Internal Audit of the Somalia Country Office

March 2015

Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Somalia country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited the office from 29 September to 24 October 2014. The audit covered the period from January 2013 to October 2014.

The 2011-2015 country programme structure was revised following the Mid-Term Review in 2013. It consists of Child Survival (including health, nutrition, water, sanitation and hygiene); Education; Child Protection; and planning, monitoring and evaluation as the main programme components. The total approved budget for the country programme is US$ 323 million, of which US$ 42 million is Regular Resources (RR) and US$ 281 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. They include income from voluntary annual contributions from Governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. OR are contributions that have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country office is the UNICEF Somalia Support Centre (USSC) in Nairobi, with three zone offices – North-Western Zone (Hargeisa), North-Eastern Zone (Garoowe), and Central South Zone (Mogadishu). In addition, there are two sub-offices, in Baidoa and Galkayo, which report to the Central South Zone office (Mogadishu). As of October 2014, the country office had a total of 328 approved posts, of which were 89 international professionals, 92 national professionals and 147 general service staff. The total budgets were US$ 138 million in 2013 and US$ 163 million in 2014. Total expenditure was US$ 138 million in 2013 and US$ 107 million as of September 2014.

Action agreed following the audit

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

- The office agrees to review the terms of reference (ToR) of the country management team (CMT), including frequency of meetings, and consider expanding its participation to include the section chiefs and chiefs of field offices; ensure that monitoring of programme and management priorities is included in the CMT agenda; and update the ToR of the property survey board to ensure prompt implementation of its recommendations.
- The office agrees to establish a structured and systematic process for oversight of, and technical support to, the zonal offices. It also agrees to review and clarify the authorities, accountabilities, and responsibilities of USSC and zonal office staff.
- The office agrees to implement the Harmonized Approach to Cash Transfers (HACT). In particular, it agrees to conduct sufficient micro-assessment of implementing partners; regularly review and report on the implementation of the HACT exception request to ensure sufficient evidence is obtained on the use of funds paid to implementing partners; update the risk rating of partners in VISION; and prepare and implement a risk-based HACT assurance plan.

- The office agrees to improve the disbursement and liquidation of cash transfers. It agrees to:
  - identify causes for delayed cash transfers to partners, and ensure timely submission of requests for, and disbursement of, cash transfers for programme implementation;
  - provide guidance and training to partners on preparation and submission of good quality requests for cash transfers and complete supporting documentation for liquidation of cash transfers;
  - ensure that outstanding cash transfers are liquidated within six months of disbursement to partners;
  - review the office's strategy and methods for disbursement of cash transfers; ensuring that application of cash transfer modalities is based on risk rating and that the use of reimbursements for cash transfers is based on the office's written authorization and approved fund commitments;
  - train partners on UNICEF's ethical expectations; and,
  - urgently develop and implement a plan, with sufficient funds allocated, for effective audit/review of outstanding liquidation and reimbursement claims.
- The office agrees to strengthen oversight and monitoring of inventory and warehouse management. In particular, it agrees to ensure that expired supplies are promptly disposed of in accordance with the recommendation of the property survey board, and that supplies at the warehouses are reviewed and a distribution plan is prepared.

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 during the period under audit.

The Somalia country office, the Regional Office and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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Contents

Summary 2

Objectives 5

Observations 5

Governance 5
Advisory committees 5
Annual priorities 7
Delegation of authorities 8
Oversight of, and technical support to, zone offices 10
Human resource management 11
Ethics 12
Governance: Conclusion 13

Programme management 14
Partnerships with NGOs 15
Disbursement of funds under project cooperation agreements 16
Harmonized Approach to Cash Transfers (HACT) 17
Programme monitoring 19
Programme evaluations 21
Common Humanitarian Fund (CHF) in Somalia 22
Reporting on results and use of funds 23
Programme management: Conclusion 24

Operations support 25
Management of cash transfers 25
Supply procurement 28
Inventory management 28
Contracts for services 31
Information and communications technology 31
Vendor master records 33
Operations support: Conclusion 34

Annex A: Methodology, and definition of priorities and conclusions 35

Objectives

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

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

Audit observations

1 Governance

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

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

The audit found that controls were functioning well in some areas. For instance, the office had developed a risk management database that included risk assessments of 190 implementing partners, which between them accounted for 80 percent of all funds disbursed to NGOs. The risk assessment was well supported.

However, the audit also noted the following.

Advisory committees

Country offices are expected to maintain appropriate teams and committees to monitor and guide their operations, priorities and the implementation of the country programme. The office had established advisory committees such as the country management team (CMT),

joint consultative committee (JCC), property survey board (PSB), contract review committee (CRC), programme cooperation agreement (PCA) review group and contract review board (CRB). The terms of reference (ToRs) of the committees specified, among other things, the purpose, functions and membership of the committees. The CRC and CRB functioned in accordance with their respective ToRs. However, the audit noted the following shortcomings.

CMT: A CMT should advise the Representative on procedures, strategies, programme implementation, management and performance. It should also help the Representative keep human and financial resources focused on the planned results of the country programme.

The CMT should meet once a month, or more often if required. However, in the Somalia country office it met only five times from January 2013 to September 2014. This was partly because the ToR dated May 2012 required the CMT to meet quarterly. The audit also noted that attendance at, and participation in, the CMT did not include all the section chiefs and all the chiefs of field offices. Instead, the section chiefs would choose one representative among themselves to represent the programme sections on a rotating basis. The chiefs of field offices did the same. This practice did not allow the CMT to benefit from the collective wisdom of the section chiefs and field offices' unique perspectives. (Logistical or travel difficulties did not need to prevent attendance as videoconference facilities were available.)

The agenda of the five CMT meetings did not include monitoring of programme and management priorities. Further, the minutes showed that they did not focus on the priorities indicated in the annual management plan (see following observation *Annual priorities*, p6 below). The office stated that some of the priorities were discussed in the CMT meetings and in weekly "stand-up meetings" of the Representative, Deputy Representative, Senior Security Adviser, and Chiefs of operations, communication, field operations and social policy and monitoring and evaluation (M&E). However, these deliberations were not in the CMT minutes and the "stand-up meeting" did not have ToR or an agenda.

CMT minutes were approved in the next meeting and since the meetings were infrequent, there were undue delays in this approval. For instance, the minutes of meeting held on 28 February 2013 were approved during the meeting of 3 October 2013.

Finally, the deliberations during the meetings were documented but although action points were assigned, no timeline was set for their completion.

JCC: The JCC in a country or other office is a forum for discussion between management and the Staff Association.

According to the Somalia JCC's ToR, it was meant to meet quarterly. However, during the period under review, the committee met only three times from January 2013 to September 2014. In two-thirds of the cases, the agreed action points and recommendations lacked timelines for implementation. Additionally, one of the meetings was inquorate. The office explained that, in addition to the JCC meetings, there were regular consultations with the staff and staff association, but these were not documented since they were continuous in nature.

PSB: The PSB in a country office is charged with making decisions on the disposal of assets, and should also receive a report on the physical count and an explanation of any discrepancies found.

As of October 2014, there were 19 PSB action points awaiting implementation. Eight of the

19 points had been outstanding since 2013. Eleven cases were related to a PSB held in July 2014. At the time of the audit, the office stated that it just received the Division of Financial & Administrative Management (DFAM)'s approval for disposal of the eight cases and it was going to take action. However, another four cases awaiting implementation related to the expired supplies in the warehouse, which had been accumulating storage charges on a daily basis.

Further, the office had not established PSBs in the zone offices (although not mandatory, there would normally be zonal PSBs in this type of structure). This had contributed to delays and unnecessary accumulation of items awaiting PSB review in the UNICEF Somalia Support Centre (USSC). The office confirmed that there were lapses in following up with DFAM to ensure that approvals were received within a reasonable time.

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

i. Review the terms of reference of the country management team (CMT), including frequency of meetings, and consider expanding participation in it to include the section chiefs and chiefs of field offices in order to benefit from their collective wisdom and unique perspectives.
ii. Ensure that monitoring of programme and management priorities is included as part of the CMT agenda and that a timeline is set for any agreed action point.
iii. Consider increasing the frequency of joint consultative committee meetings and ensure that every meeting is quorate.
iv. Institute a process for timely follow-up of approval of disposals of assets with the Division of Financial & Administrative Management and prompt implementation of PSB recommendations, including development of performance indicators to be periodically reviewed by the CMT.
v. Consider establishing PSBs in the zone offices to assist review of items requiring PSB attention.

Staff responsible for taking action: Representative, Deputy Representative and Chief of Operations
Date by which action will be taken: April 2015

Annual priorities

The Annual Management Plan (AMP) is an internal office management tool that defines the management, coordination mechanisms, and related staff accountabilities. It ensures that the human, material and financial resources of the country office remain focused on the planned strategic results for children.

The office did not prepare an annual management plan (AMP) for 2013. The office stated that the multi-year management plan (2012-2015), revised in September 2012, had set the priorities for 2013. The office also explained that it had decided not to develop the AMP for 2013 since it was transitioning from emergency procedures following the successful establishment of a Federal Government of Somalia in September 2012. Instead, it focused on planning for relocation into Somalia and related changes in management and staffing structures through submissions to Programme Budget Reviews (PBRs).[1] However, the audit

[1] The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee,

noted that this meant that the management and coordination mechanisms – including staff responsibilities – were not clearly defined for this important transition.

In 2014, the office prepared an AMP that included 11 programme and nine management priorities respectively. However, the programme priorities were broad, and lacked specific outputs and timelines for reporting on progress. Also, staff members' objectives as set in their performance appraisals were not clearly linked to the programme and management priorities in the AMP.

The AMP also did not define how the zone offices would monitor and report on their performance against established targets. This was partly because the country office had not clearly defined the responsibilities and accountabilities of zone offices regarding the key priorities in the AMP.

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

i. The responsibilities and priorities of the office and zone offices, including specific and measurable outputs and deliverables, are well defined in the annual management plan.
ii. Staff members' objectives are clearly linked to the office's priorities in their performance appraisals.

Staff responsible for taking action: Representative, Deputy Representative and Chief of Operations
Date by which action will be taken: April 2015

Delegation of authorities

Each office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. The Representative should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness. The ToA should be reflected in the roles assigned within UNICEF's management system, VISION (from Virtual Integrated System of Information), which was introduced in January 2012. Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with much else.

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

The audit reviewed the ToA, delegation of financial signing authority, and VISION role mapping.

The Representative had issued a ToA delegating authorities to staff members. They had been formally notified of the roles/authorities they had been assigned, and had acknowledged their

which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

awareness of the responsibilities and accountabilities associated with them. The office periodically updated the ToA to reflect staff changes. The office had assigned 66 roles to 195 users. The audit noted the following.

Assignment of roles in VISION: Based on the review of VISION assigned roles, the audit noted 20 inappropriate assignments. For instance, treasury field role had been assigned to two non-operations staff members in VISION (donor relations and nutrition staff). This role allows the field office to create a treasury transaction for account replenishment and should be assigned to staff that are responsible for the bank account replenishment function in an office.

The travel administrator's role was also assigned to non-administrative staff members (human resources and finance staff members). The travel administrator role would allow them to approve travel authorizations and travel claims on behalf of the office. They could post trips, change trip details, and close trips where changes have occurred and delete incorrectly posted trips. In addition, an authorizing officer role was assigned to an information, communication and technology (ICT) staff member that enabled him to approve health section funds commitments.

Consistency between ToA and VISION: The audit noted 19 inconsistencies between the responsibilities delegated in the ToA and the roles assigned in VISION. For instance, the roles of approving officer and certifying officer were delegated in the ToA to the administrative & finance officer and programme assistant respectively, but were not registered in VISION. On the other hand, the finance officer had been assigned the paying officer role in VISION, the child protection specialist had been assigned programme L2 and the ICT officer the authorizing officer role, although they had not been delegated such authority in the ToA.

Segregation of duties: In order to prevent errors and fraud, roles are segregated so that no one individual can have complete control of any transaction. However, 14 roles were not adequately segregated. Of the 14 conflicts, 11 were high risk while three were medium risk. For example, the finance assistant who was in charge of bank reconciliation had been provided with the role of general ledger L1, which effectively would have allowed them to adjust any reconciling differences without anyone's knowledge.

Likewise, three staff members had each been assigned the roles of Programme L2 and Programme L1. These should in no circumstances be vested in the same staff member; the creation and approval of cash transfers and liquidations must be done by separate staff members, to minimize the risk of approval and/or acceptance of inappropriate spending by implementing partners. Inadequate segregation of these roles increased the risk of inappropriate transactions.

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

i. Review the roles in VISION to ensure that they are appropriately assigned.
ii. Periodically review the registration of the table of authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.
iii. Regularly review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.

Staff responsible for taking action: Administrative and Finance Specialist; ICT Manager
Date by which action will be taken: April 2015

Oversight of, and technical support to, zone offices

The UNICEF Somalia country office is the UNICEF Somalia Support Centre (USSC) in Nairobi. However, there are three zone offices inside Somalia itself: North Western Zone (Hargeisa), North Eastern Zone (Garoowe) and Central South Zone (Mogadishu). In addition, there are two sub-offices, in Baidoa and Galkayo, which report to Mogadishu.

Country offices that have zone offices are expected to provide them with adequate technical support and ensure that there are clear reporting lines, delegation of authority and accountability. They should also ensure that the zonal structures have an appropriate staffing structure and human resources capacity.

The country programme was implemented on the basis of annual workplans signed with the Government partners at each of the three zone offices. Staff at the USSC and the zone offices participated in the planning and review processes with partners inside Somalia. The staff at the zone offices were expected to provide day-to-day monitoring of the implementation of programme activities in the field and provide periodic reporting to the country office (USSC) based in Nairobi. Meanwhile, the section heads and technical specialists at the country office were responsible for providing oversight and technical support to the staff in the zones.

The audit reviewed these areas and noted the following.

Oversight and technical support: Staff from the USSC visited the zone offices in Somalia to attend technical review and planning meetings and events, provide technical support and guidance to the zonal teams, and undertake field visits. However, neither the travel authorizations nor the trip reports clearly indicated provision of oversight and technical support as deliverables. The field trip reports of USSC staff travelling to the zones were not systematically shared with the chiefs of the field offices and zonal sections concerned, limiting follow-up and learning from the findings. In addition, the office had not prepared a systematic plan for oversight and technical support linked to key risks and expected results of each zone office and shared it with them.

The office stated that oversight and technical guidance were provided through assistance with drawing up project cooperation agreements (PCAs), and periodic review of progress against annual workplans. However, the office acknowledged that oversight and technical support could be improved through quarterly review of results indicators and their incorporation into the weekly updates prepared by zone offices. It also agreed that better planning of programme specialists' and managers' travel to the zones would be helpful, as would regular zonal management team meetings.

Devolution of authority to zone offices: Given that the country office was outside Somalia, the zone offices dealt with national authorities and the UN mission inside the country. However, their responsibilities and accountabilities *vis-à-vis* the country office were not clearly defined and documented.

Moreover, discussions with staff and partners during the field visits inside Somalia by the audit team suggested that the zone offices lacked the necessary authority to make decisions. For example, under the current structure, the zonal offices could approve PCAs up to US$ 50,000. A review of the PCAs indicated that almost all PCAs were beyond this upper limit. Partners visited raised concerns that UNICEF was too bureaucratic and that decisions relating to programmatic and operational issues at times took too long. The office stated that devolution

of authority to the zone offices was being discussed by management, which would take relevant operational risks into account before making final decisions.

Without clearly documented accountability, there was a risk for inappropriate or delayed decisions and putting UNICEF's reputation at stake.

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

i. Establish a structured and systematic process for oversight of, and technical support to, the zone offices – including identifying specific needs for technical support and sharing relevant trip reports with zone offices.
ii. Review and clarify the authorities, accountabilities, and responsibilities of staff at the UNICEF Somalia Support Centre and the zone offices.

Staff responsible for taking action: Representative; Chief of Operations; Chief of Field Coordination; Chief Social Policy Planning Monitoring and Evaluation
Date by which action will be taken: July 2015

Human resource management

The office had 328 established posts – 89 international professional (IP), 92 national professional (NO) and 147 general service staff (GS). The office had a work process for recruitment and had set a standard of three months for both national and international recruitment. There was a central review body (CRB). The office completed 135 recruitments between 2013 and 2014. The audit noted the following.

Selection criteria*:* In five out of the eight samples reviewed, the office had assessed candidates using criteria that had not been included in the vacancy announcements. In one case, the candidate who was evaluated did not even meet the minimum educational qualification, while in another case, the evaluation matrix did not indicate the comparative advantage the recommended candidate had over others.

Competency-based interviews: In the sample reviewed, more than 40 percent of the selection panel members had not been trained in UNICEF competency-based interviewing.

Timeliness of recruitment: The office maintained a talent pool[2] and was among the offices approved to benefit from "fast track" recruitment. However, based on the sample reviewed, it took from two to eight months to complete a recruitment process, with an average of four months. The office's own standard was three months.

Vacancy rate: At the time of the audit, a total of 68 posts (16 international professionals, 28 national officers, and 24 general service staff) were vacant. Seventy percent of the vacant posts were in zone offices. The office had indicated that 20 of the vacant posts were created in the last PBR. However, 18 of these vacancies were in key posts and had been vacant for more than six months. The vacant posts put strain on the existing staff and constrained monitoring of activities by programme staff.

Dependency allowance: Three of the 259 staff members with dependents were being paid

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[2] UNICEF's recruitment procedures allow an office to maintain a "talent pool" of good applicants who can be called back if a further suitable vacancy arises within a certain period. This streamlines and speeds the recruitment process.

dependency allowances for children who were not eligible according to UNICEF guidance. The five children were over the age limit of 21 (two were 25). The office indicated that it would recover the overpayments from the staff members' payrolls. It was establishing the amounts at the time of the audit.

The above shortcomings were due to a lack of qualified candidates, high staff turnover leading to non-availability of selection panel and CRB members, and security issues. However, they were also caused by inadequate oversight by management to ensure that established procedures were followed, and by inadequate planning.

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

i. Adhere to the criteria set out in the vacancy announcement when evaluating candidates.
ii. Provide competency-based interview training to staff and ensure that only those who have attended the training sit on selection panels.
iii. Identify and address the causes of delays in recruitment so that it is completed within the established timeline.
iv. Prioritize filling of the vacant posts, including identification of barriers to attracting qualified candidates and measures to overcome them.
v. Monitor that dependency allowances are provided in accordance with UNICEF guidance, keep staff members aware of the current policy, and recover from staff members the dependency benefits that were paid in excess of their entitlements.

Staff responsible for taking action: Human Resources Manager and Chief of Operations.
Date by which action will be taken: May 2015.

Ethics

Ethical standards are expected to be systematically promoted within the UNICEF offices, including awareness and compliance with UNICEF's ethical policies and procedures. The office is also expected to communicate UNICEF anti-fraud policies to partners and consultants.

The audit reviewed whether the office had developed and communicated a clear ethical direction and vision. The audit review of personnel files indicated a need for training on ethics. Only 96 out of 306 staff had completed online ethics courses. The ethics orientation session to all staff had been scheduled to be conducted by August 2014, but had not taken place as of October 2014. The office stated that in 2014 there had been training of two trainers, who would conduct ethics training for staff in 2015. Further, the orientation for new employees in 2014 included orientation on ethics.

All relevant staff members had completed the conflict-of-interest and financial disclosure programme, except certain staff members involved in procurement processes. The office confirmed that it had identified six staff members participating in technical evaluation of bids or proposals for inclusion as per the Financial Disclosure Policy.

The office did not systematically verify whether non-staff parties such as consultants, contractors and partners had established ethical and anti-fraud policies and principles similar to those of UNICEF. However, the office stated that it had put in place a third-party monitoring system since 2013, which monitors partners in the field to avoid risk, and conducts

background checks on partners to avoid entering/remaining into partnerships that might carry high ethical risk.

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

i. Conduct ethics orientation training, as planned, for all staff members.
ii. Systematically verify whether partners and vendors have in place ethics and anti-fraud policies.
iii. Communicate and/or train non-staff parties such as consultants and partners on UNICEF ethical principles as per UNICEF's ethics policy.
iv. Ensure that the additional staff involved in the procurement process are included in the conflict of interest and financial disclosure programme.

Staff responsible for taking action: Human Resources Manager and Chief of Operations
Date by which action will be taken: May 2015

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the governance area, 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 timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

The audit found that controls were functioning well in some areas. The country office had a resource-mobilization strategy[3] with action plan and assigned staff responsibilities. In its fourth year of the 2011-2015 country programme, the office had so far been successful in mobilizing 79 percent of the OR funding[4] required for the entire programme.

The office conducted an extensive consultative mid-term review (MTR) process to review the country programme halfway through its implementation. The MTR had led to an improved results structure and adjustments in programme strategies and interventions. There were regular review meetings (mid-year and year-end) with full participation of zone offices and implementing partners. For the first time in 2014, the office had annual workplans signed with the federal government in the Central South Zone.

Further, the office had an advocacy strategy, and had identified and implemented a number of advocacy activities leading to progress on programme activities.

However, the audit also noted the following.

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[3] 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.
[4] See Summary for an explanation of RR/OR funding.

Partnerships with NGOs

Country offices are expected to establish and maintain effective partnerships and collaborative relationships with non-government organizations (NGOs). This includes establishment of mechanisms for identification of suitable NGOs for partnership, assessing their capacity to implement projects, addressing any gaps identified in that capacity, and monitoring implementation.

During the period from January 2013 to October 2014, the office collaborated with 113 NGOs, issuing 153 Project Cooperation Agreements (PCAs) with total estimated project cost of US$ 84 million in 2013. In 2014, up to the time of the audit in October, the office had so far issued 68 PCAs with total estimated project cost of US$ 51 million. Of the 113 partners, 66 had one or more individual PCAs that were worth US$ 500,000; of those 66, over half (39) had PCAs between US$ 1 million to US$ 16 million. Partnership with NGOs though PCAs accounted for about 50 percent of the financial value of programme activities in the two northern zones, and 95 percent of those in the Central South Zone (CSZ).

The audit review of the management of partnerships with NGOs noted the following.

PCA process: Three of four NGOs visited expressed concern over the lengthy PCA process, which took six months to a year before signature, including negotiation and review of project proposals. The partners stated that in Somalia, where rapid response with life-saving interventions was needed, the PCA process needed to be streamlined. The audit noted that management had not set standards for, and did not monitor and report on, the time it took to finalize PCAs.

Further, in all the seven PCAs sampled by the audit, the office did not notify the Regional Director of financial commitments that exceeded US$ 1 million, as required by UNICEF procedure. The office was not aware of this requirement.

Capacity assessment: The office performed a preliminary assessment of financial management capacity of new NGOs before entering into PCAs. This was done to identify risks associated with transferring funds to new partners and put in place mitigating controls, including capacity-building activities. However, the capacity assessment was not comprehensive, omitting important aspects such as: the skills of accounting and finance staff; familiarity with UN procedures related to cash transfers; existence of training programmes for finance and accounting staff; accounting policies and procedures; segregation of duties; budgeting and payment systems; and safeguarding of assets. Insufficient capacity assessment reduced the office's ability to identify and address capacity gaps of new partners promptly. At the time of the audit, the office was revising its PCA procedures, including the template for capacity assessment.

Joint work planning: The workplans in the PCA programme document did not clearly indicate the respective responsibilities of UNICEF and the partner in any of the seven sampled cases. The workplans were also not prepared in accordance with the standard format given in the PCA guidelines. In essence, the workplans included only activities to be done by the partners, with no information on those to be done by or with UNICEF, such as technical support, programme monitoring and evaluation and periodic reviews.

Reporting*:* Partners are expected to submit progress reports to the country office. However, while the partners' reports provided information about activities implemented and resources used, they did not always compare planned and achieved results. They also did not provide

comparative analyses of actual expenditures against approved budgets. Further, the office did not obtain the required certified annual financial reports from the partners at the end of each calendar year.

The above shortcomings were mainly due to inadequate oversight and monitoring by management to ensure adherence to established policies and procedures. With over 50 percent of the resources for programme implementation being managed through NGOs, these shortcomings had reduced the office's assurance that resources were used effectively for achieving planned results.

Agreed action 7 (medium priority): The office agrees to:

i. Review the Project Cooperation Agreement (PCA) process to identify and address causes of delays in negotiating and signing PCAs with NGOs.
ii. Conduct comprehensive capacity assessment of NGO partners expected to receive more than US$ 100,000 per year prior to entering into new PCAs.
iii. Inform the Regional Director before entering into financial commitments above US$ 1 million under PCAs, as required by UNICEF policy.
iv. Ensure joint workplans with partners clearly establish UNICEF and partner's responsibilities.
v. Provide guidance and support to partners to ensure progress reports are prepared in accordance with reporting requirements, so as to enable the country office to understand how the resources had been used against budget; what results have been achieved against expected outputs; and the reasons for any significant variances.
vi. Ensure that certified annual financial reports required at the end of each calendar year from partners are obtained and reviewed.

Staff responsible for taking action: Chief of Social Policy, Planning, Monitoring and Evaluation
Date by which action will be taken: December 2015

Disbursement of funds under project cooperation agreements (PCAs)

Country offices are expected to ensure funds are available before signing PCAs with partners so as to enable UNICEF to fulfil its obligations. Offices are also expected to provide funds to implementing partners within a period of three months for the implementation of agreed programme activities in accordance with UNICEF policy. The audit reviewed this area and noted the following.

Funds reservations: The audit noted that while the submissions to the PCA review committee referred to grants needed to fund the PCAs, the office did not always raise funds reservations before signing the agreements. A review of a sample of seven PCAs noted six cases where the proposed PCAs were signed with partners without funds reservations being raised to secure the committed funds. Instead, funds reservations were created for the purpose of making quarterly disbursement of instalments. This was partly because the office did not always have full funding available at the time the PCAs were signed. Not raising funds reservations before signing PCAs meant that funds were not blocked for these obligations and could have been used for other purposes, and not be available when payments were due.

Pre-financing of activities: Partners are expected to submit requests for funding of activities to obtain cash advances, or authorization to proceed and obtain reimbursement from the office later.

Three partners visited by the audit in Nairobi stated that they had started implementation of activities using their own resources on the basis of the signed PCAs. This was done prior to submitting requests for cash advances or reimbursement. Pre-financing activities without UNICEF's formal authorization in this way could cause problems in settlement of reimbursements in case of non-availability of funding. In one case where the partner had incurred expenditures without prior submission of a funding request, the funds had not been set aside by the office.

Period funded: In three out of the seven PCAs reviewed, the release of cash transfers to the NGOs was based, not on a budget for three months' activities as required, but on percentages of total budgets without reference to specific activities to be implemented. Partners visited indicated that the use of percentage instalments against total value of PCAs made it difficult for them to allocate and reconcile funds received against specific activities to be implemented in the workplans.

The office had started taking action to address some of the weaknesses noted above. For instance, a revised standard operating procedure for PCAs requires funds reservation to be raised prior to final signature of the PCA.

Agreed action 8 (medium priority): The office agrees to strengthen oversight mechanisms to ensure:

i. Funding is available and set aside before the signing of PCAs with NGOs.
ii. Partners receive authorization for funding activities prior to implementation.
iii. Cash transfers are made on the basis of budgets for activities to be implemented within a three-month period and not in percentage-based instalments.

Staff responsible for taking action: Chief of Social Policy, Planning, Monitoring and Evaluation
Date by which action will be taken: April 2015

Harmonized Approach to Cash Transfers (HACT)

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either government entities or NGOs. There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits. There should also be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle.

HACT is required for two other UN agencies (UNDP and UNFPA), and country offices should coordinate with them to ensure best use of resources.

Macro-assessment: The UNCT[5] for Somalia had not done a macro-assessment. It is acknowledged that, until recently, this might not have been feasible in Somalia; but the lack of a macro-assessment did limit the office's ability to identify and address specific risks and capacity gaps associated with management of cash transfers through the public financial management system. The office stated that it had started implementing HACT in 2013. Further, the UN's Resident Coordinator informed the audit that the UNCT had decided to conduct a macro-assessment and that UNICEF and UNDP were expected to take the lead in the process.

Micro-assessment: From January 2013 to October 2014, the office disbursed US$ 62 million in cash transfers. Seventy-one partners in 2013 and 53 partners in 2014 received cash transfers exceeding US$ 100,000. However, according to office records, only 52 partners had been micro-assessed as of October 2014. There were 70 partners that had received US$ 100,000 or more from January 2013 to October 2014 but had not been micro-assessed. The office stated that micro-assessment of some partners, especially in the Central South Zone, was delayed due to security reasons and the refusal of some accounting firms to undertake assessments inside Somalia.

The office did not keep an up-to-date record of partners' risk ratings in VISION. The audit noted that 114 partners were not rated in VISION as of 22 October 2014. This included both partners that had in fact been micro-assessed, and those that had not (the latter should have been assigned a high-risk rating in VISION pending micro-assessment).

Assurance plan: The office had prepared an assurance plan for the period November 2013 to January 2014. However, the plan did not reflect the risk ratings and amounts given to partners in determining the frequency and prioritization of financial spot-checks, programmatic monitoring and scheduled audits. This frustrates the objective of HACT, which is to base assurance activities on the known risks, thus avoiding unnecessary oversight. In addition, the plan did not show the implementation status of the planned activities, making it difficult to ascertain their status and reschedule activities that have fallen behind.

In addition to the plan covering November 2013 to January 2014, the office had also prepared a HACT action plan that provided a condensed listing of planned micro-assessments, assurance activities and capacity building activities to be undertaken during the period from June 2014 to December 2015. However, the action plan did not include specific names of partners, amounts disbursed or expected to be disbursed, or risk ratings.

Financial spot checks: In the assurance plan, the office included 16 financial spot checks to be conducted by reviewing financial records of the implementing partners. However, out of the 16 planned spot checks, only six (38 percent) were completed as of October 2014. The office also conducted seven additional spot checks that were not in the plan (it was not clear why, and this may have reflected poor planning).

Scheduled audits: According to records generated from VISION as of October 2013, there were 63 partners that received cash transfers exceeding US$ 500,000 during the current country programme. HACT policy requires partners receiving this much to be audited at least once during the country programme cycle. However, only 24 of those 63 partners had been

[5] UNCT stands for UN Country Team, and is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference, and division of responsibilities with individual agencies, vary from country to country.

audited as of October 2014. The office stated that it was planning to conduct scheduled audits of nine partners as of the time of the audit.

Programme monitoring: The office monitored programme activities through field visits by staff and use of third-party monitors (see also following observation, *Programme monitoring*). However, the programmatic monitoring activities were not linked to the assurance plan and this meant missed opportunities for better coordination and synergies between the programmatic and financial spot checks.

Capacity building: The office's HACT plan indicated that six capacity-building activities were to be undertaken but it did not show when the activities would be done (or had been already). The plan also did not give any details about the type of orientation sessions and the focus areas for both staff and partners. The office stated that a total of 200 staff and 20 partners were oriented on HACT during the period from July 2013 to October 2014.

Follow-up on recommendations: The office maintained a list of recommendations from micro-assessments, spot-checks and scheduled audits. However, there was no record of the status of the recommendations as of October 2014. The office had not established a systematic process for follow up of recommendations.

The above gaps in HACT implementation were due to various causes, including inadequate oversight of the implementation of HACT, weak planning, and lack of performance indicators and targets for HACT. Further, the office had not established a clear strategy for implementing HACT.

Agreed action 9 (high priority): The office agrees to:

i. Conduct sufficient micro-assessments of implementing partners.
ii. Ensure assurance activities are sufficient and appropriate to obtain reasonable assurance that the funds paid to implementing partners are used for intended purposes, in accordance with programme cooperation agreements and with annual workplans endorsed by the national government.
iii. Update the risk rating of partners in VISION according to the status of the micro-assessments completed, or existing micro-assessments done by UN agencies.
iv. Prepare a risk-based HACT assurance plan that reflects all assurance activities for the year, with tracking of amounts disbursed to the partners and status of implementation of planned activities.
v. Prioritize and monitor the implementation of planned assurance activities, including spot-checks, programme monitoring, scheduled audits and capacity building activities.
vi. Establish a process and assign responsibilities to ensure that all significant and high-priority recommendations raised in micro-assessments, spot checks, scheduled audits and/or third party monitoring reports are systematically followed up.

Staff responsible for taking action: Chief of Social Policy, Planning, Monitoring and Evaluation, Chief of Operations
Date by which action will be taken: December 2015

Programme monitoring

The country office had various programme monitoring mechanisms. They included, among

others, field-monitoring visits by staff based in Nairobi and at the zone offices, Programme Coordination Unit (PCU) meetings, weekly Monday Morning Meetings (MMM), monthly programme meetings, monthly CMT meetings, and mid-year and annual reviews with implementing partners. The office also conducted a mid-term review with partners in 2013. However, the audit noted the following.

Field-monitoring by staff: The country office did not prepare an office-wide plan for field monitoring. Instead, the sections and zone offices prepared quarterly travel plans. However, these did not provide information as to the specific programme activities to be monitored or the specific technical support to be provided during the visits to the zone offices. In discussion with some staff, the audit heard that some of those based in Nairobi were required to travel to the zone offices (inside Somalia) for programme monitoring or technical support at least once a month. However, the actual field visits were not as frequent as that; moreover some project locations were visited frequently, while others were visited less or not at all.

In addition, the purpose of travel did not clearly show linkage with specific results and activities in the workplan. The audit also noted that the quarterly travel plans were not risk-informed, did not include field-monitoring visits to be undertaken jointly with partners, and were not linked to the HACT assurance plan (see also previous observation, *Harmonized Approach to Cash Transfers*).

The office had a Lotus Notes-based database for trip reports and required them from staff members upon completion of travel. However, of a sample of 30 checked by the audit, only three trip reports were prepared within 15 days of completion of travel, nine were submitted after - between 30 and 127 days, and 18 could not be traced in the database. Further, although the trip reports included action points arising from field-monitoring visits, the reports did not specify clear staff responsibilities and timelines for their implementation. The audit review of trip reports also noted that in some cases the staff members reviewed the status of direct cash transfers (DCTs) and supplies provided to the partners. However, there were also trip reports where the review of status of DCT and supplies was not included.

The office had no performance indicators and targets for field monitoring for either the country or zone offices, and would therefore not be able to review its adequacy and effectiveness.

In a bid to address known gaps and improve programme monitoring, the country office had prepared checklists and trip-report templates and was planning to train staff at the zone offices on results-based management. The office also indicated that it had taken steps to improve capacity of implementing partners to implement and monitor programme activities through technical assistance.

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

i. Prepare field-monitoring plans with clear linkages to specific results in annual workplans and ensure that field monitoring plans are risk-informed.
ii. Ensure that staff members prepare field trip reports within 15 days on completion of field trips and that trip reports indicate a purpose that is linked to specific AWP results and activities, with action points spelling out staff responsibilities and timeframe for their implementation.
iii. Establish standards for frequency of field visits based on risks of partners and monitor and report actual performance against standards, performance indicators and targets

to CMT or programme coordination meetings.

iv. Ensure that relevant staff consistently include in the field monitoring visits a review of status and use of cash transfers and supplies.

Staff responsible for taking action: Representative; Chief of Operations; Chief of Field Offices; Administrative and Finance Specialist
Date by which action will be taken: September 2015

Programme evaluations

All UNICEF country offices are expected to evaluate the impact of their country programme on children and women. In the case of Somalia, this is especially important and challenging because paucity of data is a major constraint, especially in the Central South Zone (CSZ), where due to security issues field visits and data collection are not possible in many areas. Government structures are weak or in some areas non-existent, so administrative data is not collected. Absence of data poses a challenge in measuring changes in the situation of children and in use of evidence to influence policy formulation.

The office had prepared a five-year Integrated Monitoring and Evaluation (IMEP) for the period 2011-2015. This contained 16 evaluation activities, including three evaluations planned for 2013 and one for 2014. The office had also implemented annual IMEPs in 2013 and 2014. The 2013 IMEP contained three evaluation activities while the 2014 IMEP contained five evaluations. The audit noted the following.

***Annual update of the five-year IMEP**:* There were inconsistencies between the five-year IMEP and the annual IMEPs. For example, three of the four evaluations to be conducted in 2013 as per the five-year IMEP were not included in the 2013 IMEP. This could lead to some activities not being implemented. The office explained that one was cancelled and two were included in the 2014 IMEP. The five-year IMEP was not updated to reflect changes made in the annual IMEPs.

Implementation of IMEP activities: Low implementation rate of the IMEP activities was noted in both 2013 and 2014. Only 16 of the 33 studies, surveys and evaluations (SSEs) included in the IMEP for 2013 were completed. Of the 17 SSEs not completed, one was cancelled, and 16 were carried over to 2014. As of October 2014, only 15 SSEs of the 49 planned for the year had been completed. The office stated that the implementation of some activities, such as research, went beyond a calendar year.

***Evaluation of key programme components**:* No evaluations had been completed in health and nutrition since the beginning of the current country programme in 2011. The office stated that there had been a number of assessments, such as annual assessment of Joint Health and Nutrition Programme (JHNP) in 2013 and quarterly assessment of polio response since the start of the outbreak in 2013. Moreover, Essential Package of Health Services (EPHS) baseline assessments and micro-planning had been completed in each zone. Also, the Communication for Development (C4D) unit had conducted research on key behavioral and communication barriers in Somalia. All of these would provide baselines against which to monitor progress. For Nutrition, UNICEF helped the Food and Agriculture Organization/FSNAU[6] to conduct a

[6] FSNAU is the Food Security and Nutrition Analysis Unit, originally founded by the World Food Programme (WFP) in 1994 to analyze food security in Somalia. It is now operated and supported by a number of international organizations and funding bodies, including WFP.

twice-yearly seasonal assessment of the nutrition situation in Somalia, and data from the Therapeutic Feeding centres guided programming decisions.

Evaluation activities in annual workplans*:* The monitoring and evaluation (M&E) activities were not included in the annual workplans signed with partners. Failure to incorporate M&E activities in the annual workplans limited the office and partner's ability to prioritize them and ensure allocation of the resources required.

The office stated that in 2013, the Social Policy, Planning and Evaluation section was seriously understaffed due to high staff turnover. The planning and monitoring specialist position, which is responsible for managing the IMEP, was vacant from April to October 2013. The M&E specialist position was also vacant for about two months in 2013. The post for Social Policy, Monitoring and Evaluation was also vacant for one year from October 2012 to October 2013.

Insufficient funding for IMEP activities also contributed to low implementation of IMEP activities. For example, in 2014, five studies were dropped due to lack of funding. Total expenditure on IMEP activities was US$ 2.4 million against a budget of US$ 2.8 million in 2013. However, in 2014, total expenditure amounted to US$ 3.7 million against a budget of US$ 8.9 million.

In light of the above limitations, the office had started putting in place measures for improving oversight and M&E. It had also established a committee on studies, surveys and evaluation. (However, as of October 2014 the committee had yet to meet, due to many competing priorities.) The office had also developed a standard operating procedure for M&E, although it had not been fully enforced. The office also received various types of support in 2013 and 2014 from the Regional Office, covering areas such as annual work planning, review of studies, surveys and evaluation reports, and technical support on the review and finalization of the multiple indicator cluster survey.

Agreed action 11 (medium priority): The office agrees to ensure that integrated monitoring and evaluation (IMEP) activities are prioritized for timely implementation, and that key programme interventions are evaluated in a timely manner. The office agrees also to ensure that monitoring and evaluation activities are adequately funded and included in the annual workplans signed with implementing partners.

Staff responsible for taking action: Chief of Social Policy, Planning, Monitoring and Evaluation
Date by which action will be taken: March 2015

Common Humanitarian Fund (CHF) in Somalia

The Somalia CHF is a pooled funding mechanism for humanitarian activities in Somalia. The main objectives of the CHF are to strategically fund humanitarian action in Somalia to improve the timeliness and coherence of the humanitarian response; and support priority clusters and regional priorities in accordance with identified needs. Participating UN Organizations, such as UNICEF, assume full programmatic and financial accountability for the funds disbursed to them. During the period from January 2013 to October 2014, the Somalia country office received a total of US$ 5.7 million and utilized US$ 4.9 million.

The office had a practice of submitting system-generated fund utilization reports to donors/ agents. The audit compared the VISION expenditure report totals to the fund utilization reports and noted no difference. The office had been regularly submitting the interim and

final project reports for CHF grants. There were also no pending requests from the Office for the Coordination of Humanitarian Affairs (OCHA), which administers the Somalia CHF. However, the audit noted the following.

UNICEF, along with other UN entities, had signed a MoU with UNDP, regarding the operational aspects of the CHF. However, the UNICEF staff responsible for coordinating CHF operational and reporting activities informed audit that he was not aware of the MoU. This had reduced the office's capacity to ensure adherence with the requirements in the MoU such as those relating to reporting. The office stated that the terms of reference of a newly-recruited compliance officer would include verifying compliance with the MoU.

According to the MoU, the participating organizations were required to submit the following reports: annual and final narrative reports; annual financial statements and reports as of 31 December with respect to the funds disbursed to them from the CHF account; and certified final financial statements and final financial reports after the completion of all CHF funded activities.

The office submitted all required reports except the annual narrative reports as of 31 December 2013. The office explained that it was responsible only for submitting interim and final financial reports and that it would contact OCHA and Programme Division to find out whether this report was submitted directly from New York to OCHA.

Agreed action 12 (medium priority): The office agrees to follow up with the Office for the Coordination of Humanitarian Affairs (OCHA) and Programme Division to ensure that the annual progress report as at 31 December 2013 was submitted as per the Memorandum of Understanding.

Staff responsible for taking action: Donor Relations Specialist
Date by which action will be taken: March 2015

Reporting on results and use of funds

UNICEF offices are expected to produce donor reports that meet quality standards as per organizational guidance on donor reporting, and ensure that the donor reports are submitted on time.

The country office had a good record on timeliness of donor reports as well as management of donor-related files. According to the inSight report,[7] of the 82 donor reports due in 2013, 74 had been submitted on time, as had 58 of the 62 due in 2014 (as of September). In the Regional Office's peer review of donor reporting, one random sample of donor reports selected by the Regional Office was rated as exemplary. However, the audit reviewed a sample of eight donor reports and noted the following.

- Four out of the eight sampled reports did not include an appeal or solicitation for future funding from the donor in accordance with UNICEF guidelines. The office stated that it was using the UN Development Group donor-reporting format, which did not contain all the attributes recommended by UNICEF.

[7] InSight is the performance component in UNICEF's management system, VISION. It streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and exchanges between country offices, Regional Offices and HQ divisions, as everyone sees the same data/information.

- Four out of eight sampled final donor reports had no donor feedback form attached. The office staff stated that although donor inputs were not formally requested through the donor reports, they were solicited informally and formally in donor meetings; and that they had stopped sending the feedback form as no donor responded.
- In five reports, while challenges and improvement plan were included in the narrative part, the mitigating actions were not SMART (Specific, Measurable, Achievable, Result-oriented and Time-bound).

The above shortcomings might have been partly due to inadequate quality assurance and oversight of the preparation of donor reports. For example, the checklist used for reviewing the quality of donor reports was incomplete, missing some of the attributes for donor reporting such as including an outline of future workplans and an appeal or solicitation for future funding from the donor.

Agreed action 13 (medium priority): The office agrees to review its quality assurance mechanisms and checklists to ensure that:

i. An appeal or solicitation for future funding from the donor is included.
ii. Donor reports consistently include a comparative analysis of planned and achieved results.
iii. Donor feedback forms are included in the final donor reports.

Staff responsible for taking action: Donor Relations Specialist
Date by which action will be taken: March 2015

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the 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.

The audit found that controls were functioning well over a number of areas. These included controls over management of bank accounts, bank reconciliations and periodic reporting.

The USSC office complied with the UN's minimum operating security standards (MOSS), and UNICEF's security team had assessed MOSS compliance of vehicles. USSC security had commissioned a blast survey and performed Facility Safety and Security Surveys (FSSS) in all offices, and had taken action to address security-related recommendations.

However, the audit noted the following.

Management of cash transfers

Country offices are expected to have in place effective controls to ensure cash transfers to implementing partners are disbursed, spent and accounted for in a timely manner as per workplan. The country office disbursed a total amount of US$ 62 million during the period from January 2013 to October 2014. The audit review noted the following.

Timeliness of disbursement of cash transfers: Delays in disbursement of cash transfers was noted in 10 of the 16 cases reviewed, with delays ranging from one to seven months after the planned start date of activities established in the annual workplans. In five of the 10 cases that were late, the time taken from the date of requests by partners to the disbursement date ranged from 35 to 86 days. Delays in release of cash transfers to partners were also noted by those visited by the audit in Nairobi and inside Somalia.

The delays were partly attributed to partners not submitting the requests for cash transfers on time, as noted in eight cases where the requests were submitted more than three months after the planned start date of the activity. In some cases, disbursement was delayed due to

outstanding liquidation of previous cash transfers or incomplete documentation submitted by the partners.

Late disbursement of cash transfers led to delays in project implementation. Four cases were noted where the PCAs had to be extended since the activities could not be implemented within the originally agreed timeframe.

Supporting documents for direct cash transfers: The office stated that it used the PCA budget and applied percentages in making the disbursements, instead of using itemized cost estimates. However, this approach made it difficult to identify specific budget line items and associated costs for a specific period. In 13 of the 16 cases reviewed, there were no itemized cost estimates attached to the payments, making it difficult to review transactions during financial spot-checks.

In 10 of the 16 sampled payments, the partners' request letters did not bear the UNICEF's paid stamp after processing of payments. In one case, the partner requested reimbursement of US$ 614,000 but was paid US$ 318,000, and there was no itemized documentation attached to show what had and had not been allowed. On enquiry, the office provided Excel worksheets showing accepted expenditures, but these details had not been attached to the voucher as part of the supporting documents for the payment.

In addition, the office did not have a practice of attaching partners' requests for cash transfers to funds commitments in VISION; this would ensure a complete audit trail and easier tracking of supporting documentation, in accordance with UNICEF Finance and Administrative Policy: *Cash disbursements*, supplement 3/para. 22.

Timeliness in liquidation of cash transfers: As of 15 October 2014, the office had unliquidated cash transfers amounting to US$ 20.6 million, of which US$ 4.6 million (22 percent) had been outstanding for over six months; of that US$ 4.6 million, US$ 2.3 million had been outstanding for over nine months. Out of the US$ 2.3 million, US$ 1.46 million related to cases under investigation and had been impaired.

UNICEF policy requires that no cash transfers should be made to partners with unliquidated amounts older than six months. Significant amounts of cash transfers outstanding for over six and over nine months reduced the office's capacity to provide further cash advance for project implementation. Rigorous monitoring and follow-up with partners for liquidation of cash transfers would help reducing long-outstanding amounts.

Supporting documents for liquidations: The office required partners to submit full documentation, including invoices, receipts and vouchers, for liquidation of cash advance. The audit review noted that the volume of documents received from partners were in some cases such that it would take several days to verify the accuracy of reported amounts. Some had fingerprints rather than signatures, making it hard to establish their identity and thus to confirm receipt or delivery of services.

The huge volume and poor quality of the documentation reduced the office's assurance as to whether funds were used for intended purposes. For example, one transaction (accounting for total expenditures of US$ 1,059,681) included in the sample reviewed by the audit had 13 large box files of supporting documents, including copies of invoices, contracts, receipts, etc.

Out of ten sampled cases, in five (with total value US$ 6 million), the liquidations were made on the basis of copy attachments that were not certified as true copies of the originals.

The above weaknesses were due to insufficient oversight of the management and utilization of cash transfers, including: weak supervision of staff responsible to liquidate cash transfers; insufficient training of staff and partners on the submission of adequate documentation to support payments and liquidations; and insufficient monitoring of adherence to policy requirements for cash transfers.

Further, the audit noted that although the Regional Office conducted a peer review of the management of cash transfers by the country office in 2013, it had not followed up on the implementation of the recommendations. The Regional Office stated that it would carry out another peer review in 2015. A follow-up peer review would increase the Regional Office's capacity to detect weak management of cash transfers and get timely support to the country office.

Agreed action 14 (high priority): The office agrees to significantly increase oversight mechanisms for cash transfers and:

i. Work with partners to identify causes for delays to requests for cash transfers and establish monitoring mechanisms to ensure that they are submitted on time and the transfers are disbursed to partners in a timely manner as per workplans.
ii. Provide guidance and training to partners on preparation and submission of requests for cash transfers, to ensure that the requests are accompanied by itemized cost estimates and include clear descriptions of the activities; and implement the requirement for attaching partners' requests for cash transfers to funds commitments in VISION.
iii. Review its work processes and controls for liquidation of cash transfers to ensure that outstanding cash transfers are liquidated within six months of disbursement to partners.
iv. Review the office's strategy and methods for disbursement of cash transfers; ensuring that application of cash transfer modalities is based on risk rating and that the use of reimbursements for cash transfers is based on the office's written authorization and approved fund commitments.
v. Train partners on ethical expectations (see also observation *Ethics*, p12 above).
vi. Urgently develop and implement a plan, with sufficient funds allocated, for effective audit/review of outstanding liquidation and reimbursement claims.

Staff responsible for taking action: Programme chiefs; Chief of Field Offices; Chief of Social Policy, Planning, Monitoring and Evaluation; Representative.
Date by which action will be taken: July 2015.

Agreed action 15 (medium priority): The Regional Office agrees to conduct a follow-up peer review of the management of cash transfers by the Somalia country office, and to review the implementation of recommendations arising from the peer review to continue to strengthen oversight in accordance with established mechanisms.

Staff responsible for taking action: Regional Chief of Monitoring and Evaluation.
Date by which action will be taken: June 2015.

Supply procurement
The office had a standard operating procedure (SOP) and work process for the procurement of goods and services. Pre-delivery inspection was required for any purchase order above US$ 10,000. There were supply plans for 2013 and 2014. The consolidated plans were shared with the Regional Office as an input to the latter's supply plan, since the office, the Kenya country office and the Regional Office have common long term agreements (LTAs) and joint contract review committees (CRCs).

The audit noted the following.

Supply plans: The office had expected to procure US$ 29 million of goods (excluding services) with utilization rate of 88 percent (US$ 25.6 million) in 2013. However, a comparison between the section plans and actual procurement showed huge variances, indicating weak planning. For example, actual procurement for health section was US$ 10.1 million – or 517 percent of the planned procurement (US$ 1.9 million). On the other hand, total procurement for education section was US$ 118,000 or 3 percent of planned procurement (US$ 8.7 million). The total planned amount of procurement for 2014 was US$ 28.2 million with utilization rate of 52 percent (US$ 14.8 million) as at September 2014.

The office indicated that most variances were as a result of emergency procurements which were difficult to foresee initially. In addition, the office did not update the supply plan to reflect changes as they became known during the year. A rigorous supply plan would ease programme implementation by ensuring supplies of good quality were available on time when needed.

Distribution plans: In two of the five cases of local procurement reviewed, the office had not obtained distribution plans from partners before the procurement of supplies. In one case, the partner did prepare a plan but it was submitted to the office three months after the procurement of supplies.

Weak planning and late implementation of the procurement plan contributed to delays in delivery of supplies, and this led to late implementation of programme activities.

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

i. Put a mechanism in place to strengthen its supply planning process.
ii. Ensure that distribution plans are prepared by programme sections in consultation with partners before procurement of supplies.

Staff responsible for taking action: Chief of programmes and Chief of Supply and Logistics.
Date by which action will be taken: July 2015.

Inventory management
Country offices are responsible for establishing effective controls and procedures for warehouse and inventory management. These are expected to include independent physical count of inventory, inventory reporting, recording of receipt of goods, and authorization of their issue.

The office maintained programme supplies in eight different locations (Baidoa, Berbera, Bosasso, Galkayo, Hargeisa, Mogadishu, Mombasa and Nairobi). All the warehouses except

Bosasso were being managed by third parties. The office had completed a physical inventory count of supplies in December 2013. As of the audit (September 2014), the programme supplies in the warehouses amounted to US$ 7.6 million.

The audit visited the main warehouse in Nairobi, which had supplies worth about US$ 1.2 million, and the main warehouse in Mogadishu, with supplies amounting to US$ 3.3 million. It noted the following.

Expired supplies: There were supplies in the two warehouses visited with a total value of US$ 1.5 million that had expired. More than half were regular programme planned supplies, prepositioned, and direct delivery that had been expired for over a year. (The direct delivery items were not supposed to be in the warehouse at all.) This was due to weak planning, coupled with the security challenges inside Somalia. The office had mentioned that the US$ 1.5 million expired supplies included items that expired between 2013 and 2014. It was awaiting for the Division of Financial & Administrative Management (DFAM) to approve their disposal. The office noted that there was lapse on following-up with DFAM to ensure that approvals were received within a reasonable time frame. In the meantime, the office was incurring storage fees on the expired supplies.

Aging of supplies: Supplies worth US$ 3.7 million - about half of the total supplies - had been in the warehouse for between one and over two years. Supplies worth US$ 2.5 million - about 34 percent of the total supplies - had been stored in the warehouse for over 12 months and another US$ 1.2 million (15 percent of the total supplies) for over two years. This could lead to loss due to expiry, and thus to delay in implementing activities. This was partly due to weak planning for distribution of supplies. However, the audit noted that programme chiefs, managers and senior management rarely visited the warehouse to ascertain the conditions and status of their supplies, including their expiry dates.

Intent of supplies: Supplies worth US$ 132,000 were recorded in VISION as direct delivery (DDEL). DDEL refers to supplies meant to be delivered directly to the implementing partners, which would not normally be stored in the warehouse. More than 77 percent of these supplies with the intent DDEL had been sitting in the warehouse for over one year.

Another set of supplies worth US$ 2.8 million were recorded in VISION without any recorded intent. Supplies would normally be procured with any of these three intents: (1) CINV – storage in warehouse before distribution, (2) PPOS – prepositioning/contingency in country office and (3) DDEL – direct delivery to implementing partners. More than 99 percent of the supplies without any intent had been sitting in the warehouse for over one year. The office had indicated that supplies with intent DDEL were as a result of incorrect order intent on the sales order, while the supplies with blank intents were migrated from the legacy system (VISION was introduced in 2012). The office had not used the supply chain monitoring tool in VISION to identify, analyse and correct errors.

Stock variance submission to Property Survey Board (PSB): Stock count variance is expected to be submitted to the PSB within seven days of completion of the stock count. There were undue delays in submitting the count variances for PSB deliberations. For instance, the count that was conducted in June 2014 had yet to be submitted as at the time of the audit (October 2014) while the count exercise of December 2013 was submitted in July 2014. Also, in Mogadishu, the audit noted that some damaged cold-chain equipment had not been promptly submitted to the PSB for disposal. The last submission to the PSB had been done in December 2013.

Goods in transit: Goods in transit represent programme supplies controlled by UNICEF while in transit from a supplier or freight forwarder, until they are either delivered to a UNICEF field warehouse or are handed over to an implementing partner (as substantiated by a receipt-of-goods document).

The audit noted that implementing partners did not acknowledge receipt of goods promptly. Goods in transit as at the time of the audit amounted to US$ 4.2 million, of which US$ 1.1 million had remained open for upward of 90 days. Pending delivery to a UNICEF warehouse or receipt by the partners, these items would not be cleared, the account balance would not be reduced and they would not be recorded as either inventory or expenditures. At the time of the audit, the office was working on reducing the gap in acknowledgement receipts through vigorous follow-up.

Supplies on loan/donated to other offices: Supplies worth US$ 664,000 and US$ 1.15 million loaned and donated respectively to four different UNICEF offices (UNICEF Iraq, Kampala, Kenya and South Sudan) were still outstanding at the time of the audit. More than 80 percent of these supplies on loan had been outstanding for over six months. This could lead to incorrect reporting of inventory and delays in getting the supplies used for intended purposes.

Warehouse management in Mogadishu: The warehouse in Mogadishu did not have adequate facilities and fittings such as storage racks for better organization and handling of inventory. It also lacked fire alarms, smoke detectors and temperature sensors. Also, the air conditioner in the cold chain storage room in Mogadishu had not been functioning for the last three months.

There were several reasons for the shortcomings in inventory management. The office explained that limited access to some areas due to the security situation contributed to the delays in distribution of supplies from the warehouse. However, weak procurement planning contributed to having supplies which were not matched with distribution plans. For example, in Mogadishu, some supplies were procured even before the annual workplans or PCAs were signed, leading to overstocking of supplies since the procurement was not matched them. There was also inadequate oversight and monitoring.

The office confirmed that it was aware of the above weaknesses in inventory management. With support from Supply Division, DFAM and the Regional Office, it had taken some actions to improve inventory management. For example, the office conducted variance analysis of inventory records, and effectively reconciled inventory records despite huge size of data and high value variances since 2012. Further, the office reduced stock value from a high of US$ 30 million in 2014 to approximately US$ 8 million as of the end of 2014.

Agreed action 17 (high priority): The office agrees to strengthen oversight and monitoring of inventory and warehouse management and take immediate action to ensure that:

i. Follow up is made with the Division of Finance & Administrative Services on approval to ensure timely disposal of expired supplies in accordance with the recommendation of the property survey board.
ii. Supplies at the warehouses are reviewed and a distribution plan is prepared to deliver them in accordance with the workplan on the basis of which they were procured in the first place.

iii. Programme chiefs and managers visit the warehouse periodically to ascertain the status and condition of their supplies, so as to prevent undue accumulation of supplies in the warehouse.
iv. The reasons for delays in rendering submission to property survey board are identified and a process is in place to avoid such delays.
v. The open items in the goods-in-transit account and supplies-on-loan are monitored and cleared in a timely manner.
vi. Physical facilities of the cold chain in Mogadishu are improved, including fixing of fire alarms, smoke detectors and air conditioner.

Staff responsible for taking action: Chief of Supply and Logistics, Chief of Programmes; Chief of Field Offices; Chief of Operations and Representative.
Date by which action will be taken: May 2015.

Contracts for services

The country office issued a total of 288 contracts (82 to consultants and 206 to contractors) with total cost of US$ 9.6 million during the period from January 2013 to October 2014. The audit review noted the following.

Signing of contracts*:* The office did not consistently ensure that contracts were signed before their start dates. The audit reviewed 17 contracts, and found that four contracts were signed after the start date, with delays ranging from one to 184 days.

Coding*:* Incorrect coding was noted in five of the 17 contracts that were reviewed. Three of the five cases were coded against general ledger code for printing and binding although the consultancies were not for printing services. Two of the five cases were related to monitoring, evaluation and research, but were coded against management and operational consultancy services.

Supporting documentation: In eight of the 17 cases reviewed, the supporting documents were not stamped “PAID” to prevent possible re-use of supporting documents on future payments.

Agreed action 18 (medium priority): The office agrees to review its processes and oversight over the management of contract for services to ensure that contracts for services are signed before the start date of contracts; contracts for services are correctly coded in VISION; and the supporting documents for payments are stamped “PAID” immediately after payment.

Staff responsible for taking action: Human Resources Manager; Chief of Supply and Logistics; Admin & Finance Specialist; Zone offices’ Operations managers.
Date by which action will be taken: March 2015.

Information and communications technology (ICT)

A country office is expected to establish effective ICT controls to ensure authenticity, confidentiality, integrity and availability of information. Also, country offices are expected to develop Business Continuity Plans (BCPs) and Disaster Recovery Plans (DRPs) that include a risk assessment, business impact analysis, an alternative site, clear identification of crucial actors, training strategy, and incident management and recovery timelines.

The audit review noted the following.

Business continuity plan (BCP) and disaster recovery plan (DRP): The BCP document seen by the audit was not signed by the Representative, and the DRP document was being updated as of the end of September 2014. In addition, a comprehensive simulation exercise had yet to be conducted.

The office stated that a Nairobi BCP simulation was conducted in May 2014 to test communications, using SMS messages, and included working from home and testing of shared drives, Cisco Connect, cloud, internet messaging and meeting over Lync. However, not all DRP components were tested; backup drives and ICT equipment, alternate sites, and others were omitted. Also, no DRP simulations were conducted in zone offices in Somalia. Inadequate disaster recovery procedures increased the risk of untimely system availability in a major emergency, particularly in view of the security situation in the country.

ICT operations manual: Country offices are expected to develop their own ICT operations manual in accordance with the ICT guidelines provided in the UNICEF ICT Electronic Handbook. However, as of October 2014, no manual had been developed. A manual would provide guidance for ICT staff working in a country like Somalia where an emergency is likely to arise, so that any ICT person who has access to the systems in an emergency can perform the required tasks. The office stated that a folder with essential information and guidance was currently being used pending development of a manual.

***Network security – traffic monitoring**:* The regional ICT meeting held in October 2012 reviewed traffic management and monitoring tools such as Websense, Netflow, etc. It recommended raising awareness and use of traffic monitoring tools. Although the office had investigated one incident of possible email snooping, there was no monitoring tool. The office stated that it was waiting for a standard solution and guidance from headquarters.

User access security: The office had given five consultants access to its ICT resources (such office area network, laptops and shared drive) without obtaining a non-disclosure agreement or special approval from the Country Representative and the Director of the Division of IT Solutions and Services (ITSS), as required by UNICEF policy.

Further, one of the staff member's contract termination date was shown as 2024, instead of 31 December 2017. Two cases were noted where staff leaving the office did not have their access to ICT resources and systems discontinued in a timely manner (one departure was due to termination and another to abolition of post). One staff member's access was terminated about three weeks after they left; the other staff member's access, after about a month. Untimely de-provisioning of access to users who have left the office increases the risk of unauthorized access and inappropriate action. The ICT section stated that the Human Resources section sometimes did not inform them and that the office therefore did not submit a request for deletion of access.

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

i. Conduct annual simulations of disaster recovery plan (DRP) and establish a Business Impact Analysis, and integrate them in the BCP process and documents.
ii. Prepare an operations manual to guide staff on use of ICT.
iii. Liaise with the Division of Information Technology Solutions and Services (ITSS) Technical Architecture regarding an appropriate traffic monitoring tool.

iv. Review consultants' access and obtain any necessary approvals and/or documents.
v. Set up a process by which Human Resources will inform the Information and Communications Technology section in case of separations so that the access is deleted in the Active Directory on the date of separation, instead of waiting until separation checklist is circulated.

Staff responsible for taking action: ICT Manager; Chief of Operations; Chief of Field Offices; and Security Advisor
Date by which action will be taken: December 2015.

Vendor master records

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

The office had a process for the maintenance of vendor master records and had formally assigned the role of maintaining vendor master records in VISION to six staff members. Three of the assigned staff members were located in USSC while the other three were located in the zone offices.

The audit noted that vendor master records were duplicated for 48 vendors, totalling 96 of the 1,173 vendor accounts. The records had been created without ascertaining whether master records for those vendors had previously been created in the system. In some cases, the duplication had occurred during the migration of data to VISION when it was introduced in 2012.

Duplicate vendor master records also arose from the lack of a naming convention for vendor master records or the creation of separate master records for similar vendors, such as those implementing partners within the same sector of government but in different provinces/districts. In addition, some vendors were created using the incorrect vendor classifications (for instance, implementing partners being created using supplier vendor classification).

Duplicate vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or double payments (the audit did not identify any). They may also allow implementing partners to receive DCTs despite having previous cash transfers outstanding for more than six months.

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

i. Provide guidance on the process for requesting and creating vendor master records so that before another vendor master record is created, there are checks to ensure there is no existing master record for that vendor in VISION.
ii. Ascertain validity of vendors with multiple master records, and block and mark for deletion the master records that are considered invalid or duplicate.
iii. Periodically review the vendor master records in order to prevent duplications and ensure completeness and accuracy of records.

Staff responsible for taking action: Admin & Finance Specialist
Date by which action will be taken: May 2015

Operations support: Conclusion

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

Annex A: Methodology, and definitions of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

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

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

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

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

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

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

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

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