

Internal Audit of the Sri Lanka Country Office

Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Sri Lanka Country Office (CO). The audit sought to assess the governance, risk-management and control processes over the CO's activities. The audit team visited Sri Lanka Country Office from 26 July to August 14, 2012. The audit covered the period from January 2011 to June 2012.

Sri Lanka has a multi-ethnic and religious population of 20.4 million; the Department of Census and Statistics estimates that 7.3 million – 36 percent – are below 19 years of age. The country has been affected by two major setbacks to its development; the nearly three decades of separatists conflict that ended in 2009, and that engulfed parts of the Northern and Eastern provinces; and the impact of tsunami disaster in 2004, which affected nearly half of the 25 districts in the country and was the largest single natural catastrophe experienced in recent history.

Despite these challenges, Sri Lanka has seen achievements in human development. Life expectancy, which was 69.9 in 1981, had increased to 74.9 in 2011. Adult literacy was 91.9 percent in 2010 (*Economic and social statistics of Sri Lanka 2012*). It is now a low-middle-income country, with a per capita Gross National Product (GNP) of US\$ 2,804 in 2011. However, regional inequities persist.

UNICEF's focus during the first half of the 2008-2012 country programme was on responding to the post-tsunami emergency response, and the rehabilitation and resettlement of the internally displaced population (resulting from the cessation of the conflict in 2009). In 2011 and 2012 the emphasis shifted to the needs of a post-conflict country. As of 4 May 2012 the country office had 139 approved posts, of which 19 were international. The country office is in Colombo, and there are three zone offices. The total budget was US\$ 14.3 million in 2011; for 2012 it is US\$ 18.1 million, of which 74 percent had been spent as of 15 August.

Action agreed following the audit

The audit did not highlight any issues that required immediate management attention and there are therefore no high-priority agreed actions.

Conclusion

Based on the audit work performed, OIAI concluded that the control processes over the Sri Lanka country office were generally established and functioning during the period under audit.

The Sri Lanka country office and OIAI will work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of country-office audits is provide assurance as to whether there are adequate controls over a number of key areas in the office, and to inform management of the audit's conclusions. The areas reviewed include the economic acquisition and efficient use of resources, safeguarding of assets, and accuracy and timeliness of financial and operating information. The audit also reviews the office's measurement and reporting on whether objectives have been met, and assesses whether activities comply with UNICEF's and other applicable regulations, policies and procedures.

Audit observations

1 Governance

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

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

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following.

The office had a structured approach to the identification of risks and opportunities; they were systematically identified, and controls were set accordingly. The office had also taken steps to embed risk management in its business management processes and activities.

The audit team noted that there were effective mechanisms in place to monitor and report on the status of implementation of agreed audit recommendations of prior audits. There were effective oversight and advisory bodies that provided prompt and useful advice to management.

In 2011, the office had updated its resource-mobilization strategy to address funding gaps in key programme sectors such as child protection and health and nutrition. The strategy included a reasonable analysis of risks and opportunities, and clearly assigned responsibilities and milestones.

The office, staff and reporting structures were clearly and adequately defined. Staff were provided with adequate authority, guidance and support to be able to implement their assigned responsibilities.

Zone offices

The audit verified whether the country office has clearly the role and accountabilities; and objectives were well-defined.

Besides the main country office in Colombo, there are three zone offices, in Jaffna, Batticaloa and Vavuniya. Because of the shift from an emergency humanitarian response to rehabilitation, development, the office was planning to close the Jaffna and Vavuniya offices and create a new one in Killinochchi, effective 1 January 2013. In 2011 and 2012, the majority of programme activities were implemented through the three zone offices, which had 59 of the country's 139 approved posts.

Despite their importance to the country programme, the responsibilities of the zone offices vis-à-vis the country office were not always clear enough. The country office had set out their respective accountabilities in a 2012 role-mapping document, which stated that zone offices were responsible for zonal programme implementation, quality assurance, annual and mid-year reviews, district government relations, staff performance management, and security and asset management. The document would have been stronger had it specified the nature and extent of the accountabilities of the zone offices regarding the implementation of HACT assurance activities and their own internal management. The office's 2011 and 2012 annual management plans could also have provided more information about the three zone offices, including their specific accountabilities, key objectives and priorities, risks, key performance indicators, and internal governance bodies and their terms of reference. It also lacked performance indicators specific to the zone offices (it did have them for the office as a whole).

The head of each zone office is a member of the country management team (CMT), and the audit team was informed that zone-office results were discussed during CMT meetings, but zone offices did not regularly report on performance indicators covering their specific accountabilities.

Agreed action 1 (medium priority): The country office agrees to clarify and communicate the the responsibilities and accountabilities of zone offices in the office's 2013 annual management plan, as well as their objectives, priorities, risks, key performance indicators and internal governance mechanisms. In addition, the office agrees to continue to spell out programme results, priorities, partnership, monitoring and performance indicators in the relevant zone offices' multi-year workplan. The Deputy Representative intends to ensure this is done by the end of March 2013.

Performance appraisals

The audit reviewed whether staff performance appraisals were completed on time, and set specific and measurable workplan outputs that were linked to the office's results. The audit also checked whether specific performance indicators were used to determine the extent to which outputs have been achieved.

A review of a sample of 12 performance appraisals for 2011 and 2012 found that phase 1 (which normally sets the staff member's outputs and performance indicators) was generally completed on time. A minority of the year-end appraisals, which assesses achievements against those indicators, were late; the office intends to address this.

The workplan outputs set for staff members were often framed using words such as "strengthen", "support", "enhance" and "contribute", which meant that they were not clearly measurable. Further, sampled performance indicators generally did not cover all relevant aspects of performance, concentrating instead on volume and timeliness of outputs, which were easier to measure. Thus examples of indicators included: "Number of reports prepared and submitted" with no reference to quality and timeliness; and "donor reports" with no links to volume, timeliness, quality and compliance with UNICEF standards. The audit also noted that performance expectations of staff members could be more clearly linked to the office's objectives and key priorities as established in the office's annual management plan.

Agreed action 2 (medium priority): The country office agrees that staff with performance-assessment responsibilities will strengthen their supervision to ensure that:

- i. individual workplan outputs of staff members are specific and measurable, linked to the office's objectives and key priorities, and encompass all relevant aspects of performance including effectiveness, efficiency and compliance with policies and procedures;
- ii. performance indicators are specific, measurable and complete so as to measure output completion;
- iii. year-end performance appraisals are completed on time; and,
- iv. staff prepare performance appraisals that contain specific and measurable workplan outputs, with specific indicators to measure output completion.

To ensure that supervisors and staff understand how to effect the above, the office intends to hold refresher training on the development of outputs and indicators for performance appraisals. The office has agreed that this training will be organized by the Human Resources Specialist and will take place before the end of February 2013.

Governance: Conclusion

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

2 Programme management

In this area, the audit reviews the management of the 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.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

During the period 2008-2010, the office had commissioned two main evaluation activities (in addition to the Sri Lanka tsunami programme evaluation coordinated by the UNICEF Evaluation Office). There was also an evaluability study of the mines risk action programme. Selected and relevant findings of these evaluations were used to improve implementation of the programmes /interventions as well as towards new interventions and policy directions.

Sampled results statements in annual report were well supported and sampled donor reports were of good quality. All donor reports were submitted on time in 2011 and 2012 (with one exception, due to a formatting issue).

The country office had good relations with implementing partners regarding programme planning and the development of rolling workplans. Review processes were well undertaken, and partnerships with implementing partners were generally well managed. The office provided timely support to implementing partners.

The evaluation function was generally functioning well. Accountabilities were clearly defined, and the quality of evaluation terms of reference was adequate, and complied with evaluation standards and criteria. The office ensured that management responses were developed and monitored for all major evaluation recommendations.

Programme monitoring

The audit reviewed the extent to which, in collaboration with implementing partners, the office monitored progress towards programme results, including efficient use of resources (cash and supply).

Monitoring programme performance was an important responsibility for zone-office staff. The supply section often asked them for feedback on the suitability of supplies, and the feedback was used to inform long-term supply arrangements. A comprehensive checklist was used to monitor supplies and equipment.

The audit did find that in the two zone offices visited, the focus was on monitoring activities rather than results. Trip reports did not specifically refer to intermediate results. Reporting on identified indicators would have reflected results rather than activities.

At the national level, two programmes reported on progress against expected results; two others, however, reported on the completion of planned activities. Two Government ministries commented on the need to strengthen monitoring to focus more on results.

In its consolidated results report of December 2011, the office noted a need to strengthen partners' monitoring capacities, beyond training already been provided. Specifically, within the three zone offices, there was a need to strengthen partners' capacity in results-based monitoring.

Agreed action 3 (medium priority): The office agrees to review its programme monitoring tools to strengthen the results focus, based on UNICEF's current guidance on monitoring for results; and to strengthen the required skills in results-based monitoring, for programme staff, and implementing partners. The office intends to form a Results-Based Monitoring committee, which will meet monthly for updates and reviews of MoRES.¹ The office will also incorporate Level 3 monitoring² on stunting in the new programme cycle starting 2013. These actions are expected to be implemented by the end of February 2013, and the staff member responsible is the Planning, Monitoring and Evaluation Specialist. The office will continue to build capacity of partners in results-based monitoring and will include appropriate activities in the multi-year workplans (MYWPs).

¹ MoRES is the Monitoring Results for Equity System, a monitoring tool designed to strengthen UNICEF's ability to address inequities and reach the most disadvantaged.

² The Level 3 Monitoring Framework is a level of monitoring under MoRES that is brought into use when there has been measurable progress in an activity, and remaining bottlenecks need to be analysed and addressed.

Assurance activities

Country offices are adopting the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries. HACT exchanges a system of rigid controls for a less bureaucratic risk-management approach, which includes micro-assessments of the individual implementing partners (both Government entities and NGOs). The office thus gauges the level of risk with any given partner, and adapts its procedures accordingly.

Besides micro-assessments, HACT includes assurance activities regarding appropriate use of cash transfers. These assurance activities include spot checks of implementation by partners, programme monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Unfavourable findings should result in a review of the procedures used with that partner. Risk assessments and assurance activities should be carried out in cooperation with the three other UN agencies that have also adopted HACT.

The office had been implementing HACT since 2008. In 2011, the country office disbursed US\$ 10.4 million in 2011 to 132 government and other implementing partners, representing approximately 40 percent of total expenditure. The office had commissioned an external firm to undertake micro-assessments of 15 implementing partners during 2011, and the results were used to determine the number of spot checks for each partner.

The spot checks were carried out mostly by programme officers, in all three zone offices. However, the office did not prepare a formal plan of assurance activities, for either 2011 and 2012. Also, the office did not have strong enough procedures for following up recommendations made during the spot checks. Such procedures can include subsequent visits to implementing partners to see whether the spot-check recommendations had been sustained. In three of the 10 cases where spot checks had been made, there was no written evidence that the recommendations had been followed up, or whether they had been found to have been sustained during a subsequent spot check.

HACT guidelines require at least one audit for each implementing partner that is expected to receive US\$ 500,000 or more within the programme cycle. During the course of the 2008-2012 country programme, there were eight such partners and they received a total of US\$ 9.5 million. Three of these were rated as medium risk partners. Audits had been discussed with other UN agencies during the first quarter of 2012, but at the time of the audit there were no ToRs or timetable. Both are now in place.

Agreed action 4 (medium priority): The office agrees to clarify responsibility for supervision of HACT implementation within the office; to regularly monitor the implementation of recommendations stemming from micro-assessments; and, in conjunction with other UN agencies, to undertake audits of implementing partners who have so far received at least US\$ 500,000 during the course of the current country programme. As agreed earlier with UNDP, the scheduled audits will start during the last quarter of 2012, at the end of the current cycle. The ToRs have now been completed and the service provider for the audits identified, and they will commence in November. The staff member responsible is the Chief of Operations and the agreed action is expected to be completed by the end of February 2013.

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Administrative and operational 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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the the actual staffing structure, which is considered under the Governance area).
- **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.

Noteworthy practices

The audit found one example of a practice in this area that merits sharing with other country offices. The office had set up a VISION hub – that is, a section devoted to processing of financial transactions from the zone offices. The objective was to increase efficiency in processing of these transactions.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office's processes for following up on outstanding direct cash transfers were effective; outstanding DCTs over nine months were less than 1 percent at the time of audit in August.

The office's controls related to local procurement of supplies functioned well. The office had established long-term contracts for frequently procured supplies and services, which were also being used by other UN agencies in the country.

The office had undertaken a thorough and well-documented process of physically verifying its inventory and property, plant and equipment (PPE), and disposing of it where appropriate. The

controls related to information and communication technology ensured timely implementation of required changes to core application software.

Controls relating to recruitment of national and international staff functioned well. The office's controls related to cash forecasting, major financial commitments with external partners and service providers, and financial year-end reporting, were adequate.

Nevertheless the audit noted one area where controls could be improved, and this is described below.

Financial transactions

The audit verified whether payments, receipts and deposits are promptly accurately processed and recorded, and are supported with adequate documentation.

When the office processed direct cash transfers (DCTs), it did not always ensure that itemized budget details were attached for the planned activities. Activity implementation periods were not always clearly indicated on the FACE forms.³ These omissions occurred both when requesting funds and reporting their use, and prevented identification of differences between the budgeted and actual expenses. The information appeared to have been omitted for several reasons; there was insufficient attention to detail and supervision of controls, but also continuous turnover of implementing partners. Newer partners might not have had sufficient awareness of HACT accounting procedures.

In eight out of 15 sampled DCT-related transactions from 2011, DCTs had been released to implementing partners for activities spread over more than three months, contrary to UNICEF procedures.

Agreed action 5 (medium priority): The office agreed to strengthen its supervision of financial controls to ensure provision of sufficient budget details and adherence to prescribed procedures in effecting cash transfer advances to implementing partners. The staff member responsible was the Finance Officer, and the office reports that the action has already been taken.

Administrative and operational support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over administrative and operational management, as defined above, were generally established and functioning during the period under audit.

³ FACE stands for Funding Authorization and Certificate of Expenditures. The FACE form is used to request funds and authorize partners to spend them; the form is also used to report and certify expenditure.

Annex A: Methodology, 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 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 that, subject to implementation of the agreed actions described, the control 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 at the end of the audit that the control 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 at the end of the audit that the control 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.