Internal Audit of the Republic of Mozambique Country Office

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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 Mozambique country office. The audit sought to assess the office's governance, programme management and operations support, and covered the period from January 2013 to 3 June 2014. The audit team visited the office from 4 to 27 June 2014.

The 2012-2015 country programme has six main programme components: *Child health and nutrition*; *Water, sanitation and hygiene*; *Basic education*; *Child protection*; *Communication, advocacy, participation and partnerships*; and *Social policy, planning, information and monitoring*. The total approved budget for the country programme is US$ 228 million, of which US$ 64 million is regular resources (RR) and US$ 164 million is other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose 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), up to the approved budget ceiling.

The country office is in the capital, Maputo; there are no zone offices. As of May 2014, the country office had 139 approved posts, of which 42 were for international professionals, 40 for national officers and 57 for general service staff. Total allotments were US$ 46 million in 2012 and US$ 59 million in 2013. Total expenditure was US$ 46 million in 2012 and US$ 58.2 million in 2013.

Action agreed following the audit

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

- Improve management of the Harmonized Approach to Cash Transfers (HACT) by: undertaking micro-assessments of implementing partners; developing and implementing a comprehensive assurance plan; and following up on the progress of implementation of the recommendations arising from the micro-assessments.
- Review and reinforce the processes related to payment and liquidation of cash transfers.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit.

The Mozambique country office and OIAI intend to work together to monitor implementation of the measures that have been agreed.

Contents

Objectives

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

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

Audit observations

1 Governance

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

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office structure was aligned to the needs of the country programme. The office had analyzed its workload to improve effectiveness and productivity, and to reduce costs. It had also defined its management and programme priorities, with specified outputs/targets and assigned responsibilities. Their status was reviewed during country management team (CMT) meetings.

The office had conducted a risk and control self-assessment (RCSA),[1] and had updated its risk profile in March 2014. This included drawing up an action plan with measures to mitigate the risks identified, with assigned responsibilities and due dates. At the time of the audit,

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

implementation of the action plan was ongoing and monitored by the office.

New recruits received an appropriate induction and took their oaths of allegiance during the general staff meetings. They were oriented on office policies and procedures upon assumption of duties and a briefing on ethics. To reinforce ethics awareness, the office had made an online integrity awareness course mandatory for all staff in 2014. Staff performance was well managed, measured and reported through timely use of the Performance Appraisal System (PAS) and electronic PAS (e-PAS).

However, the audit also noted the following.

Assignment of authorities

UNICEF's resource mobilization, budgeting, programming, spending and reporting are expected to be recorded in UNICEF's computerized 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.

The audit reviewed the VISION role mapping, ToA, and delegation of financial signing authority. It found that staff had been formally notified of, and had formally acknowledged their awareness of the responsibilities and accountabilities associated with them. The office periodically updated the ToA to reflect changes in the staffing. However, the audit also noted the following.

Consistency between ToA and VISION: The audit noted 21 inconsistencies between the responsibilities delegated in the ToA and the roles assigned in VISION. These inconsistencies would allow staff to perform roles for which they were not assigned or vice versa. For instance, the ToA delegated the roles of approving officer and travel administrator to the finance specialist and the chief of operations respectively, but their roles were not registered in VISION. On the other hand, the finance officer had been assigned the approving officer role in VISION although she was not delegated it in the ToA. At the completion of the audit, the office informed audit that it had corrected the inconsistencies between ToA and VISION.

Segregation of duties: In order to prevent error and fraud, certain roles should be segregated so that no one individual can have complete control of any transaction. However, some roles were not adequately segregated. For example, the senior finance assistant who had the bank reconciliation role (which allowed her to manually record and post bank statements) had also been assigned the role (general ledger L1) to post journal entries for adjusting any reconciling differences without anyone's knowledge. As per internal policy, adjusting entries should be done by someone other than the person performing the bank reconciliation. Likewise, the finance officer had the roles of authorizing, approving and paying officers.

The office was not aware of these cases since they were not identified as violations of segregation of duties in Approva.[2] The Approva rule book did not consider them as conflicts in segregation of duties. However, inadequate segregation of these roles increased the risk of inappropriate transactions.

Bank signatory panel: A recently appointed staff member had been assigned as a paying officer and, hence, as a member of the bank signatory panel. While his assignment had been registered in VISION, the office had yet to notify the bank and provide the bank with his specimen signature. Should he sign any cheque or bank transfer letter, the bank would not honour it.

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

i. Periodically review the registration of the table of authorities and the functional roles in VISION to ensure consistency with the delegated authorities and assigned roles.
ii. Regularly review the delegated authorities and the mapping of functional roles in VISION to ensure adequate segregation of duties.
iii. Update the office's bank signatory panel as changes are made in the assignment of paying officers.

Staff responsible for taking action: Chief of Operations
Date by which action will be taken: November 2014

Agreed action 2 (medium priority): The Division of Financial and Administrative Management (DFAM) agrees to review the role design and/or update the Approva rule book to ensure that conflicts in the segregation of duties are appropriately noted and reported.

Staff responsible for taking action: Senior Adviser Finance, DFAM
Date by which action will be taken: 30 June 2015

Functioning of advisory teams

Country offices are expected to maintain appropriate teams and committees to monitor and guide their operations and the implementation of the country programme. The office had issued the terms of reference (ToR) of teams and committees such as the country management team (CMT), property survey board (PSB), contract review committee (CRC), and the programme cooperation agreement (PCA) peer review group. The terms of reference (ToR) specified, among other things, the purpose, functions and composition of the teams and committees. The CMT and PSB were operational and had been functioning in accordance with their respective ToR. However, the audit noted the following.

PCA peer review group: The PCA peer review group[3] did not meet as a committee, but used a mail poll whereby each member reviewed the PCA one after another and signed off on a routing slip. However, there was no evidence that the individual reviews had taken place, other than the signed routing slip (which in one case was not signed, and in any case did not state which PCA had been reviewed).

In general, the results of the review were not recorded and it was unclear how a reviewer's

[2] Approva is a software system used to manage user roles in VISION; among other functions, it provides an analysis and reporting of segregation of duties and justifications of exceptions.
[3] A PCA peer review group is composed of senior/mid-level programme and operations staff established to review, consider and endorse proposed/draft PCAs.

comments and suggestions had been considered by other reviewers and collectively resolved. With the mail-poll method, there were no group discussions regarding the PCA itself, the related project proposal, the ToR, the budget or the NGO concerned.

The audit also noted that the peer review group took an average 15 days (ranging from one day to more than two months) to complete its review process. The office had not set performance targets to judge the time it takes to finalize and conclude PCAs.

Agreed action 3 (medium priority): The office agrees to review the programme cooperation agreement (PCA) peer review process, ensuring that the review results are documented, and that PCA decisions benefit from the collective wisdom of the review panel; and set performance targets for the review and finalization of PCAs.

Staff responsible for taking action: Deputy Representative
Date by which action will be taken: October 2014

Governance area: 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.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.
- **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.

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. At the time of audit, the office had commissioned a situation analysis in time for the midterm review and for planning of the next country programme. There was a fundraising strategy for 2012-2015 country programme; it had been drawn up in 2012 and was being updated at the time of the audit.

The office had a process for ensuring timely reporting to donors. As of May 2014, all donor reports so far due in 2013-2014 had been sent on time.

However, the audit also noted the following.

Workplans and results

The office had developed the annual workplans (AWPs) jointly with implementing partners, and the latter had endorsed them in a timely manner. The workplans, which were aligned with country programme document approved by the Executive Board, outlined the expected results and planned activities, plus budgets, timeframes and implementing partners for each activity.

However, a number of results included the use of words, like “improved”, “adequate”, “good quality”, and “strengthened”, that were not specific, and were difficult to measure. Moreover, a review of the AWPs related to two significant programmes—*Child health* and *Nutrition and water, sanitation and hygiene* — noted that with several activities, it was unclear as to what exactly was to be done. Examples of these were "strengthen the implementation of mother/parent support groups and other groups for default tracing and other interventions focusing on linking health facilities and communities to increase adherence to EMTCT[4] interventions", "support to improved service delivery of the PRN[5] in selected provinces with emphasis on Zambézia and Tete", "strengthen community involvement in paediatric/adolescent care and treatment services focusing on linking health services with families and communities and on increasing service access and adherence". Further, in a few cases, the provision of supplies was considered as an activity in itself – although supplies are programme inputs, like cash transfers.

In cases where the activities were to be implemented by multiple partners, the AWPs did not specify which one was responsible for which part of the activity or the corresponding resources that each partner was expected to receive. Although the budget for each of the activities was stipulated, the types of input/resources being committed were not.

The audit noted that results-based management had been included in training planned by the regional office for 2014. Twenty-nine staff members attended a programme planning process workshop in 2013.

Agreed action 4 (medium priority): The office agrees to establish rigorous quality assurance mechanisms to ensure that the expected results are specific, measurable, and describe the change expected to be brought about.

Staff responsible for taking action: Deputy Representative
Date by which action will be taken: November 2014

Alignment of inputs to workplans

As noted above, the annual workplans (AWPs) that UNICEF offices draw up with their implementing partners should describe the activities to be implemented, the resources to be provided to the implementing partners, and the associated budget. These workplans should be the basis on which the implementing partners request cash transfers and programme supplies. For government partners, the activities are defined in annual workplans jointly developed with the office. For NGOs, the activities are established in workplans included in the PCAs signed with UNICEF.

Partners request cash transfers, and later liquidate them, using a form known as the FACE (funding authorization and certificate of expenditure) form. They should indicate on the FACE form the activities to be carried out as described in AWPs, and attach an itemized cost estimate of the activities to be funded. On receipt of the request for cash transfers, the programme staff are expected to review the FACE form to ensure alignment of the activities described in it with those in the AWPs. They should also ensure that the detailed cost/budget estimates for the resources requested are attached.

The audit reviewed samples of the FACE forms to see whether the workplans agreed between the office and the partners had indeed been used as the basis for requesting cash transfers. In 25 of the 30 sampled FACE forms, the requests did not reflect the activities in the agreed

[4] EMCT: Elimination of Mother-to-Child Transmission (of HIV/AIDS).
[5] PRN: Nutrition Rehabilitation Programme (acronym from Portuguese *Programa de Reabilitação Nutricional*).

workplans established in the PCAs signed with NGOs or annual workplans agreed with government partners. In 19 cases, the cost components or the budget items were presented in the requests, instead of the activities for which the amounts were being requested. (The audit also reviewed the cover memoranda that accompanied 25 of the 30 sampled FACE forms and noted that nine of them either did not directly relate to the activities in the AWP, or simply did not describe the activities at all.)

This creates a risk that activities implemented might be other than those in the approved workplans. It also makes it harder to liquidate the direct cash transfers (DCTs) and monitor implementation, as the reporting of expenditures and field monitoring are carried out against the activities and cash transfers listed in the FACE form – and these differed from those in the workplans.

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

i. Train implementing partners and office staff on relevant aspects of requests for cash transfers (see also agreed action 11, p19 below).
ii. Establish rigorous oversight mechanisms to ensure that requests for cash transfers submitted by the implementing partners are in accordance with the agreed/approved workplans.

Staff responsible for taking action: HACT Focal Point/Representative
Date by which action will be taken: December 2014

Harmonized Approach to Cash Transfers (HACT)

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

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 (both government entities and NGOs). There should also be a macro-assessment of the country's financial management system. As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities are expected, at a minimum, to include spot checks, programme monitoring and scheduled audits. Implementing partners that have received more than US$ 500,000 during the programme cycle are subject to at least one scheduled audit during the programme cycle.

HACT is also required for UNDP and UNFPA, and the agencies are meant to work together to implement it such as in the case of micro-assessment of partners that are common to more than one agency. However, in cases where UNICEF is unable to work effectively with other UN agencies on HACT implementation, an office is expected to make additional effort, with assistance from the Regional Office and the Division of Financial and Administrative Management (DFAM), to improve the management of HACT.

The UNICEF country office, together with UNDP and UNFPA, started the implementation of

HACT in 2007. The UNCT[6] had commissioned an accounting firm to conduct a macro-assessment of Mozambique's public financial management system in 2010 in time for the development of the UNDAF[7] for the current (2012-2015) programme cycle.

From the start of the current country programme in 2012 up to May 2014, the office's total cash transfers to implementing partners amounted to about US$ 64.3 million, representing 53 percent of the office's total expenditure during the period. The audit reviewed the implementation of HACT and noted the following.

Micro-assessments: During the period 2012-2013, the office, together with the UNCT, had commissioned micro-assessments of a number of implementing partners. However, the audit reviewed a sample of 30 payments to 29 partners (including 12 NGOs) and found that six of the partners had not been micro-assessed. Further, for those that had been, the office did not systematically use the results of the micro-assessments to decide which method to use for cash transfers, or choose the most appropriate assurance activities. Direct cash transfers (DCTs) were provided regardless of the risk ratings; according to the office, DCTs were usually the only viable method, as most partners lacked the resources to meet costs upfront and be reimbursed later.

Also, the accounting firm that carried out the micro-assessments reached risk ratings for the individual partners that did not clearly reflect the significant issues they had noted. They were also inconsistent. Of the 23 sampled partners assessed, 19 lacked an accounting system and used only Excel spreadsheets to record the expenditures; they had inadequate segregation of duties, and their records were not audited. Despite this, the accounting firm had rated the partners in question as either low or moderate risk. The then-current Framework for Cash Transfer to Implementing Partners stated that: "a 'low risk' rating indicates a well-developed financial system and functioning control framework. A 'significant risk' or 'high risk' rating is given if the system is more nascent and the control framework is inadequate to assure that cash transfers are used and reported as agreed with the Agencies."

Assurance activities: The audit sampled 13 liquidations of DCTs during the period 2013-2014. In all but one of these cases, the office had conducted programmatic monitoring of the activities for which the DCTs had been made. However, the office had done a spot check in only one of the 13 sampled DCT liquidations of various partners, and no audit had been conducted although a number of partners received over US$ 500,000 in the programme cycle.

The office had yet to develop an assurance plan specifying the type, frequency and timing of assurance activities for each partner. According to the office, it had started to prepare a plan in early 2014, but held off pending release of agency-specific guidance related to the revised version of the HACT framework, which was released in February 2014. In the view of the audit, however, the office should have prepared and implemented an assurance plan using the prevailing guidance issued in 2005. (At the time of audit in June 2014, DFAM had yet to issue the revised guidance, but it did so on 1 August.)

Capacity building: In its micro-assessment reports, the accounting firm had detailed the issues

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

[7] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and the government, setting out the latter's chosen development path, and how the UN will assist.

found and noted its recommendations. These recommendations, if implemented, would strengthen the capacity of the partners assessed. However, these recommendations had not been followed up. In visits to four partners, the audit noted that the finance staff of two of them were not aware of the micro-assessment report. (See also the following observation, *Accounting of cash transfers by implementing partners*.)

The office informed the audit that in May 2014 that it had contracted an accounting firm to build the capacity of one government ministry, including its provincial directorates, as well as all government implementing partners in the provinces of Tete and Zambézia, to improve their internal controls and financial management system. It also indicated that it intended to recruit a HACT Specialist under the supervision of the Deputy Representative to strengthen HACT implementation. Further, it accepted an NYHQ proposal, made through the regional office, to assist country offices in implementing HACT.

Agreed action 6 (high priority): The office agrees to significantly improve the management of the Harmonized Approach to Cash Transfers (HACT). In particular, it agrees to:

i. Identify implementing partners who are expected to receive more than US$ 100,000 in the current programme cycle prior to initiating partnerships with them, and determine whether to micro-assess them. In the absence of a micro-assessment, the office agrees to consider the partners as high risk and increase its level of assurance activities accordingly in accordance with current standards.
ii. Determine the most appropriate type of cash transfer for each implementing partner depending on risk level. If direct cash transfer is deemed the only viable option for implementing partners assessed as high or significant risk, it should be accompanied by an increase in the level of assurance activities.
iii. Develop and implement a comprehensive assurance plan that includes scheduled and special audits, spot checks and programmatic monitoring of activities.
iv. Follow up on the progress of implementation of the recommendations arising from each micro-assessment.
v. Expedite the recruitment of the HACT Specialist.
vi. Include HACT implementation and assurance activities as standing agenda items in the country management team meeting until HACT is fully implemented.

Staff responsible for taking action: Representative/Deputy Representative/HACT Focal Point
Date by which action will be taken: December 2014

Accounting of cash transfers by implementing partners

The implementation of HACT requires implementing partners to maintain an adequate accounting system that “allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds”. The audit reviewed whether implementing partners maintained an accounting system that contained sufficient books, records and controls to ensure the accuracy and reliability of UNICEF programme financial information and reporting. This should include ensuring that receipts and disbursements of UNICEF funds are properly identified and that budgetary allocations approved under each category are not exceeded.

The audit visited four implementing partners, selected on the basis of type of partner and the amount of cash transferred. The four partners included a government ministry, an international NGO, and two local NGOs. Each of them had received substantial cash transfers from UNICEF in 2013 and in 2014 up to May, ranging from almost US$ 200,000 dollars to US$ 2.7 million. The audit noted that the cash transfers received by the government ministry and the two local NGOs were recorded not in the statutory books of accounts, but in Excel worksheets. As such, this has significantly increased the risk of the transactions not being subjected to audit by external auditors. The international NGO did have an accounting system that distinctly classified the expenditures as related to the cash transfers received. However, the audit reviewed a FACE form the NGO had submitted to UNICEF and noted that it reported expenditures that were US$ 6,258 more than the recorded amount.

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

i. In coordination with the UN County Team, pursue with the implementing partners the institution of accounting systems and the recording of cash-transfer transactions in statutory books of accounts.
ii. Review the risks of partners that do not record cash-transfer transactions in statutory books of accounts; increase the frequency of financial spot checks; and consider conducting special audits in light of the significance of the amounts at risk and the results of the financial spot checks.

Staff responsible for taking action: Representative/Deputy Representative/HACT Focal Point
Date by which action will be taken: December 2014

Programme monitoring

An office is expected to have effective processes for monitoring use of inputs and achievement of results by implementing partners. This should include monitoring work schedules, planned outputs and the use of inputs. The Mozambique office had various programme monitoring mechanisms that included, among others, field-monitoring visits by staff and partners, and reviews of progress by programme coordination meetings and the CMT. There were also mid-year and annual reviews with implementing partners where risks and lessons learned were taken into account in planning for subsequent activities. However, the audit noted the following.

Frequency of field trips: Generally, only one or at most two trips were planned per programme staff member per quarter; three trips was rare. For some programme staff members, no trip was planned for the quarter. This frequency of field trips seemed low, given the risks associated with programme implementation as noted by the office in its risk and control self-assessment. It also failed to meet the office's own standard operating procedure on field travel, issued in September 2009; its benchmark for section chiefs and programme staff was a minimum of 12 trips of three days each (36 days) a year. The benchmark for all section staff was 15 trips of four days each (60 days) a year.

Trip reports: Trip reports were prepared, but there was no system for ensuring that all field trips were reported, recommendations were reviewed, and their implementation followed up. Major findings and recommendations from field trips were not systematically discussed in programme meetings. The trip reports were manually managed by each section, and although the audit was told that the trip reports were posted in the shared drive, only a few were.

These shortcomings significantly reduced the office's awareness of the implementation status of the planned activities and ultimately the achievement of results. The office stated that it was reviewing the frequency of field trips and strengthening the system to properly document, file and share significant outcomes of field monitoring.

Agreed action 8 (medium priority): The office agrees to expedite the review of field-monitoring process and procedures and implementation of its recommendations. The review should cover, among other things, the standard frequency of field trips in the context of the Harmonized Approach to Cash Transfers (HACT)(see also agreed action 6 on HACT, p12 above), and the systematic documentation, filing, sharing and follow-up of significant results and recommendations.

Staff responsible for taking action: Deputy Representative
Date by which action will be taken: October 2014

Evaluation

Country offices are expected to evaluate important components of the country programme so as to inform future programme design. Evaluations should be strategically selected and adequate human and financial resources allocated. Their findings should be fully considered and a management response prepared to any recommendations, and appropriate action taken.

At the beginning of the country programme in 2012, the office had identified and planned two evaluations – of Child-Friendly schools, and final evaluation of One Million Initiative.[8] The first evaluation was completed in 2012. The second had started in 2013 as expected; so far, at the time of the audit, the data collection had been completed as planned. Progress was monitored by the office.

The evaluation of Child-Friendly Schools resulted in 14 recommendations that concerned a number of stakeholders, such as the Ministries of Education, Health, Women and Social Welfare, Public Service, and Transport and Communications. The UNICEF office management had responded to four recommendations that pertained to the office and identified eight action points. Six had been expected to be completed in 2013; at the time of audit (June 2014), however, only one of the eight had been implemented. The office did not monitor the implementation of the action points. The office explained that some of the actions points were superseded by a programme shift made during the mid-term review in late 2013. However, it acknowledged that it should have updated the action points.

Agreed action 9 (medium priority): The office agrees to review its work process, and assign responsibility for the timely monitoring and implementation of management responses to evaluations and the related plan of action.

Staff responsible for taking action: Representative
Date by which action will be taken: October 2014

[8] The One Million Initiative is a large-scale rural water, sanitation and hygiene (WASH) programme jointly implemented by the Government of Mozambique) and UNICEF, with financial support from the Government of the Netherlands).

Programme management: Conclusion

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

3 Operations support

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

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **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 areas above were covered in this audit.

The audit found that controls were functioning well over a number of areas. Bank reconciliation statements were prepared and approved on time and reconciling items properly analysed and cleared.

The office had recently prepared a business continuity plan, which had been approved by the Representative. It had taken measures to ensure that information and communications (ICT) equipment in the server room was safeguarded against unauthorized access, physical hazards, and the impact of power loss.

Property, plant and equipment were adequately managed, tagged and accounted for. The responsibilities for custody, recording and physical verification were adequately segregated.

However, the audit also noted the following.

Vendor master records

UNICEF's Supply Manual and pertinent VISION guidance notes provide guidance for the creation, maintenance, and use of, and access to, vendor records in VISION. The creation of vendor master records should be done centrally by the designated staff member(s). The country office is also expected to ensure the completeness of the vendor's details in the master record – especially the payment transaction and the banking details, as this information is required for processing of payments. Duplicate vendor master records could provide erroneous information related to disbursements and liquidations of a vendor account, and increase the risk of overpayments or double payments. They may also allow implementing partners to receive DCTs despite having previous cash transfers outstanding for more than six months.

The office had formally assigned the role of maintaining vendor master records in VISION to two staff members. One of them was assigned to maintain the vendor master records related to implementing partners, while the other maintained records for supply and service providers, including both institutional and individual contractors.

The office had a process for the maintenance of vendor master records, but it did not systematically require implementing partners and other vendors to submit documentation to the office to confirm their existence and legitimacy. Neither did the process include systematic authentication of their bank accounts.

The audit also found that vendor master records were duplicated for 21 vendors, totalling 42 of the 1,153 vendor accounts. The 21 vendors included two former and three current staff members with duplicate vendor master records as staff members and consultants. The records had been created without ascertaining whether master records for those vendors had previously been created in the system. In one case, the duplication had occurred during the migration of data to VISION when it was introduced in 2012.

Duplicate vendor master records also arose from the lack of naming convention for vendor master records or the creation of separate master records for similar vendors, such as those implementing partners within the same sector of government but in different provinces/districts. Although the audit did not observe any duplicate payment due to the existence of multiple master records, the risk of duplicate payment or incorrect charges existed and had not been mitigated.

In addition to the 42 vendor master records that the audit noted to be duplicated, there were also 55 master records that the office had identified in VISION as not to be used. It had marked 34 of these 55 master records for deletion. Once the vendor master record is marked for deletion, UNICEF headquarters can delete them centrally. However, the office had not blocked them from being posted. For the remaining 21 duplicated records, the office changed the name to include a notation signifying that they were for deletion – but did not mark them for deletion and block them from being posted. Transactions could thus still be posted to the 55 records, even though the office had identified them as duplicates. After the audit mission, the office informed audit that it had conducted a review of the vendor master records and that duplicates had been blocked for posting and marked for deletion, where appropriate.

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

i. Revise, and provide guidance on, the process for requesting and creating vendor master records, to ensure that:
    a. Adequate documentation is obtained to establish the legitimacy of the vendors and the validity of their bank accounts.
    b. Before another vendor master record is created, there are checks to ensure there is no existing master record for that vendor in VISION.

ii. Ascertain validity of vendors with multiple master records, and block and mark for deletion the master records which are considered invalid or duplicate.

iii. Assign responsibilities and periodically review the vendor master records, in order to prevent duplications and ensure completeness and accuracy of records.

Staff responsible for taking action: Chief of Operations
Date by which action will be taken: November 2014

Management of direct cash transfers

The audit reviewed whether transactions in relation to DCTs were performed accurately, promptly and completely and in accordance with UNICEF financial Regulations and Rules.

Release of cash transfers: As stated in an earlier observation (*Alignment of inputs to workplans*, p10 above), the audit reviewed 30 sampled payments of direct cash transfers and noted that the majority of the FACE forms were not properly filled in. In addition to the points noted earlier, the audit also noted that three FACE forms did not state the period of activities for which direct cash transfers were being requested. One was not signed by the representative of the requesting implementing partner. Moreover, in 15 cases, the names of the implementing partners did not tally with vendor master records, particularly the bank account names. In one case, the requested amounts did not accurately add up. The above errors were due to insufficient review by programme staff of the FACE forms before certifying and approving the requests for payment processing.

It was also noted that partners had requested direct cash transfers more frequently than once per quarter. For example, an implementing partner had made 22 instead of six requests during the period January 2013 and 2014 to May. This resulted in a significant number of requests to be processed and released, and reported expenditures to be liquidated, thereby straining the office's staff capacity.

Alignment with PCAs: Besides not always being aligned with the AWPs, there was limited assurance that requests for DCTs had been in accordance with the original PCAs. The relevant extracts of the PCAs were not available or attached as supporting documentation, so the approving officer could not have ensured everything agreed with their original authorization,[9] or reviewed the completeness and accuracy of the approved FACE forms before posting them for payment.[10] The verification by the approving officer was also hampered by the improper completion of the FACE forms by the implementing partners (see preceding paragraph). In fact, shortcomings in the exercise of the approval function had resulted in a payment to an NGO of about US$ 186,000 for activities that were not within the scope of the PCA and therefore not covered by the budget.

Timeliness of DCTs: DCTs were not always processed and released on time. The processing of the 30 sampled requests for cash transfers (with an aggregate value of US$ 7.8 million) took an average of 17 days (ranging from four to 55 days) from the date of receipt of the requests to the release of payments. The protracted processing exacerbated delays already caused by late submission of requests by the implementing partners – an average of 33 days after the planned start dates of the activities. Consequently, only four of the 30 DCTs sampled were provided before the planned start dates of the activities in the workplans. Delays in the release of DCTs could delay implementation of the activities.

Liquidation of cash transfers: DCTs are meant to be liquidated within six months of their release. At the time of the audit (June 2014), the office had outstanding (unliquidated) DCTs

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[9] UNICEF Financial and Administrative Policy 1: Internal Controls Supplement 1: Roles (Rev. 1).
[10] UNICEF Financial and Administrative Policy 5: Cash Disbursements Supplement 3 – Cash Transfers (HACT).

worth approximately US$ 7.8 million. About US$ 864,000 of this had been outstanding for over six months; of that, about US$ 111,000 (1.4 percent of the total outstanding DCTs) had remained unliquidated for over nine months. The nine-month figure exceeded the corporate threshold of one percent. Related to this, the audit noted that, when the DCTs were outstanding for almost six months due to delayed implementation, reprogramming was resorted to in order to "reset the aging clock" of DCTs. This was not in accordance with Finance and Administrative Policy 5 Supplement 3. Reprogramming may be considered following the completion or cancellation of activities – but not because implementation has been delayed.

The audit reviewed a sample of 10 liquidations of direct cash transfers. It noted that there was limited assurance that the reported activities and expenditures were in accordance with those agreed and authorized. Seven of the 10 sampled liquidation transactions did not include the previous FACE forms and the related budget details against which the expenditure was being reported.

It had taken the office an average of 16 days (in two cases, over 60 days) to approve and verify the liquidations following receipt of the liquidation documents from the implementing partners. The protracted process of approval and verification of reported expenditures also affected subsequent releases, as UNICEF policy is not to release DCTs to implementing partners with previous cash transfers outstanding for over six months.

Following discussions with government and NGO partners, and with the office staff, the audit noted that the shortcomings related to the release and liquidation of cash transfers were generally due to an insufficient training on, and understanding of, the relevant procedures, particularly on the use of the FACE form and the release and liquidation of cash transfers. (See also observations *Harmonized Approach to Cash Transfers*, p11 above, and *Alignment of inputs to workplans*, p10 above).

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

i. Review and reinforce the processes related to payment and liquidation of cash transfers.
ii. Set performance targets for timely release and liquidation of cash transfers, and for processing of payments.
iii. Train both the office and implementing partner staff on the correct procedures for the liquidation of direct cash transfers (see also agreed action 5.i, p10 above).

Staff responsible for taking action: Deputy Representative/HACT Focal Point
Date by which action will be taken: December 2014

Human resources management

Country offices are expected to ensure that staff have adequate capacity, knowledge and skills required to support the implementation of the country programme and achievement of planned results. Executive directive CF/EXD/2009-008 sets out the provisions for the selection of staff members, with the aim of placing the right person in the right job in the quickest possible time.

Recruitment process: The office had established a work process on recruitment and completed the recruitment of 24 positions (19 international and five national posts) between 2013 and 2014.

The audit reviewed the timeliness of recruitment for 11 of the international posts filled during the period under review and noted that it took the Division of Human Resources (DHR) in NYHQ an average of one month from the closing date to provide the country office with the lists of candidates that met the minimum qualifications. (The delay ranged from five days to more than three and half months.) It also took DHR an average of another month (ranging from four days to more than three months) to issue the offer letter from the time the country office had identified the recommended candidate.

Local Learning and Training committee (LLTC): The office had established an LLTC to manage the preparation of annual learning and training plan, in coordination with the management and human resources unit. The audit noted that there was a lack of linkage between the office's 2014 training plan and staff members' development outputs in their Performance Appraisal System (PAS) or electronic PAS (ePAS).

The training plan was developed and completed prior to the completion of individual key assignments and development needs through PAS/ePAS. The office explained that it had to do this, since the regional office set a deadline of February 2014 for the submission of the office's training plan, while the organizational deadline for the completion of the PAS/ePAS was May 2014. The regional office, during the audit exit meeting, explained that the February deadline was necessary, as it needed to consolidate the inputs from all the country offices and develop the regional training plan for the year. It had encouraged the country office to complete individual key assignments and development needs ahead of the organizational deadline for the PAS/ePAS.

Dependency allowance: Audit review found that four staff members (national staff) were being paid dependency allowance for children who were not eligible according to UNICEF guidance (CF/AI/2001-003). The children were over the age limit of 21 (one was 24). The office indicated that it had initiated recovery of the overpayments from the staff members' payrolls. The amount of the overpayments was being established by the office at the time of the audit.

Agreed action 12 (medium priority): The Division of Human Resources agrees to review its recruitment process and identify the bottlenecks and constraints to ensure faster production of shortlists for international posts in the country office, and faster issue of related offer letters. It also agrees to review the performance targets for each step involved in the recruitment process, including the shortlisting of candidates and issue of offer letters.

Staff responsible for taking action: Chief, Mobility & Staffing Section/Chief, Regular Recruitment Section
Date by which action will be taken: First quarter 2015

Agreed action 13 (medium priority): The office agrees to:

i. Complete performance appraisals in a timely fashion and in conjunction with finalisation of the office's annual learning and training plan, to ensure that the plan reflects staff members' development needs as identified during the performance appraisal.
ii. Review the provision of dependency allowances to staff members and ensure that they are provided in accordance with CF/AI/2001-003, and recover from staff members any dependency benefits that were paid in excess of their entitlements.
iii. Periodically monitor dependency benefits and keep staff members aware of the

current policy on them.

Staff responsible for taking action: Representative/HR Specialist
Date by which action will be taken: December 2014

Management of programme supplies

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

The office maintained programme supplies in World Food Programme-managed warehouses in Beira and Maputo. It had completed a physical inventory count of the supplies in December 2013. As of the audit (June 2014), the value of programme supplies in the warehouses was US$ 815,000. The audit visited the main warehouse in Maputo, which had about 60 percent of the total supplies (US$ 485,000). It noted the following:

Intent of the supplies: Supplies worth US$ 193,000 (about 24 percent of the total supplies) were recorded in VISION as direct delivery (DDEL). DDEL refers to supplies that are meant to be delivered directly to the implementing partners and would not normally be stored in the warehouse. However, more than half of these supplies classed as DDEL had been sitting in the warehouse for over a year. The office indicated that the supplies were intended for prepositioning rather than for direct delivery to implementing partners. It explained that the correct identifier for prepositioned supplies of this type (PPOS) was not available at the start of VISION in 2012. However, it acknowledged that the identifier of intent for the supplies in the warehouse should have been updated.

Pre-delivery inspection: Contrary to the office's own standard operating procedures, no pre-delivery inspection was conducted on six of the eight procurement actions sampled by the audit that required such inspection. The supplies involved were printed materials, kits and furniture with values ranging from US$ 40,000 to about US$ 122,000. This increased the risk that the supplies were not in accordance with specifications.

Supplies with supplier: The audit was unable to confirm the physical existence of supplies of Certeza (a water-treatment product) with a value of US$ 18,356. The supplies were recorded in the VISION as delivered to the warehouse in June 2013 and stored in a virtual "open area" location of the warehouse. Although the supplies of the product had been paid for, they were in reality not in the warehouse. The office explained that it had agreed with the supplier that the latter would deliver the stock only when the need arose. Meanwhile, the office had no physical control over the supplies.

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

i. Review the intent code in VISION of supplies in the warehouse and ensure that it reflects the actual planned use.
ii. Ensure pre-delivery inspections are carried out as appropriate.
iii. Consider concluding a long-term arrangement with the supplier of Certeza water-treatment products, instead of paying for supplies over which the office has no physical control.

Staff responsible for taking action: Supply & Logistics Manager
Date by which action will be taken: October 2014

Access to information and communication technology (ICT) resources

The office had a procedure for providing users with access to core UNICEF ICT resources, such as the network, email, Intranet and VISION transaction management system components. It had correctly assigned the human resources unit to initiate the provisioning of access to ICT resources, since the unit maintained employment records of staff members and consultants.

However, a review of the access of all 133 ICT users in Mozambique country office at the time of the audit noted that 18 of them had access to the ICT resources beyond their contract expiry dates. On the other hand, 39 users had their access rights set to expire before their contracts. Also, the names of 56 staff members registered as system users were not consistent with their names as written in their employment contracts. These errors were caused by weak oversight by both the country office and by Information Technology Solutions and Services (ITSS).

The inconsistencies in staff members' names and expiry of access rights *vis-à-vis* their employment contracts might have been avoided if a systematic link had been established between the issue of employment contracts (including amendments) and the provisioning and deprovisioning of ICT access rights.

Agreed action 15 (medium priority): The office agrees to:

i. Review the accuracy of the names of users, together with their respective contract expiry dates, and ensure that they are appropriately registered in VISION and in the system for provisioning and de-provisioning of access to ICT resources.
ii. Establish a periodic review of the validity of the users' access rights to ICT resources to ensure that they are consistent with the expiry dates of their contracts.

Staff responsible for taking action: ICT Specialist
Date by which action will be taken: November 2014

Agreed action 16 (medium priority): Information Technology Solutions and Services (ITSS) agrees to institute, in consultation with Division of Human Resources, a systematic linkage between the issue of employment contracts including amendments in VISION and the provisioning and deprovisioning of ICT access rights in the Active Directory, in order to ensure consistency of the staff members' names and synchronization of ICT access expiry dates with employment contracts.

Staff responsible for taking action: ITSS project lead and coordinator/DHR, business focal point
Date by which action will be taken: July 2015

Operations support: Conclusion

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

Annex A: Methodology, and definitions of priorities and conclusions

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

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

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

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

Priorities attached to agreed actions

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

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

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

Conclusions

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

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

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

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

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

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

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

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