Internal Audit of the Djibouti Country Office

June 2014

Office of Internal Audit
and Investigations (OIAI)
Report 2014/13

oiai

_____

Summary

The Office of Internal Audit and Investigations (OIAI) has conducted the audit of the Djibouti country office. The audit sought to assess the office's governance, programme management and operations support. The audit, which took place from 17 December 2013 to 7 February 2014, covered the period from January 2012 to December 2013.

The country office is based in Djibouti; there is no zone office. It has a total of 34 posts, of which eight were vacant as at 30 January 2014.

The current UNICEF Board-approved country programme for Djibouti covers the period 2013-2017, and consists of four main programme components: *Child survival and development*; *Quality education for all*; *Children, young people and HIV/AIDS*; and *Child protection*. The country programme has a total budget of US$ 23.25 million, of which US$ 3.75 million was expected to be from Regular Resources (RR), while the Other Resources (OR) component was US$ 19.5 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose 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.

Actions agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. Five measures are being implemented as high priority. The measures are as follows:

- The programme outputs were not properly formulated. The multi-year workplans included too many activities and their budgets were not aligned with the planned budget in the Country Programme Action Plan. The office agrees to align the planned programme outputs to the outcomes approved by the UNICEF board, and eliminate outputs that overlap or are unnecessary. It will also establish quality assurance over the preparation of the multi-year workplans to ensure that they are within the budget planned in the Country Programme Action Plan, the milestones are linked to the respective outputs, and the activities are brought down to a manageable number with the focus on the strategic ones.
- The office had not mobilized sufficient other resources in 2013. This had resulted in some key programmes being underfunded, a number of vacant OR-funded positions being frozen, and the contracts of some OR-funded staff that expired at the end of 2013 being renewed for only six months. The office will take action to address this concern, including finalization of the office resource mobilization strategy and regular monitoring of its implementation.
- The office had not fully implemented the Harmonized Approach to Cash Transfers (HACT). It did not have an office-wide assurance activities plan that took into consideration the risk rating of implementing partners. The office will establish an overall plan for the implementation of HACT, and define clear accountabilities for its implementation. It will also develop a plan for assurance activities and ensure that its implementation is monitored.
- The quality of donor reports was inadequate and the 2012 annual report included inaccuracies and some results that could not be validated. The office will establish a

_____

process for monitoring the reports' quality, and will ensure that information in its Annual Report is reliable.

- The country office will strengthen its controls over procurement and supplies by improving the functioning of the Contracts Review Committee and ensuring that implementing partners entrusted with funds to procure supplies directly have adequate procurement procedures. The office will also clean up the supply accounting entries and vendor master records.

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over the country office, in the areas examined by this audit, needed improvement to be adequately functioning during the period under audit. The Djibouti country office has prepared action plans to address the issues raised.

The Djibouti country office, with the collaboration of the Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI)   June 2014

_____

_____

Objectives and scope

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit observations

1   Governance

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

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

Supervisory structures

Country offices are expected to have governance committees to assist the Representative. These committees include the country management team (CMT), consisting of the office's senior staff; this committee helps implement the country programme. Offices should also have a joint consultative committee (JCC), which consists of representatives of staff and management, and enables communication between the two.

The office had both committees, but the JCC had met only once in 2012, and once in 2013 up to July, instead of quarterly as planned. The CMT met four times in 2012 and once in the first five months of 2013, instead of every two months as specified in the office's Annual Management Plan (AMP). However, since the arrival of new management (Representative and Deputy Representative), the CMT had met monthly (since August 2013) and the JCC three

times during the last quarter of 2013.

The audit reviewed the minutes of the CMT meetings and noted that for most of the period under audit, the CMT meetings did not have a structured agenda, did not review the action points of the previous meeting and did not discuss the office priorities or the performance indicators. The situation had improved from September 2013, with a systematic review of the action points from the previous CMT meetings and more substantive discussion on programme issues; this included updates on programme activities, status of budget implementation, and some programme performance indicators.

However, the CMT did not monitor the office management performance indicators against those stated in the annual management plan (AMP).[1] It did not review the office programme and operations priorities or risk-management matters. The audit also noted that the CMT identified issues but did not record their causes. Finally, recommendations to address them were not SMART.[2]

Agreed action 1 (medium priority): The country office agrees to further improve the functioning of the Country Management Team by:

i.   Identifying the root causes of the issues discussed, and making SMART action points to address them.
ii. Periodically monitoring the office management performance indicators, the office programme and operations priorities, and risk-management issues.

Target date for completion: 31 December 2014
Responsible staff members: Representative, Executive Assistant and Communications Consultant

Office priorities

The guidelines on preparation of AMPs[3] recommend that there should be not more than 10 key programme priorities and not more than six management priorities, so as to increase the office's capacity to focus on strategic issues. However, the country office's 2012 AMP included a large (59) number of priorities – 25 related to Programme and 34 related to Operations. The programme key priorities were not systematically formulated as results, and were not all specific; the performance indicators did not have baselines and targets, and staff responsibilities for each priority were not assigned. The Operations results referred more to the section workplan than to office priorities, as they covered all the activities of the section. The review of the 2012 AMP, held in March 2013, had not covered the office priorities and performance indicators, and important issues were raised without identifying the root causes and proposing concrete courses of action to address them.

In the 2013 AMP, the office priorities were less numerous (16); however the key results were still not always SMART, and out of nine programme priorities, there was only one for which

---

[1] An office's Annual Management Plan ensures that that office's human, financial and other resources remain focused on the country programme and its hoped-for outcomes for children and women. To this end, it defines management mechanisms and the related staff accountabilities, so that everyone understands their roles and responsibilities.
[2] SMART = Specific, measurable, achievable, relevant and time-bound.
[3] See UNICEF's *Revised guidelines for the preparation of the CPMP and AMP* (CF/EXD/MEM/2005-005).

_____

staff had been assigned responsibility. During the mid-year review of the 2013 AMP, the Operations priorities were broken down into 29 key results.

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

 i. The number of priorities that are identified in the annual management plans are manageable so as to focus on the most critical ones.
 ii. The office priorities are SMART and responsible staff are assigned to each one of them.
 iii. The annual review of the Annual Management Plan covers the office priorities and performance indicators, identifies the root causes of the issues raised and proposes concrete recommendations to address them.

Target date for completion: 28 February 2014
Responsible staff members: Representative and Programme Assistant/Budget

Staffing structure

The budget (including OR ceiling) for the 2013-2017 country programme is US$ 10 million bigger than that for the previous one, and the office structure has been increased by 10 additional staff members. The staffing structure of the current programme had been defined during the mid-term review (MTR) of the previous CP in 2011, with the establishment of eight new positions. As a result, the new Country Programme Management Plan (CPMP),[4] covering the period 2013-2017, did not require substantial changes. The office currently has a total of 34 approved posts – 10 international professionals, 11 national officers and 13 general service posts. The current organizational structure was approved in 2012 as part of the review of the country programme for 2013-2017.

The audit review of the staffing structure noted the following issues.

Resources for staff costs: The office could not afford its current staffing structure. One year into the new country plan, the positions of Nutrition Officer, Admin/Finance Officer and two Communication positions were still vacant because of lack of funding. The Child Survival and Development (CSD) chief was transferred to another duty station at the end of 2013 and the office confirmed that he would not be replaced. In addition, the contracts of six staff members that expired at the end of 2013 were renewed only for six months. According to the office, this situation had negative impact on staff morale – and on the implementation of the programme; this included the postponement of key activities (a survey on iodine utilization for example), and the shift of cooperation partnership from the Government to international NGOs, as working with Government – for example, with the Ministry of Agriculture on some water and sanitation (WASH) activities – demanded more of UNICEF's staff resources.

Service delivery: The programme strategies outlined in the approved country programme document focused on building national capacity, strengthening the legal framework, and promoting results-based management and advocacy. However, the audit noted that the programme strategy being implemented still had a strong service delivery component; the programme covered the salaries of some staff of government implementing partners, contributed to payment for partners' fuel for some supported activities, and provided 100 percent of the country's needs in vaccines and nutritional products.

_____

[4] When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

_____

Staffing analysis: The office had not undertaken a formal staff capacity analysis either following the 2011 mid-term review of the previous country programme, or during the preparation of the new programme for 2013-2017. In the absence of such an analysis, the skills of current staff may not match the skills required by the approved country programme. Indeed, the audit noted discrepancies between the approved programme strategies and those effectively implemented in 2013, and this might have been due to skill gaps.

Agreed action 3 (medium priority): The country office agrees to analyse its staffing gaps, and review its overall staff structure to ensure that it will enable the office to implement the programme strategies approved by the UNICEF Board and with projected short- and medium-term resources. This review will then be submitted to the next Programme Budget Review.

Target date for completion: 31 March 2015
Responsible staff members: Representative, Deputy Representative, Operations Manager and Monitoring and Evaluation Officer

Performance measurement

The 2013 AMP contained a set of 37 management indicators, covering both the programme and the operations areas. According to the AMP, these indicators were expected to be reviewed quarterly.

The audit noted that no staff had been assigned responsibility for any of the indicators, and that the office did not regularly monitor them quarterly as specified. In 2012, there was only one review of actual performance against established indicators; that was undertaken by the Regional Office, based on the annual report data. The accuracy of this review was questionable, as it indicated (for example) that the Harmonized Approach to Cash Transfers (HACT) had been implemented when this was not the case (see observation on HACT, p14 below). In September 2013 the office itself reviewed the same set of indicators during the AMP mid-year review, but the audit could not find any evidence that the review had identified causes of, and action points for, indicators with poor performance – which this time did include HACT, as well as the number of DCTs outstanding over nine months, and the treasury forecast.

The audit also reviewed a sample of staff Performance Evaluation Reports (PERs). It found that their assigned tasks were not linked to the office priorities and that staff performance indicators were in general vague and difficult to measure. In addition, according to the 2013 mid-year review of the AMP, less than 50 percent of the PERs had been signed by end of the first quarter (the office's own benchmark was 100 percent).

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

I.   Monitor the office performance management indicators on a regular basis, identify causes of poor performance, determine corrective actions and assign responsibility for their implementation to relevant staff.
II. Ensure that key staff members' contributions to the office's priorities are clearly identified and consistently reflected in their performance evaluation reports.
III. Ensure that performance indicators that measure the staff performance are SMART (specific, measurable, achievable, realistic and time-bound).
IV. Ensure timely staff performance reviews for all staff.

_____

Target date for completion: 31 December 2014
Responsible staff members: Representative and Operations Manager

Delegation of authority and segregation of duties

UNICEF's resource mobilization, budgeting, programming, spending and reporting are recorded in UNICEF's management system, VISION, which was introduced in January 2012.

Access to VISION is given through the provisioning of a user identification (ID) that has "roles" assigned to it. Heads of Offices, and their delegates, 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*. Each office is also required to maintain a manual Table of Authority (ToA); the Head of the Office should review the ToA periodically (preferably quarterly) to confirm its continued accuracy and appropriateness.

An understanding of these roles, and the responsibilities assigned to staff, is essential in approving role assignments. In particular, it is important to, as far as possible, maintain segregation of duties, so that a staff member is not able to (for example) both order items and certify their delivery. Conflicts of this type could lead to misuse and loss of UNICEF resources.

UNICEF uses a program called Approva to manage segregation of duties and to detect conflicts. The audit compared the Approva reports generated in December 2013 with the latest signed manual ToA provided by the office (which was not dated). The audit found one segregation of duties conflict rated high risk; this was that the Operations manager was both approving purchase orders and allocating budget to specific activities. The office could not provide evidence that it had taken adequate mitigation measures to control this risk.

The audit also noted several inconsistencies in the delegation of authorities. For instance, some staff members were assigned authorities in VISION that were different from those delegated in the manual ToA. Others were granted authorities in the delegation of authority letter issued by the Representative that were recorded neither in the manual ToA nor in VISION.

Where there are discrepancies between the approved delegated authorities and the authorities recorded in the system, this implies that some staff are exercising authorities not delegated by the Representative. This increases the risk of errors in transactions and/or misuse of funds.

Agreed action 5 (medium priority): The country office agrees to address the high-risk segregation of duties conflict noted in Approva on an urgent basis; and periodically review consistency between the approved manual ToA, the authorities recorded in the system and the signed delegation of authority letters.

Target date for completion: 31 December 2014
Responsible staff members: Operations Manager

Risk management

According to UNICEF's enterprise risk management (ERM) policy, country offices are required

_____

to establish a structured approach to the identification of risks and opportunities, such that risks to the achievement of the office objectives and priorities are systematically identified, analysed and managed. To this end, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library. The mitigation controls should be set at the appropriate level and their effectiveness should be assessed regularly.

In May 2013, the office organized a one-day retreat to review the risks and their mitigation measures and to adjust the RCSA to new format requirements. Two very highs risks and five high risks were identified. However, the audit noted the following weaknesses in the office's RCSA:

- Root causes were not always related to the identified risk.
- The relationship between the action plan and the risk to be addressed was not always clear.
- The indicators did not have benchmarks to allow for measurement of progress.
- In many cases responsibility was not assigned to specific staff members.

The office stated that the RCSA action plan was supposed to be monitored at least twice a year, but this had not been done. According to the office, this was due to late update of the action plan (May 2013) and the need to revise the entire RCSA document, which was not up to standard.

An additional risk-management measure in country offices besides the RCSA is the business continuity plan (BCP), which ensures that the office can resume its functions as quickly as possible after a major incident or disaster. The office had prepared its first BCP in November 2008, and updated it twice since then, in November 2012 and October 2013. However, only one simulation exercise had been conducted, in August 2010. According to the office's 2012 annual report, a simulation exercise had been planned for 2013, but did not take place because of competing priorities.

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

   i.   Review its Risk and Control Self-Assessment (RCSA) to ensure consistency between risks identified, causes and mitigation measures.
  ii.   Ensure that mitigation measures are assigned measurable indicators and specific responsible staff.
 iii.   Monitor implementation of the RCSA action plan regularly.
  iv.   Carry out regular simulations of the Business Continuity Plan.

Target date for completion: 31 December 2014
Responsible staff members: Representative, Deputy Representative and Operations Manager

Ethics and staff morale

The office underwent significant instability in staffing during 2012-2013. The Representative was on extended sick leave for almost a year (May 2012-April 2013), replaced during her absence by five officers-in-charge (OICs). The Deputy Representative position was vacant for

_____

11 months (October 2012-August 2013), and some other key positions were vacant for extended periods. These included the WASH specialist, Communication specialist and Supply assistant positions. Discussion with selected staff members (Staff Association Chair, Operations Manager, CSD Chief) indicated that this situation, happening at the crucial period of preparation of a new country programme, had a negative impact on the office's work and on staff morale.

In the CMT minutes for the meeting held on 12 August 2013 (that is, on the arrival of the new Representative), one of the first requests of the staff was the organization of a team-building workshop. The CMT agreed to include it in the next AMP. Additional information gathered from staff by OIAI prior to the audit, showed that there were issues of interpersonal communication, management of conflicts and stress management that need to be addressed.

The audit reviewed the status of staff training on Ethics and noted that only the newly appointed Representative and Deputy Representative had received ethics training. The current management reported that it had already contacted the Ethics office in HQ for assistance.

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

i.   Reinforce the United Nations code of conduct and ethical behavior by ensuring that all staff complete courses on ethics and integrity.
ii.   Take action to improve team cohesion, communication between staff and stress management.

Target date for completion: 31 December 2014
Responsible staff members: Representative and Chair of Local Staff Association

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

_____

2   Programme management

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

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

All the above areas were covered in this audit.

Programme planning

In 2012, the UNICEF Executive Board approved the current Djibouti country programme document (CPD) for the period 2013-2017 with total budget of US$ 3.75 million in Regular Resources (RR) and an Other Resources (OR) ceiling of US$ 19.5 million.

Based on the CPD approved by the Executive Board, the office developed a Country Programme Action Plan (CPAP) and signed it with the government in March 2013. The CPAP constitutes a formal agreement between the Government and UNICEF on the programme of cooperation, and forms the basis for annual and rolling/multi-year workplans. It stipulates the respective responsibilities of Government, partners and UNICEF during the period of the approved country programme to achieve the jointly identified priorities and planned results for children and women.

During the crucial phases of preparation of the CPAP, which were between November 2012 and January 2013, the Representative was on extended sick leave, the Deputy Representative left the office, the Chief of Operations was acting as Representative and the chief of the CSD section was acting as Deputy Representative.

The overall planned results of the country programme, as set out in the Board-approved country programme document (CPD), included its contribution to the achievement of the Millennium Development Goals and the national objectives set out in the National Initiative

_____

for Social Development. However, these were not reflected in the signed CPAP. Instead, the overall results mentioned in the CPAP were formulated in broad and generic terms.

The Programme Component Results (PCRs)[5] in the CPAP were aligned with the results matrix attached to the approved CPD. However, the detailed results matrix attached to the CPAP did not include the indicators for the PCR results (with the exception of CSD – but even in that case, the indicators differed from those in the CPD).

The audit reviewed the intermediate results (IRs) of the CSD programme component in the CPAP. This is the largest programme component of the 2013-2017 country programme, accounting for US$ 10 million of the US$ 23.25 million budget. The following shortcomings were noted:

- IR1 and IR4 had different targets but their narrative was the same, raising the question of the necessity of having two distinct IRs with the same content.
- IR8 was already covered by IRs 6 and 7, and there were no activities recorded against IR8 in VISION.
- IR 6 and 7 were merged in one IR (IR6) in VISION.
- IR 10 in VISION included only one activity, which was already included in IR 6.
- There was no activity recorded in the contingency planning IR (IR 11), even though this IR reflected one of the main strategies of the programme.

The audit also reviewed the 2013-2014 CSD multi-year workplan (MYWP) and noted that the milestones in it were not linked to their respective IRs. It also noted a large difference between the 2013-2014 MYWP budget estimate and the 2013-2014 planned budget in the CPAP: US$ 7.8 million in the MYWP versus US$ 4 million in the CPAP, i.e. the former was over budget by almost 100 percent. According to the office, the reason was that the workplan activities were agreed with partners, and the probable costs accepted, without necessarily referring back to the budget planned in the CPD/CPAP.

It was also noted that there were 138 planned activities in the MYWP for the Health and Nutrition components alone. Covering too many activities, beyond the resources approved by the UNICEF Executive Board, meant that the office would not focus on the strategic issues, would have low impact and would ultimately not achieve the planned programme results.

Agreed action 8 (high priority): The office agrees to:

i. With support from the Regional Office, take the opportunity of the introduction of the new programme results nomenclature[6] to align the planned programme outputs to the outcomes approved by the UNICEF Executive Board, and eliminate outputs that overlap or that are not necessary.
ii. Establish quality assurance control over the preparation of the multi-year workplans to ensure that they are within the budget planned in the Country Programme Action Plan, that the milestones are linked to the respective outputs, and that the activities are brought down to a manageable number with focus on the strategic ones.

_____

[5] UNICEF programmes plan for results on two levels. A programme component result (PCR) is an output of the country programme, against which resources will be allocated. An intermediate result (IR) is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

[6] UNICEF is discarding the names PCR/IR in favour of the Outcomes and Outputs nomenclature used by other UN bodies.

Target date for completion: 28 February 2015
Responsible staff members: Deputy Representative

Resource mobilization

Other Resources (OR) accounted for US$ 19.5 million (84 percent) of the US$ 23.25 million country-programme budget for the period of the country programme (2013-2017). As of the end of December 2013, about US$ 3 million – 17 percent – of this OR was funded. Of that US$ 3 million, US$ 2 million was carried over from 2012; the office had therefore raised US$ 1 million of new OR in 2013, against an average annual amount of US$ 3.9 million required for the country programme. The programmes most affected were CSD, HIV/AIDS and the cross-sectoral component, with OR funding gaps of 60 percent, 39 percent and 77 percent respectively. These gaps were filled with Other Resources Emergency (ORE),[7] as the office received approximately US$ 3.2 million of ORE in 2013 from OCHA and Japan Government.

In November 2013, the CO prepared the fundraising plan for 2014, with the objective of raising at least US$ 3.4 million (80 percent of the unfunded amount for the year). At the time of the audit this plan was not yet finalized, and did not yet include an action plan. The office explained the plan's late preparation was due to the vacancy of the management positions (Representative and Deputy Representative) during the preparation of the new country programme. In the meantime, a number of vacant OR-funded positions were frozen, and the contracts of some OR-funded staff that expired at the end of 2013 were renewed for only six months because of lack of funding (see also observation *Staffing structure*, p7 above).

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

   i.   With support from the Regional Office, prioritize finalization of the office resource mobilization strategy, including the list of planned activities with timeline; and assign responsibilities to relevant staff.
   ii. Regularly monitor implementation of the strategy.

Target date for completion: 31 December 2014
Responsible staff members: Representative, Programme Assistant/Budget, and Communications Consultant

Harmonized Approach to Cash Transfers

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

---

[7] Other resources (emergency), or ORE, is OR raised to deal with a specific emergency that was not foreseen in the country programme document, and is therefore outside the Board-approved budget for the programme cycle.

_____

audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. There should also be a macro-assessment of the country's financial management systems. This is done to assess the general financial management environment in which agencies are making cash transfers to partners, the risks involved, and the capacity of the government's own supreme audit institution to audit government partners.

As a further safeguard, the HACT framework also requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and scheduled audits. HACT is also required for three other UN agencies (UNDP, UNFPA and WFP), and country offices should coordinate with them to ensure best use of resources.

According to the office, the UN in Djibouti completed the macro-assessment and micro-assessments in 2007-2008. The Government had not approved the macro-evaluation report and no further action had been taken afterwards. For the new UN Development Framework for 2013-2017, no macro- or micro-assessments had yet been conducted.

The office stated that an inter-agency HACT task force led by UNFPA had been established on 7 August 2013, but had not yet met. The office stated that, as other UN agencies in the country were not interested, it had started implementing HACT on its own by organizing an initial training session for its own staff in October 2013 and conducting an assessment, using its checklist, of four NGOs with which the office had recently signed Project Cooperation Agreements (PCAs). These NGOs had started using the FACE form,[8] and therefore were not expected to provide the CO with complete supporting documents for the liquidation of funds transferred. However, the office had yet to prepare an assurance-activity plan. At the time of the audit, it did not implement spot checks and scheduled audits, and assurance on use of cash transferred was obtained through receipt of full supporting documents and field-trip monitoring.

The office stated that the process of fully introducing HACT with Government partners would be discussed during the annual review planned for December 2013. The introduction of HACT would be incremental and would be based on an internal risk assessment by the UNICEF team. (This meant that, at a certain point in time, the office would be managing HACT and the old CAG system[9] simultaneously.) However, the audit noted that the office did not yet have an overall plan for HACT implementation that had clear milestones and resources, and had been discussed and agreed upon with the partners. The audit also found no evidence that staff accountability had been assigned for HACT implementation and monitoring.

According to the office, the implementation of HACT was delayed because there was reluctance across the UN in Djibouti to use the HACT approach following the grave misuse of funds uncovered by the Global Fund during an audit conducted in 2010;[10] and also because

_____

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

[9] Under CAG (Cash Advances to Government), the partner may be required to submit detailed accounting documents and narrative reports before a cash transfer is liquidated.

[10] In its 2012 report, the Global Fund's Inspector General listed grave misuse of funds in Djibouti, in addition to actions taken to recover misappropriated funds. The report did not allege any malpractice by UNICEF staff.

_____

the UN's Resident Coordinator and the UN in Djibouti had accorded HACT low priority.

Agreed action 10 (high priority): The country office agrees to urgently ensure full and adequate implementation of HACT, working in coordination with other United Nations agencies where possible. Specifically, it will:

i.   Establish an overall plan for the implementation of HACT, in consultation with the partners as appropriate.
ii.   Establish clear staff accountabilities and responsibilities for HACT implementation and monitoring.
iii. Develop and implement an office-wide assurance activities plan, with support from the Regional Office that takes into consideration the risk rating of partners from the micro-assessments and the magnitude of cash transfers to individual partners, and includes spot checks, programme monitoring and audits, as envisaged in the HACT framework.
iv.   Establish a monitoring mechanism to ensure that the assurance activities are satisfactorily implemented and the country management team regularly monitors and supports HACT implementation.

Target date for completion: 31 December 2014
Responsible staff members: Representative, Deputy Representative and Operations Manager

Direct cash transfers to implementing partners

Direct cash transfers (DCTs) to implementing partners constituted one of the major inputs to UNICEF's Djibouti programme. In 2012 the office had spent a total of US$ 1.1 million in DCTs; this was 24 percent of programme expenditure. In 2013, DCT had accounted for US$ 1.6 million (up to November), or 27 percent of programme expenditure.

The office had rated poor management of cash by implementing partners as a high risk. As of 12 December 2013, US$ 243,975 of DCT was outstanding over nine months – i.e., 18 percent of total outstanding DCTs. As of the audit date, the Cash Advance to Government (CAG) procedure was used with most partners, meaning that all supporting documents were secured from them.

The audit reviewed the supporting documents for a sample of six liquidations, worth in total more than US$ 400,000. In general, the office had ensured that all the expenses reported were supported by evidence, and in many cases rejected those without supporting documents. However, in one case it accepted the partner's response and liquidated the total amount although the partner's answers had not addressed all their concerns (which included one person signing on behalf of other participants, and the use of different rates for supervisors within the same activity). The audit also noted that it took a long time to clear the issues noted in the supporting documents (almost seven months in one case). None of the DCTs reviewed had been liquidated within the prescribed six-month period; they were outstanding for between nine and 16 months.

Also, the office distributed small amounts to a large number of participants. In one DCT, 1,620 participants received an amount of US$ 6 each. This might be an inefficient use of limited resources. It also increases the risk of misuse of funds. For example, the same name was found with eight different signatures in different supporting documents in the same liquidation file.

_____

These shortcomings were due to weak capacity of implementing partners and insufficient monitoring by the office.

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

    i.   Reinforce its supervisory controls over review of liquidations to ensure rejection of expenditures that are not adequately supported, and timely processing of liquidations; and ensure the country management team regularly oversees the timeliness and adequacy of liquidations.

    ii.   Strengthen the implementing partners' capacity in cash management to ensure timely submission of proper documentation.

    iii.   Review its policy regarding the nature of inputs funded by DCTs to avoid distribution of small amounts to large number of partners in order to reduce the risk of misuse and increase the efficiency of the office interventions.

Target date for completion: 30 June 2014
Responsible staff members: Deputy Representative, Operations Manager and Finance Assistant

Project Cooperation Agreement Review Committee

Civil society is a critical partner in achieving results in UNICEF's development work or in response to humanitarian crises. Offices should identify areas of programme that can be implemented collaboratively, select the right partner, and then work together to develop a detailed programme document, workplan and budget.

All offices are required to establish a PCA Review Committee. The PCA Review Committee (PCARC) is expected to review, among other things: whether the partner has been adequately assessed; whether its selection for this particular collaboration is justified, based on its expected role; the assessed level of risk; the programmatic justification and design of the PCA; cost/cost-effectiveness implications; mutual accountability provisions; the budget proposal; and the proposed PCA document and supporting documents themselves.

The audit reviewed the latest three PCAs signed by the office (worth in total more than US$ 300,000), and noted that the PCARC discussed mainly the programmatic content of the agreement and did not review the capacity of the NGO to deliver the agreed activities. It also noted that the PCARC lacked key information, such as a programmatic and financial capacity assessment of the NGO under review.

Also, although all three agreements reviewed were renewals, the PCARC was not supplied with evaluations of the NGO's performance so far. Neither did it have project documents with detailed budgets, to help assess the basis for calculation of activities costs and determination of the installments.

The time between the PCARC meeting and the signature of the agreement ranged from 1.5 to three months. This led to further delays in implementation of supported projects.

In one case, even though the agreement was for a period of five months, it was stated that the entire amount (US$ 159,436) would be transferred in one installment at the start of the project. UNICEF's guidelines on DCTs recommend that installments should be tied to three-

_____

month periods of activity, to reduce the risk of long-outstanding liquidations.

The gaps noted were due to insufficient knowledge of staff on the PCA procedures, inadequate oversight of implementation of PCA procedures, and not using the standard operating procedure that reflected organizational guidance on the functioning of the PCARC.

Agreed action 12 (medium priority): The country office agrees to investigate the reasons for the delays in the signature of partnership cooperation agreements (PCAs) and ensure that corrective action is taken. It also agrees to implement controls to consistently ensure that:

i.   The PCA review committee is provided with complete information prior to its meeting, including the programmatic and financial assessment, and any available previous performance evaluation of the non-governmental organization (NGO) involved.
ii.   Installments are tied to three months of activity.
iii. Staff, including those with oversight responsibilities, are trained on the main provisions of the organizational guidance related to partnership with NGOs.
iv.   The country management team reviews the functioning of the PCA Review Committee to ensure it is effective in providing assurance to the Representative.

Target date for completion: 31 December 2014
Responsible staff members: Deputy Representative and Programme Assistant/Budget

Programme monitoring

The office had a number of procedures to monitor programme implementation. There were monthly programme meetings, and in August 2013 the office had introduced a MYWP implementation matrix with updates on funds used and progress of activities. This matrix update was to be completed monthly and presented at the programme meeting. There was also an annual programme review. The audit made the following observations in this area.

Annual programme review: The audit examined the report of the 2012 annual programme review and noted that the recommendations were mostly not specific, and were not systematically taken into consideration in the preparation of the following workplans. A formal 2013 annual programme review was also held in 2013 (in December), but the report had not yet been prepared at the time of the audit.

Field monitoring: The sections prepared quarterly travel plans that were consolidated by the monitoring and evaluation (M&E) unit and approved by the Representative. The office did not yet have specific guidance on field-monitoring trips. The Regional M&E Adviser had proposed some guidance to the office, but the latter had yet to review it, adapt it to its own context and implement it.

The audit asked to see the latest six field-monitoring trip reports from the CSD and Education programmes (the most significant programme components). The office gave the audit only five, of which four were from 2012 and only one from 2013. The audit reviewed these reports and noted the following:

• The monitoring objectives of a field-monitoring trip were not formulated in terms of expected results, and the progress noted by the monitoring trip was not assessed against expected achievements.
• The quality of the inputs provided (cash and supply) was not systematically reviewed.

_____

> The trip reports content did not specify the programme inputs monitored.

- All the recommendations omitted the responsible staff and timeline.
- In some instances, recommendations were formulated in broad terms and it was not clear how they would be implemented.
- The recommendations mixed together those addressed to the office and those addressed to the implementing partners. For those addressed to the partners, it was not clear what specific follow-up would be done by the office to help the partner address the gaps noted.
- Two field-monitoring trips, undertaken by the same staff member, on April 2012 and on October 2013, included three identical recommendations, despite an 18-month time lag. This reflected weakness in the monitoring of implementation of field-trip recommendations.
- The supervisors did not make any substantive comment on any of the trip reports even when important issues were raised.

These shortcomings were due to insufficient controls over programme field monitoring, and inadequate follow-up on the issues noted during field visits. They affect the office's ability to address bottlenecks as they arise and therefore could lead to non-achievement of planned results.

Agreed action 13 (medium priority): The country office agrees to establish controls and processes that ensure the following:

i.   The framing of all programme reviews and field-trip recommendations so that they are specific, with assigned responsible staff and timeline.
ii. Inclusion, in all field-monitoring reports, of the results that had been expected from the field visits and an indication as to whether the expected results were achieved or not.
iii. A process for monitoring the status of implementation of recommendations from programme reviews and field visits.

Target date for completion: 31 December 2014
Responsible staff members: Deputy Representative and Monitoring and Evaluation Officer

Monitoring and evaluation

Country offices should both monitor their programme and have a programme of studies, data collection and evaluations in order to assess the country programme's impact on children and women.

These activities had not been carried out as planned. The audit reviewed the 2012 Integrated Monitoring and Evaluation plan (IMEP) and noted that out of 25 planned activities, eight had been completed, four were ongoing and 13 had not been implemented. None of the planned evaluations and major data collection activities were implemented. As such, the office had insufficient information on whether the programmes had achieved its intended effects on children and women in the country.

According to the office, there were several reasons for the low 2012 completion rate. They were the implementation of UNICEF's new management system, VISION, in January; high staff turnover; and the preparation of a new country programme. However, the audit noted that the completion rate of the 2013 IMEP was not much better; out of 20 planned activities, six

_____

had been completed, another six were ongoing, and eight had not been implemented. In particular, there has been very few evaluations; just three had been completed during the previous five years, and the office had developed a management response to only one.

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

i.   Establish an office-wide process to strengthen oversight over the preparation, implementation and follow-up of the Integrated Monitoring and Evaluation Plan, and ensure a satisfactory implementation rate.
ii.   Train programme staff on organizational guidance regarding evaluations and establish a mechanism to ensure a management response to all completed evaluations.

Target date for completion: 30 June 2014
Responsible staff members: Representative, Deputy Representative and Monitoring and Evaluation Officer

Office reporting

An office's reporting obligations include its annual report, in which it summarizes its work for the year for the benefit of management and the rest of UNICEF; and its donor reports, in which it makes an official report to donors on the way their contributions have been used, and what has been achieved with them.

Country office annual report (COAR): Information reported by a country office in its annual report should be accurate and reliable, especially given that it is used to provide input to organization-wide reporting on results for children and women, and to contribute to organizational learning. The audit reviewed the 2012 COAR and noted numerous serious writing and editing issues that diminished the readability of the document and compromised fair reporting of the results achieved. According to the office, this was due to lack of editing capacity at a time where there was no Representative or Deputy Representative.

The audit also selected a sample of 14 results reported by the different programmes in the 2012 COAR, and found that the evidence provided by the office could not corroborate nine of them.

Donor reporting: Country offices are expected to produce timely, good-quality donor reports that are acceptable to donors. This includes comparing results achieved against those planned.

According to VISION data on donor reporting, out of 23 reports due in 2012, 17 (74 percent) were sent on time and six (26 percent) were late. In 2013, as of end November, out of 15 reports due, 11 (73 percent) had been sent on time and four (27 percent) were late.

The office had prepared a standard operating procedure for donor reporting; this had been meant to come into effect on 1 September 2013, but had yet to be finalized at the time the audit ended in early February 2014. However, according to the office, the quality assurance of donor reports involved the Section Chiefs, the Deputy Representative and the Representative. The Regional Office had assessed donor reports across the region in 2013; each office had submitted two donor reports to it, one randomly selected by the Regional Office and another by the office itself.

For Djibouti, the randomly selected report received a rating of 57 percent, or "Satisfactory",

_____

while the self-selected report received a rating of 65 percent, or "Good". However, the Regional Office's assessment of both reports noted significant issues of writing and editing that compromised the quality of the reports and their readability.

The audit reviewed four donor reports. The following were noted in one or more of them:

• Achievements reported were formulated in terms of activities and not results.
• Expected results and related indicators had not been systematically quantified in the proposals to donors.
• In all the reports sampled, the funds utilization report had not been generated from VISION. The audit compared the amount spent reported to the donor with the amount recorded in the system, and found significant differences in two cases.

The above weaknesses occurred because the office had not established a robust quality review process over the preparation of donor and annual reports.

Agreed action 15 (high priority): The country office agrees to:

i.   Establish a process for monitoring and reporting on the quality of country office annual reports and donor reports to the country management team or another designated internal governance body. This process will address the quality of reports, including writing and editing issues, among others.
ii.   Ensure that proposals submitted to donors include results and indicators that are specific and measurable.
iii. Ensure that achievements reported to donors are formulated in terms of actual results against planned results, and that the expenditures reported are in line with those recorded in the system.
iv.   Strengthen its quality assurance process to ensure that results achieved and reported in the Country Office Annual Report are based on reliable information, and hold staff accountable for accuracy of performance information reported in annual report.

Target date for completion: 31 December 2014
Responsible staff members: Deputy Representative, Chiefs of Sections, Communications Consultant and Monitoring and Evaluation Officer

Programme management: Conclusion

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

_____

3   Operations support

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

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not 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 above areas were covered in this audit.

Procurement and contracting

Supplies procurement was the third largest expenditure after payroll and DCT, accounting for approximately US$ 1 million expense per year during the last two years.

The audit reviewed supply data in VISION and noted an issue in the recording of supplies in 2012, with a total negative amount of expenditure for the year (US$ -84,104.72). The reason was that supplies procured through Supply Division in Copenhagen were recorded as an asset (Goods in Transit) upon shipment, and at the country-office level they were supposed to be recorded as an expense upon receipt by implementing partners – which was not done. This issue had been partially solved in 2013, but there were still items received in 2012 in the amount of US$ 154,913 that were still recorded as goods in transit, and hence not yet expensed. Therefore, the expenditures were understated.

The audit also noted the following:

- The closing balances of programme supplies as of 31 December, 2012 were not carried over, and did not match the opening balances as of 1 January 2013.
- There were 22 transactions, amounting to US$ 92,487 that had no purchase details such as material, or purchase order number; the posting date for all these was the same (19 May 2013).
- There was inadequate use of accounting entry GL 7600110 (Programme Supplies), which is normally used to record the expense of transferring programme supplies originally received into a UNICEF warehouse. The office did not have a warehouse.

The 2012 COAR stated that US$ 262,350 had been transferred to implementing partners to procure supplies directly. The office indicated that this was due to difficulties it had encountered in conducting the procurement process using VISION and the vacancy in the supply post. However, the office could not provide evidence of partners' requests detailing what the amounts paid were for, so the audit could not judge whether the payments were justified. Neither was there evidence that the office had ensured the partners entrusted with this funding had proper procurement procedures.

Functioning of the Contracts Review Committee (CRC): Offices are expected to have a CRC to review all contracts in excess of a certain value. The audit reviewed the CRC file shared by the office and noted that the shortlisted candidates had been contacted by the operations section on 22 September 2013, the CRC had met three days later, and the work was expected to start on 1 October 2013. Four potential candidates were shortlisted; however, with such short notice, only one consultant confirmed his availability, and the CRC accepted recourse to a single-source contract without a competitive process, with no assessment matrix being prepared. The audit also noted that no basis was indicated for setting the fees (which were US$ 9,450 per month).

Review of the data in VISION showed that, out of 63 contracts of more than US$ 2,500 issued during the period 2012-2013, 10 were single-sourced, without competition. According to the office, this was due to low availability of local experts and consultants.

Besides the contract for services, the audit reviewed a sample of two supply transactions that had been through the CRC. One was a contract for the purchase of security equipment granted on the basis of single-source selection for an amount of US$ 53,624. The CRC minutes stated that a review of the local market had found that the vendor already contracted to ensure office security was the only one with the required expertise. The CRC agreed to waive the competitive selection process without documented evidence of this.

The second contract was for printing 15,000 health cards. Nine offers were received following an invitation to bid through the newspapers. The supply assistant put together a table of bids that was used to select a vendor. However, the audit noted that the submitting officer (the CSD Specialist) was also a member of the CRC, creating a conflict of interest.

Vendor master record maintenance: Vendor master records should be created centrally by the designated staff member(s) in a country office, observing segregation of duties. The vendors' details in the master record should be complete, and only accredited vendors should be maintained in the system. It is also important to avoid duplication of vendor records, to ensure that the information an office has on a vendor (including prior experience) is seen during any selection process, and also to avoid double payments.

As of 12 December 2013, there were 544 vendor records in VISION for Djibouti. The vendor table was maintained by the Executive Assistant, who was not involved in the payment process. However, the audit noted that there were 27 vendors with more than one account. From these 27 duplicated vendors, the office had correctly identified four and marked them for deletion. The remaining 23 duplicated vendor records were still active in the system. Among those 23 duplicated vendors, there were two vendors for which more than one account was actually being used for payments. The office did not have an established mechanism for regular monitoring of the vendors' table.

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

i.   Seek the assistance of Supply Division in solving the issues of (i) supplies received but still recorded as goods in transit and (ii) supplies closing balances in 2012 that did not match the opening balances in 2013.
ii.   Establish a mechanism to ensure that implementing partners entrusted with funds to procure supplies directly have adequate procurement procedures.
iii. Strengthen its controls over the correct entry of supplies information in VISION, to ensure that information is complete and that correct accounting codes are used.
iv.   Review its standard operating procedure on the functioning of the Contracts Review Committee and strengthen the areas of weakness identified, including ensuring competitive selection of consultants and vendors, proper segregation of duties and clarification of the basis for the determination of consultants' fees.
v.   Clean up the existing vendor master records so that duplicated accounts are identified and deleted.
vi.   Establish a system to regularly review the vendor master database in VISION to prevent duplication and ensure completeness and accuracy of records.

Target date for completion: 31 December 2014
Responsible staff members: Operations Manager, Executive Assistant, Finance Assistant and Supply Assistant

Management of human resources

The audit reviewed management of human resources and related areas and made the following observations.

Recruitment: Eight posts out of 34, i.e. 24 percent, were vacant at the beginning of January 2014. This included four out of 10 international professional posts (CSD Chief, Communication Specialist, Communication Officer and Admin/Finance Officer); these posts could not be filled pending availability of OR funding.

Review of the local recruitment process during 2011-2013 also showed that it exceeded the 90-day target, varying from 124 to 184 days.

The office informed the audit that in general, the delays were due to non-availability of the relevant section to finalize the review, absence of staff members involved in the recruitment process, and delays due to medical exams and medical clearance.

Office improvement plan: The office had produced an office improvement plan based on the findings of the 2011 Global Staff Survey,[11] and this was communicated to the audit team together with updates on the actions taken as of April and October 2013. However, the plan did not say how the office would address the findings from the survey, beyond simply referring to four broad areas of the survey (Work-Life Balance, Internal Communication, Staff Association and Risk assessment/Risk management). Also, the audit could not find any

---

[11] UNICEF's Global Staff Survey, first launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymized.

evidence that the status of implementation of the improvement plan was being reviewed by the JCC or the CMT as envisaged in the plan.

Office learning plan: The office stated that the office learning plan was finalized late, and that it was approved by the Representative and the CMT during the mid-year review meeting held in September 2013. However, the office could not provide evidence of this approval. The minutes of the learning committee meeting held on 5 November 2013 indicated that the office learning plan for 2013 was not yet finalized. According to the office, this was due to missing information such as costs, or the number of participants for certain learning activities.

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

   i.   Ensure that all staff involved in recruitment are held accountable for completing the recruitment process within the office's established timeline.
  ii.   Review the office improvement plan in consultation with the staff association, to identify the detailed activities needed to address the issues raised by the global staff survey and monitor their implementation.
 iii.   Review and improve its oversight mechanism to ensure timely planning, implementation and monitoring of learning activities.

Target date for completion: 31 December 2014
Responsible staff members: Representative, Operations Manager, Education Specialist/Chair of Local Learning Committee, and ICT officer

Property, plant and equipment (PPE)
In December 2013, the office recorded a total number of 1,124 PPE items with a total value of US$ 887,629. The audit reviewed the information available in the VISION assets module and noted the following discrepancies:

- Thirty-three items did not have an inventory number.
- Twenty-six items did not include the location.
- Two items were duplicated. A laptop and a monitor had a licence-plate number (these numbers are normally used for vehicles).
- There were a number of items that were recorded in VISION as having been disposed of, but were still included in the office's PPE report. Four of these items were indicated as damaged, two as donated, 43 as lost, 10 items as not found by the physical search, and six items as sold.

Physical verification: According to the minutes of the Property Survey Board (PSB) of 25 October 2012, a physical count report had been submitted to it, but the minutes did not reflect any analysis of the report or any recommendation on reconciliation with the data in the system. After audit verification, it appeared that no physical count had in fact been submitted to the PSB.

According to the 2013 score card,[12] it was stated that physical counts had been done twice that year but the results were not yet fully reconciled as of September 2013. The office could not provide the audit with the reports of these physical counts, and since there had been no PSB meetings in 2013, it appeared that the PPE database had not been verified and checked

_____
[12] This was a template supplied by the Regional Office to measure the office's performance.

_____

for at least two years.

The office explained that this had been due to a lack of internal capacity, and a lack of financial resources to hire a company.

Vehicle on loan: There was one vehicle on loan to the Ministry of Health (MoH). According to an agreement signed with MoH on 8 July 2010, the Government was responsible for all the running costs, including fuel, maintenance, repair and insurance. According to the agreement, the MoH should maintain a logbook, but there was no evidence that the office had checked that the MoH had done so, so as to ensure that the vehicle had been used for the intended purposes.

Attractive items: Although items are normally considered to be PPE for accounting purposes if they are worth more than US$ 1,500, a separate record should be kept for items below that value, but over US$ 500, that are considered to be "attractive" (cameras, laptops etc.). The office informed the audit that it did not maintain a separate system on Excel for these, as per the guidelines; but that this would be done once the PPE data was cleaned up.

Agreed action 18 (medium priority): The office agrees to strengthen its asset management by:

i.   Establishing the causes of the discrepancies noted in the asset module data and taking immediate corrective action; and ensuring the Property Survey Board monitors the situation and reports to the country management team for oversight purposes.
ii. Completing the physical count of the property, plant and equipment, with support from the Regional Office if needed, and proceeding with reconciliation of the property plant and equipment records in the system as per the approved Property Survey Board recommendations.[13]
iii. Establishing a mechanism to monitor the use of the loaned vehicle.
iv. Removing attractive items worth less than US$ 500 from the VISION assets module and monitoring them in a separate Excel sheet.

Target date for completion: 31 December 2014
Responsible staff members: Operations Manager, Administrative Assistant and Supply Assistant

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.

_____

[13] See UNICEF Financial and Administrative Policy 7: *Property, Plant and Equipment*.

_____

Annex A: Methodology, and definition of priorities and conclusions

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

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee'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 controls and 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 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 at the end of the audit 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 at the end of the audit that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

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

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

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