procedure (SOPs) for field monitoring of programme implementation, with defined standard forms for trip planning and reporting, and for monitoring the implementation of the trip-report recommendations. The office said that a staff member from Planning, Monitoring and Evaluation section would participate in a rollout of e-tools developed by UNICEF, planned in China in October 2015. Following this rollout, the country office would assess the best way to put in place an electronic system to manage field-monitoring trips.

Quality of trip reports: The audit reviewed five recent reports from field-monitoring trips, related to Health & Nutrition and Education programmes – among the most significant programme components. It noted that monitoring objectives were stated in broad general terms and were expressed as activities, instead of in terms of expected outcomes from the monitoring trips, with clear linkages to workplans (Examples: *Field monitoring for Region 6 Programme Support*; *To participate in the PCA partners meeting*; *School visits in president Roxas, Courtesy calls to municipalities officials*). Other points noted were that:

- Progress of programme implementation was not assessed against expected achievements.
- Responsible individuals and timelines for the follow-up actions were not systematically defined.
- Follow-up actions were not always linked to the findings.
- The quality of the inputs provided (cash and supply) was not always reviewed.

Programme review: Offices are expected to hold at least one annual programme review jointly with key counterparts. This review assesses progress towards planned programme results, identifies constraints, challenges and opportunities, and decides on corrective measures for the following workplan. It also takes stock of new information on the situation of children and women and assesses any resulting implications for the country programme.

The office stated that at the end of 2014, each programme section had conducted an annual programme review with its respective partners. However, based on the evidence provided by

the office and the interviews with selected key Government partners, the audit noted that these reviews were not conducted systematically by all the programme sections. Even when the review took place, the results of the review, especially the constraints and the recommendations, were not recorded, and there was no overall programme review with the Government coordinating body (NEDA) to agree on lessons learned to be incorporated into subsequent workplans.

This risked workplans not being on track for the planned results. It also risked a lack of ownership of the programme by implementing partners. The audit ascribed it to a lack of guidance to programme sections on the preparation, implementation, documentation and use of the annual programme reviews.

Measuring programme progress: Country offices should make statements of progress towards the achievement of outputs and related indicators at least twice a year. These statements should be an outcome of the mid-year review and annual review, by 31 August and 31 January respectively. These statements are entered into the Results Assessment Module (RAM) in VISION.

The audit reviewed the status of progress of the outputs recorded in RAM for both programmes (*Health & Nutrition* and *Education*). The review noted that most of the indicators had not been updated since the start of the current country programme, as they drew on surveys that had yet to be conducted. A number of indicators could only be completed through costly household surveys, while others referred to means of verification (studies and surveys) that were vague; they were also not included in the office's integrated monitoring and evaluation plan (IMEP), meaning there was no indication that the office had planned for, and allocated resources to, them.

Agreed action 13 (high priority): The country office agrees to enhance the controls related to monitoring and review of programme implementation by taking the following steps:

- i. Establish a standard operating procedure for field monitoring of programme implementation, with defined standard forms for trip planning and reporting, and a procedure for monitoring the status of implementation of trip-report recommendations.
- ii. Include, in all field-monitoring reports, the results expected from the field visits and an indication as to whether the expected results were achieved or not, and a review of the quality of inputs (cash and supply) provided; and assign responsible staff and timelines for all field-trip recommendations.
- iii. Hold annual programme reviews with Government counterparts and other implementing partners, document them, and ensure their recommendations are taken into consideration in subsequent workplans.
- iv. Identify specific and realistic means of verification for each indicator, and collect information needed to establish the status of all indicators.

Staff responsible for taking action: Deputy Representative and Chief Planning, Monitoring and Evaluation

Date by which action will be taken: August 2016

Evaluations

UNICEF policy requires country offices to evaluate significant programme/project

components and activities. In particular, it requires evaluations of innovative and pilot development initiatives designed for replication, to ensure adequate understanding of success factors, risks and limitations before an initiative is scaled up.

To organize their evaluations and related studies and other activities, country offices draw up five-year integrated monitoring and evaluation plan (IMEPs) for the period of the programme, plus annual IMEPs that reflect ongoing developments. The Philippines country office had a five-year IMEP that was annexed to the CPAP, and had drawn up annual IMEPs as part of the preparation of the AMPs.

The five-year IMEP did not include any programme component evaluation. The office could not say why. However, it had completed four evaluations since the beginning of the country programme in 2012 (one in 2012, two in 2013 and one in 2014). These had resulted in 103 agreed actions (that is, actions that were both recommended by the consultant, and accepted by the office). These actions were completed for the two evaluations done in 2013. Those for the 2014 evaluation were ongoing (29 percent rate of completion), but no action had been started for those arising from the 2012 evaluation.

In 2015, two evaluations had been completed (*Evaluation of child-friendly spaces in Typhoon Haiyan/Yolanda-affected areas*, completed in August; and *Evaluation of the Intervention and Rehabilitation Program in Residential Facilities and Diversion Programs for Children in Conflict with the Law*, completed in June). At the time of the audit, the response to these evaluations was ongoing. However, except for the real-time evaluation of the Haiyan response,¹² the audit noted that there was no formal system established to monitor the status of implementation of management responses on a regular basis.

The office was experimenting with a number of models that were expected to be scaled up or feed into upstream policies, such as development of a Primary Health Insurance Care Package, setting of standards for cold-chain management, modelling a link between Early Childhood Care and Development (ECCD) and Primary Education, and development of a School improvement Plan (SIP) toolkit. No evaluation of any of these had been included in the five-year or annual IMEPs – again, the office could not say why.

The office said it was aware of these gaps. It had started to prepare a standard operating procedure for Research, Studies and Evaluation (RSE), along with a set of criteria and a checklist for the selection of activities to be included in the IMEP. These, and the SOP, had yet to be finalized at the time of the audit.

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

- i. Include the evaluation of key programme component and project models/pilots in its integrated monitoring and evaluation plan.
- ii. Establish a mechanism, and assign responsibility, for regular monitoring of the status of implementation of the management responses.

Staff responsible for taking action: Representative, Deputy Representative, Chief of Planning,

¹² “Real-time” because the evaluation took place during the ongoing response that it was evaluating. The evaluation, titled *Real-Time Evaluation of UNICEF’s Response to the Typhoon Haiyan in the Philippines*, made a number of recommendations, but also concluded that UNICEF’s response was timely and appropriate. It is available online at http://www.unicef.org/evaldatabase/index_74613.html.

Monitoring and Evaluation and Chief of Social Policy

Date by which action will be taken: March 2016

Cold chain and warehousing in Tacloban

As stated earlier in this report (see observation *Exit strategy from the Haiyan emergency*, p8 above), the office had a transition plan for the end of the Haiyan emergency, but this did not make full provision for programme monitoring in the affected areas during the transition period. The audit visited Tacloban and noted the following.

Cold chain: At the time of the audit, the office was engaged in a cold-chain restoration programme following Typhoon Haiyan. The programme included the construction and equipment of 15 prefabricated walk-in cold rooms for vaccine storage for a total of about US\$ 2 million; two cold rooms in existing facilities for about US\$ 100,000; and smaller cold-chain items such as refrigerators, freezers, cold boxes, vaccine carriers, generator sets, etc. for a total of about US\$ 2.5 million.

The audit noted that although the smaller cold chains had experienced some delays, they had now been completed, and that one of the two cold rooms being built in existing facilities was functional; the other one was being connected to electricity before installation of the cold-chain equipment. However, none of the 15 prefabs were functional at the time of the audit; they were at various stages of completion, but cold-chain equipment had yet to be installed. There had been delays for various reasons, which had been documented. The office said that all the prefabs and cold rooms would be completed by the first week of December 2015, as specified in the contracts for both. The audit thought that there was no guarantee of completion by then.

Meanwhile the cold-chain equipment and related parts had already been procured by UNICEF and delivered to partners. The cold-room equipment due to be installed in a prefab was stored outside in the compound of a local hospital while the construction work was being completed. The audit could not satisfy itself that these storage conditions were adequate. The cold-chain consultant had noted such issues with other, similar, equipment during a field mission in August 2015. The office said it had obtained assurances from partners that while the cold-chain equipment was not stored in a warehouse, it was still secure, as watchmen were posted on 24-hour basis; and that the supplies were also covered and protected from weather elements. However, for some of the equipment, the office could not provide evidence of this.

Because the office had closed its warehouse in Tacloban, it could not store the equipment there until the buildings were ready. However, it was not clear to the audit why it could not be kept in the Manila warehouse instead.

Warehousing: The warehouse in Tacloban was closed on 30 June 2015, and agreements were signed with four implementing partners to transfer UNICEF programme supplies amounting US\$ 503,234. The handover agreement, while transferring ownership to the partners, gave UNICEF the right to visit the warehouses and be informed about supplies distributions before they occur. Of the four partners involved, one was an NGO and the remaining three were Government departments – the Department of Social Welfare and Development (DSWD), the Department of Education (DepEd), and the Department of Health (DoH).

The audit traced the supplies and noted that the three Government partners were storing supplies in containers that had been donated by UNICEF, as it knew the partners did not have

proper storage. In one case (DepEd), supplies were packed and arranged in a way that did not allow easy access to and identification of the supplies. The audit also noted damaged school materials that the partners said had been transferred in that condition by UNICEF, although the damage had not been notified to UNICEF in the letter of agreement when the partner received the items.

In another case (DoH), the container space was insufficient, and some supplies (tents, squatting plates, etc.) were stored outside. Further, some of the UNICEF supplies were stored in another warehouse away from the containers, among non-UNICEF supplies and in a quite disorganized way. Further, at the DoH, an insulated container donated by UNICEF and supposed to store Ready for Use Therapeutic Food (RUTF) had generators and other hard supplies in it.

In two cases (DoH and the NGO), hygiene kits were distributed to beneficiaries without prior notification to the Tacloban zone office as per agreement. The zone office had not in fact enforced this requirement, but after the audit raised the issue, the partners were able to show beneficiary lists for the items distributed. In the case of the NGO, the audit noted that toothpaste included in the hygiene kits were to expire very soon – less than three months, according to the NGO, and the Tacloban zone office had yet to be informed.

In closing the warehouse, the Tacloban zone office left a generator that had been donated to an implementing partner without making arrangements for it to be physically transferred. The warehouse had been taken over by a third party, which had moved the generator outside and left it there. When the audit raised this, the office contacted the partner to make arrangements for its collection.

In light of the issues noted above, the audit observed that the office had not established a mechanism to monitor the storage, conditions and distribution of the supplies handed over to the partners as per the signed agreements. In the opinion of the audit, these observations reinforced the need for the office to make transitional arrangements for monitoring in the Haiyan-affected area. No agreed action to that effect is given here, as it is addressed by agreed action 5.ii on p9 above.

Agreed action 15 (medium priority): The country office agrees to review all undistributed supplies transferred to implementing partners and ensure that partners provide adequate measures for storage and distribution of these supplies, including cold chain equipment yet to be installed.

Staff responsible for taking action: Chief of Supply and Logistics, Chief Health & Nutrition, Chief WASH and Cold Chain Specialist

Date by which action will be taken: March 2016

Office reporting

Information reported by a country office in its annual report should be accurate and reliable, especially since one of its overall purposes is to provide input to organization-wide reporting on results for children and women, and to contribute to organizational learning. Country offices should also produce timely, good-quality reports for donors that are acceptable to the latter. This includes comparing results achieved, activities implemented and actual expenditures against those planned.

Country office annual report: The audit reviewed the accuracy of a sample of six results reported in the 2014 annual report and noted that not all these results were accurate. In five cases, the sources provided showed that the actual results were significantly higher than those reported. For example, the office stated in the annual report that “165 children suffering from Severe Acute Malnutrition have been admitted for treatment”, but the report of the NGO partner (provided by the office) gave the number as 334. By contrast, in one case, the supporting documents shared did not provide evidence that the reported result was actually achieved. The office could not provide evidence of the quality assurance process over the preparation of the annual report.

Donor reports: During the massive scale-up of Haiyan response in late 2013 and early 2014, the office recruited a Reports Specialist to ensure quality assurance and timely submission of donor reports. Of the 60 donor reports due in 2014, 58 had been submitted on time; of 39 due in 2015 (as of September), 34 were.

The audit selected four donor reports submitted in 2013 and 2014 for review. Reported results were expressed in terms of activities and not results in three of the four reports. This was because the donor agreements/proposals in which the agreed results had been expressed in very broad terms. However, UNICEF’s own policy on results-based management still requires that activities should be results-driven.

In two donor reports, the expenditures were presented as aggregate amounts without breakdown against the budget items of the proposal. One important donor conducted a partner performance assessment of the office, and rated it as less than adequate for focus on results, delivering results on time and delivering defined services within the budget.

The office had prepared standard operating procedures for donor reporting in September 2012, but they had not been updated since, and did not reflect the current practice in the office.

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

- i. Strengthen its controls over the preparation of the annual report, to ensure that all key results reported are accurate and supported by reliable documented evidence.
- ii. Review and strengthen its quality assurance process over the quality of donor reports, to ensure in particular that donors’ agreements include specific expected results, that achievements reported to donors are expressed in terms of actual against planned results, and that reported expenditures are broken down against agreed budget lines.

Staff responsible for taking action: Deputy Representative and Chief Planning, Monitoring and Evaluation

Date by which action will be taken: June 2016

Programme management: Conclusion

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

3 Operations support

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

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

All the areas above were covered in this audit.

Unconditional cash transfers

As part of its response to Typhoon Haiyan, the country office had provided emergency unconditional cash transfers (UCT) to vulnerable households in the area of Tacloban, which was most affected by this typhoon. The total amount of cash transferred by the office for this project amounted to approximately US\$ 10 million, over a period of 12 months. Out of this amount, US\$ 6.4 million had been channelled through an NGO and US\$ 3.5 million through the Department of Social Welfare and Development (DSWD). The audit reviewed that part of the UCT implementation that was handled by the NGO (it did not review implementation by the Government partners).

The audit noted that the office had signed an agreement with the Philippine Statistical Association, Inc. (PSAI), a non-profit society of statisticians and related professionals, to act as a third-party monitor of the NGO's implementation, and monitor its impact. This project was managed by the UNICEF country office for its monitoring.

The audit accepts that distribution of cash to beneficiaries carries an inherent high risk, exacerbated by the large amounts involved. Even so, the office's controls to ensure the use as intended of the cash transfers were not adequate. The liquidations of the UCTs were processed by the Social Policy section at the main office, without certification from the Tacloban zone office, and without the PSAI reports, which were received after the liquidations. Certain PSAI reports indicated that there were cases of beneficiary households that did not meet the agreed eligibility criteria and other households that were double-counted.

The audit visited Tacloban and could not find any evidence of UCT monitoring by zone-office staff. The office said that this was because the staff involved had already left. The audit also reviewed a sample of lists of beneficiaries who received UCTs, and noted cases of different

beneficiaries with the same signature. In other cases beneficiaries were listed with the amount to be disbursed but without signatures, and neither the audit nor the programme section could provide assurance as to whether the corresponding amounts were reported as disbursements or not. Furthermore, the assurance activities implemented were limited to scheduled audits conducted in 2015, which covered only the overall internal controls of the implementing partners. No spot checks had been implemented for the NGO involved in 2014.

Agreed action 17 (medium priority): The office agrees to strengthen its controls over unconditional cash transfers by ensuring that liquidations are certified by staff responsible of the monitoring, acting in light of the third-party monitoring reports; and that assurance activities are implemented as per the organizational guidance.

Staff responsible for taking action: Chief Social Policy and HACT Focal Point

Date by which action will be taken: June 2016

Long-outstanding DCTs

UNICEF Financial and Administrative Policy requires that direct cash transfers (DCTs) are requested and released on a quarterly basis. If reporting on the full utilization has not been received within six months of the DCT issue date, no further direct cash transfers can be made to the implementing partner concerned.

According to VISION data, as of 10 September 2015 the outstanding DCTs amounted to US\$ 13 million. Of this amount, US\$ 3.7 million (29 percent) had been outstanding between six and nine months; and US\$ 693,108 (5 percent) had been outstanding for more than nine months. The audit review found that this was due to a combination of factors. There were delays in the submission of the reporting FACE forms¹³ by implementing partners, and delays in the processing of the liquidations in the office. In some cases, the office disbursed new DCTs to partners with outstanding DCTs just few days before the six-month deadline for the liquidation of those DCTs. As an example, a DCT of US\$ 16,000 had been transferred to a partner one day before the six-month deadline for the liquidation of an outstanding DCT of US\$ 7,000. This amount was now outstanding between six and nine months.

Agreed action 18 (medium priority): The office agrees to expedite the processing of liquidations received from implementing partners and ensure that no further direct cash transfers are disbursed only a few days before the six-month deadline for liquidation of prior advances, before securing the relevant supporting documents.

Staff responsible for taking action: Programme Section Heads and Budget Specialist.

Date by which action will be taken: June 2016.

Consultants and individual contractors

The audit reviewed a sample of seven cases of selection of consultants and noted a case in which a consultant was selected despite not meeting the minimum requirement for related

¹³ 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.

working experience. There was no recorded justification for this decision. This consultant was later terminated because of underperformance. In another case, though three candidates were shortlisted, the one contracted was the only one who had been offered an opportunity to join a field-monitoring mission and later on an interview. The other two candidates were not offered the same opportunities. The reason given by the office was the unavailability of these candidates, but this justification was not recorded in the file.

Consultants and individual contractors should be evaluated at the time of completion of assignment or at the end of the contracting period. The audit reviewed seven consultant and individual contractor contracts, and noted that in one case, no final performance evaluation was done, and in two cases where consultants were terminated due to under-performance, the performance evaluation did not document reasons for termination for record tracking and future reference. In one of those two cases, the audit also noted that the roster profile of a consultant who had been terminated due to underperformance had not been updated for future reference.

Open expired contracts: As at 10 September 2015, the audit review noted that 264 consultants and individual contractor contracts issued during the period 2014-2015 had expired. Of these, 70 had not been closed, and showed an outstanding balance of US\$ 120,799. Out of the 70 contracts, 55 have been fully paid but not yet closed in VISION; 10 contracts had been completed one to three months ago, but were not yet paid; and five contracts had yet to be paid for several reasons, such as pending performance evaluations and deliveries.

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

- i. Strengthen the selection process of consultants and individual contractors to ensure that all qualified candidates meet the minimum requirements and are subject to the same selection procedure, and that any deviation is duly documented and approved by the Representative.
- ii. Carry out timely performance evaluation of consultants and individual contractors.
- iii. Ensure that the consultants and individual contractors' profiles in the office's roster are complete and accurate, and include performance evaluations done by the office.
- iv. Ensure timely closure of expired contracts.

Staff responsible for taking action: Human Resources Manager and Programme Section Heads
Date by which action will be taken: June 2016

Supplies

The audit reviewed the office's procurement of supplies of goods and services. It made a number of observations covering tracking target arrival dates, receipt of tenders, performance evaluation, and open contracts and purchase orders.

Target arrival dates: The total value of 2014 Supply Plan was approximately US\$ 20.2 million; US\$ 16.6 million-worth, or 82 percent, of the planned procurements did not have planned target arrival dates. Likewise, the 2015 Supply Plan amounted to US\$ 11.2 million of which US\$ 7 million-worth of planned orders, or 63 percent, did not have planned target arrival dates. In addition, out of the total amount of the supply plan, US \$ 1.1 million, i.e. 10 percent, had target arrival dates on or before the procurement plan approval date of March 2015.

Receipt of tenders: UNICEF's Supply Manual requires that bids or proposals are opened at the specified time by the Supply Manager, or the designated staff, in the presence of a witness from another section as designated by the Head of Office. Emailed submissions should be sent only to a secure email address, accessible only by the bid clerk or the staff designated for the receipt of bids or proposals.

In the country office, five Supply staff had access to the email address used to receive bid submissions. In addition, the bid box used by the office had only one lock, which does not provide assurance that the bid box opening was done by the designated staff member and the witness. This carries a risk to the confidentiality of bid information.

Performance evaluations: The audit reviewed five institutional contracts for services, and found that the relevant programme had completed performance evaluations for them all. However, these evaluations were not shared with Supply Unit in order to update the profiles of the corresponding service providers. In addition, the audit found that there were no written performance evaluations of suppliers of goods.

Open contracts and purchase orders: The review of 440 expired institutional contracts and purchase orders (POs) showed that 48 had not been closed, and the outstanding balance was \$237,929. The country office closed 31 of the 48 during the audit. Of the remaining 17 contracts, eight were in the process of being paid, eight were pending receipt of invoices or deliveries and one had been cancelled. A contract/PO should be properly closed in VISION, as any unused funds cannot be reallocated until it is done – and there is a risk in such cases that the funds might then have expired, so would be lost to UNICEF.

Agreed action 20 (medium priority): The office agrees to strengthen its controls and to take the following specific steps:

- i. Include realistic target arrival dates for all supplies in the supply plans.
- ii. Make sure that bids and proposals can be received only by authorized staff, whether through email or bid box.
- iii. Complete timely performance evaluation of suppliers, consultant and individual contractors, record any performance issues and update the profiles of the vendors accordingly.
- iv. Close expired contracts and purchase orders promptly.

Staff responsible for taking action: Chief of Supply & Logistics and Programme Section Heads.
Date by which action will be taken: June 2016.

Procurement services

UNICEF offers procurement services to Governments and other organizations for supplies and equipment needed for purposes that are related to UNICEF activities, and are consistent with the aims and policies of the organization. UNICEF's Supply Division in Copenhagen coordinates the process, but country and regional offices, and key offices in NYHQ, all play a part in this service.

As far as possible, procurement services should be planned as a part of the UNICEF country programme of cooperation, and should be complementary to the programme activities with the Government. Prior to the start of a procurement service, it is important for country offices to review their capacity to coordinate and implement it successfully. To this end, UNICEF's

Supply Division has provided a capacity assessment template to help country offices undertaking large, non-standard, multi-year projects assess their own capacity. Based on this assessment, offices can address potential capacity gaps, key resource issues and constraints in order to support effective and efficient procurement services.

UNICEF Supply Division and the Philippines office had been involved in procurement services for the Government of the Philippines for many years. At the time of the audit, a new standard Memorandum of Understanding had been signed between UNICEF (by the Representative on behalf of Supply Division) and the Government.

The value of procurement services in the Philippines had increased dramatically from US\$ 8 million in 2013 to about US\$ 57.9 million in 2014. (In contrast, the value of regular country office procurement of supplies was about US\$ 17 million in 2014.) Forecasts for procurement services for 2015 and 2016 were US\$ 59.6 million and US\$ 52.7 million respectively.

At the time of the audit, the office had a locally-recruited Procurement Service Assistant position at GS6 level dedicated to procurement services. The position was funded by Supply Division until 31 December 2015. The post holder worked on market analysis, planning and survey of customer needs, particularly those relating to Health and Nutrition procurement. The position also frequently coordinated with the Health and Nutrition section. At the time of the audit, the office had decided that there was need for more support to procurement services, and had asked for the position be extended beyond 2015 for two more years. It had also requested Health Procurement Services Specialist (NO-C level) post. The office was awaiting Supply Division's decision at the time of the audit.

The office could not provide the audit with the initial comprehensive capacity assessment prior to the start of the procurement services activities, as this had been done a long time (possibly more than a decade) earlier. The office told the audit that procurement services had been reviewed in 2010 and recommendations made to increase capacity, but this report also had yet to be provided to the audit. As procurement services amounts have increased, the audit saw a need for a fresh comprehensive assessment to support the capacity increase request made to Supply Division. The audit also noted that the office had yet to establish and document complementarity between regular programmes and procurement services, even though the latter had increased significantly. The audit was informed that this was an aspect to be considered in the discussions about a possible extension of the current 2012-2016 country programme to 2018.

Agreed action 21 (medium priority): The office agrees to:

- i. Undertake a fresh and complete capacity assessment in support of procurement services in light of the increase in volumes, using the recommended tool.
- ii. Take steps to ensure and document complementarity between regular programmes and procurement services.

Staff responsible for taking action: Chief of Operations; Chief of Supply & Logistics; and Procurement Services Specialist

Date by which action will be taken: September 2016

Warehouse management

As of 18 September 2015, the office had supplies valued at US\$ 2.7 million, of which supplies

worth US\$ 2.1 million were stored in Manila and supplies worth US\$ 574,388 in Cotabato. Supplies included emergency supplies amounting to US\$ 1.1 million, split between the two warehouses. (A warehouse at a third location, at Tacloban, had just been closed at the time of the audit.)

The audit reviewed warehouse records and conducted a physical verification of warehouses in Manila and Cotabato, and could satisfactorily reconcile the count and the VISION records. However, it noted the following.

Identification in VISION: There were two warehouses in Manila, a “main one” and an “extension”, both rented from the same third party for US\$ 21,000 and US\$ 8,517 monthly respectively. This included temperature-controlled rooms. The audit noted that while the two warehouses were identified as one in VISION as per the Inventory report, they were in fact in distinct locations, far from each other. However, as the office was planning to close the “extension” warehouse, it had decided not to reflect it as a separate warehouse in VISION.

The office said that the “storage bin” location could identify the warehouse, but the audit found this cumbersome. For instance, the “storage bin” location was in many instances identified by release-order numbers relating to supplies that had in fact been transferred to partners but had not yet been acknowledged. Also, it was not clear from the inventory report from which warehouse the supplies had been sent out.

In some instances, the “storage bin” location was referred to as “Loan”, “PSB” or “Repair”; this did not convey in which of the warehouses those items were located. The office said that its staff knew where to find the supplies, which was not always obvious from the reading of the Inventory Report.

Outsourcing management: Both warehouses in Manila had significant free space, and supplies stored in the “extension” could easily have fitted in the “main” warehouse. The office said it had just issued a tender to renew the outsourcing of warehouse management, and that (as stated above) it planned to close one of the two warehouses. This also reflected a decision to rationalize procurement of supplies so as to minimize the prepositioning of emergency supplies and related risks (for instance cost of warehousing, long storage of perishable items). Instead, emergency supplies that could be sourced locally would be procured directly from suppliers via Long-Term Agreement in case of an emergency. The office planned to close the “extension” warehouse by end of October 2015, but there was no written moving plan yet and no assurance that the closure would occur by then.

Defects in roof: In the “main” Manila warehouse, the audit noted that there were rainwater leaks. The office said the matter had been discussed with the landlord on several occasions and that repairs were ongoing.

Acknowledgement of receipt: Signed and stamped waybills should be returned to UNICEF promptly to ensure that receipt acknowledgments can be processed in VISION, to expense supplies from the country office inventory. Supply and Programme staff should track dispatches to ensure that supplies are expensed promptly. However, the audit noted that, out of a sample of seven items delivered to partners, in six cases the acknowledgement of receipt had not been received from the partners after two months.

Direct delivery: According to the inventory report dated 18 September 2015, supplies amounting to US\$ 605,325 in UNICEF warehouses were marked for “Direct Delivery” (DDL),

which meant that they should not have been there; they were supposed to be sent straight to implementing partners after customs clearance.

The audit analyzed the “DDL” records. They included supplies in the amount of US\$ 170,688 that had in fact already been shipped to the implementing partners, but had yet to be acknowledged by them.

However, supplies amounting to US\$ 433,254 were still in the warehouse although they were marked to be directly delivered to implementing partners. Most of the items had been in the warehouses for more than a year. The office said that the major reasons for “DDL” supplies ending up in the office warehouse instead of being sent to the partners were: Sales Orders created erroneously indicated as “DDL”, technical issues in VISION, and partners’ lack of storage capacity during the emergency.

Agreed action 22 (medium priority): The office agrees to strengthen warehouse and supplies management, including the following steps:

- i. Expedite, and set dates for, closure of the “extension” warehouse in Manila, and meanwhile ensure that supplies locations are accurately and comprehensively reflected in VISION.
- ii. Undertake a further assessment of the roof of the “main” warehouse in Manila, and expedite necessary repairs.
- iii. Further strengthen the monitoring of supplies deliveries to implementing partners and reduce the time taken for formal acknowledgement by suppliers.
- iv. Further review supplies marked for direct delivery to implementing partners that have been in the warehouse for some time, and either expedite delivery or adjust the supplies records.

Staff responsible for taking action: Chief of Supply and Logistics

Date by which action will be taken: June 2016

Travel authorizations

It is the responsibility of each staff member to submit travel certification within 15 calendar days from the date of resumption of duties at his/her regular duty station. The approving officer should not approve any new travel authorization (TA) for a staff member who has not completed certification for any previous official travel.

As of September 10, 2015, the country office had 53 TAs that had been open for more 15 days. The delay ranged from 17 to 724 days. During the audit, the country office did take action to close five long outstanding TAs that were open for periods ranging between 101 to 724 days. Also, from a sample of 47 TAs, the audit noted that 17 had been issued before certification of the traveller’s previous TA.

The country office stated that most of the open TAs were pending invoices from travel agencies for airfare costs. The audit did not have time to verify this statement.

Agreed action 23 (medium priority): The office agrees to:

- i. Identify and document the root causes of delay in the certification of travel authorizations (TAs) and take action to address them.

- ii. Not issue new TAs for travellers who have not completed the required travel certification for previous official travel. Any deviation from this should be approved by the Representative based on acceptable written justification.

Staff responsible for taking action: Chief of Operations and Senior Administrative Assistant.

Date by which action will be taken: March 2016.

Asset management

Offices should have systems and controls to ensure that all their assets are accurately identified and recorded. Year-end closure Instructions state that country offices must perform an annual 100 percent physical verification of all equipment and attractive items, reconcile results of the physical count to respective asset master records (AMRs) in VISION, and process any differences noted to correct and update VISION records.

According to VISION, as of 10 September 2015, the office had recorded a total number of 836 items of property, plant and equipment (PP&E) with an assigned original value of US\$ 1.6 million. The latest physical count of assets had been done in July 2015.

The audit review noted that the PP&E information in the system was incomplete and inaccurate. No original value was recorded for 88 items; no location was specified for two items; no acquisition year was indicated for 14 items; no quantity was recorded for 15 items; and different items were assigned the same serial number in 10 cases. In the Tacloban office, an audit verification found that one asset in five sampled could not be tracked to the system, and two sampled assets recorded in the system could not be found in the office. The audit noted that the office did not have a system for quality assurance over the PP&E data recorded in the system.

Agreed action 24 (medium priority): The office agrees to establish a quality assurance process over the property, plant and equipment data to ensure that it is complete and accurate.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: March 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.

Annex A: Methodology, and definition of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

High:	Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
Medium:	Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
Low:	Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

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

processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

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

[Qualified conclusion, strong]

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

[Adverse conclusion]

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

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

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

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