Internal Audit of the Indonesia Country Office

April 2016

Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Indonesia country office. The audit sought to assess the office's governance, programme management and operations support. The audit team visited Indonesia from 9 to 24 November 2015, and the audit covered the period from 1 January 2014 to 9 November 2015.

The approved country programme for 2011-2015 had four programme components: *Policy advocacy and partnerships for children*; *Child survival and development*; *Education and adolescent development*; and *Child protection*. There was also a cross-sectoral component. The total approved budget for the programme cycle was US$ 155.2 million, of which US$ 27.7 million was in regular resources (RR) and US$ 127.5 million was in 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 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.

At the time of audit, UNICEF's Executive Board had approved the country programme for the new (2016-2020) programme cycle.

The country office is located in the capital, Jakarta, with seven zone offices, in the provinces of Ambon, Banda Aceh, Jayapura, Kupang, Makassar, Manokwari and Surabaya. As of 31 October 2015, the total approved posts for the country office were 163, of which 32 were for international professionals, 64 for national officers, 61 for general service staff and six for volunteers. Of these posts, 26 were vacant, but the office informed audit that most of these posts had been approved for abolition in the next country programme. Total expenditure for 2014 was US$ 24.8 million and US$ 16.1 million as of 13 October 2015.

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 say, they concern issues that require immediate management attention. These measures are as follows:

- Ensure that Government partners, especially at the sub-national level, are informed of selection of NGO partners; that, as much as possible, sub-national government and NGOs jointly plan, monitor and review agreed activities; and that the process is adequately documented.
- Take a number of steps to strengthen the management of individual and institutional consultancy contracts and to monitor their use. This will include rationalization of the use of such contracts, defined target dates for deliverables, submission of substantive amendments of contracts to the Contracts Review Committee, and completion and recording of intermediate and final contractor evaluations.

Conclusion
Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described in the report, the controls and processes of the office were generally

established and functioning during the period under audit.

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

Office of Internal Audit and Investigations (OIAI) April 2016

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Objectives

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

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

Audit observations

1 Governance

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

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office structure for the new country programme cycle (2016-2020) had been decided upon in a participatory manner and recruitment for the new posts was being done systematically.

The office participated actively in UN coordination activities in the country. The office chaired the Operations Management Team and was active member of the United Nations Country Team (UNCT),[1] Security Management Team and HACT[2] Advisory Group.

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[1] UN Country Team: this is an internal UN term to refer to the joint meeting of all the UN agencies or bodies active in a given country. The UNCT is convened by the UN Resident Coordinator. Its terms of reference, and division of responsibilities with individual agencies, vary from country to country. The Operations Management Team is an interagency forum where operations sections of different UN agencies can discuss common services.

[2] Harmonized Approach to Cash Transfers. See p14 below.

Delegation of authority to staff for processing financial transactions was clear, and was accurately recorded in VISION.[3] Staff were required to acknowledge their understanding and acceptance of authorities delegated to them. The office had conducted briefings for all staff on the code of conduct and ethics.

However, the audit noted the following.

Office priorities

An office's Annual Management Plan (AMP) ensures that an office's human, financial and other resources remain focused on the country programme and its hoped-for outcomes for children and women. To this end, it establishes key priorities, and assigns staff responsibilities for them. Progress on these priorities should normally be monitored by an office's country management team (CMT), which advises the Representative on the management of the country programme and on strategic programme and operations matters. It consists of senior staff from Programme and Operations sections, and staff representatives.

The office had individual AMPs for 2014 and 2015 that clearly defined the office priorities. For each priority, the results/targets, indicators, responsible staff and target date were specified. The AMP was endorsed by the CMT and shared with all staff.

However, the audit noted the following.

Linkage with risk assessment: The Risk and Control Self-assessment (RCSA)[4] had been updated in early 2015, but there was no clear linkage between the 2015 risk profile of the office and the office priorities and expected results. The office had identified one high risk (it related to *Natural Disasters and Epidemics*). The office stated in its risk mitigation Action Plan that to manage the risk, the Emergency Unit would work closely with the Government to ensure prompt response; but this had not been included in the office priorities for 2015.

AMR: The AMP included an Annual Management Review (AMR) of the 2014 office priorities to assess their achievement and inform selection of the office priorities for 2015. This review did not take place.

Definition of indicators: The AMP defined the areas/categories against which the office performance would be monitored. For 2014, 34 indicators were identified while in 2015, there were 30 indicators. For each area/category, the AMP defined the indicator, target, and their monitoring frequency and mechanisms. However, for the 2014 indicators, some of the mechanisms for monitoring performance were not clearly defined. For example, the monitoring frequency and mechanism of monitoring for the indicator "Annual Management Review undertaken by 30 January" was indicated as "Retreat notes (that will feed in workplan)." For the indicator "Total number & percentage of AWPs signed by end March – 100 percent" the monitoring frequency and mechanism of monitoring was defined as

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[3] VISION (Virtual Integrated System of Information) is UNICEF's management system.

[4] 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 development of an Action Plan to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

"Programme group minutes."

Monitoring of indicators: Not all the indicators for 2014 and 2015 were systematically monitored. The Operations Cluster prepared a monthly report on management indicators and this report was regularly shared and discussed in the CMT meetings. However, the report focused only on a limited number of indicators, mostly relating to Operations. Indicators not covered in the report included those related to completion of workplans, reporting on outputs in the Results Assessment Module (RAM) of VISION, and completion of action on management response to evaluations.

Further, some of the performance reported was not directly linked to the indicators and targets defined in the AMP. For example, under Performance Assessment System (PAS), two indicators were defined as follows: (a) Previous year finalization – 100 percent by end March; (b) Key Assignment finalization – 100 percent by end April. These indicators were supposed to be monitored monthly by the CMT. However, the report focused only on percentage of completion at a given date, so it was not clear whether or not the planned targets were achieved. The actual date of completion was not systematically monitored.

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

i. Clearly link its office priorities to its action plan to mitigate the risks defined in its risk assessment.
ii. Conduct an Annual Management Review to assess performance against the office priorities in the current year, and consider the outcomes from this review in developing the office priorities for the following year.
iii. Follow a defined process for monitoring progress on the office priorities in the Annual Management Plan, including accountability for, and frequency of, review. This process will include production of a consolidated report on performance against all the agreed indicators, with the report directly linked to the defined indicators and targets.

Responsible staff members: Representative, Deputy Representative, and Chief PME
Date by which action will be taken: April 2016

Office committees

The office had 15 office committees, and annex 3 of both the 2014 and 2015 AMPs included a brief description of the membership, mandate, frequency of meetings and recipients of the minutes of meetings. The memberships of these committees/teams were reviewed annually to keep them effective and relevant.

Country Management Team: According to annex 3 of the AMP, the CMT, chaired by the Representative, would meet on the first Friday of every month to review monthly management reports and indicators; review programme, operations and HR concerns; and generally assist the Representative with management. The CMT had met 10 times in 2014, and seven times in 2015 (as of 9 November). Records of the meetings were made available to all staff. The membership of the committee was appropriate and action points from previous meetings were followed up.

One of the mandates of the CMT was as follows: "Guided by the AMP, to analyse performance and assess specific issues and problems to provide strategic guidance and strive for management excellence and impact." According to the April 2015 minutes of meeting of the CMT, it was to review progress on the AMP office priorities quarterly. However, no such reviews had been done in 2015 (as of 14 November).

Programme Meeting: The Programme Meeting, chaired by the Deputy Representative, was supposed to take place on the same Thursday of the month to review monthly progress of programme implementation, including the cross-sectoral elements. The Programme Meeting was meant to discuss: any major changes in advocacy and networking opportunities; programme implementation and related and expenditure; supply; donor reporting; direct cash transfers (DCTs); and major events. According to the Representative, the timing of the Programme Meeting was designed to ensure that its outputs could feed into the following day's CMT meeting.

However, the Programme Meetings did not happen regularly as planned. According to the office, this was because other meetings covered some of the relevant items. However, these meetings were not structured enough to provide the same quality of its input to the CMT, and the latter's minutes showed limited discussion of programme issues – especially with respect to progress in achieving planned results.

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

i. Ensure the Country Management Team (CMT) regularly reviews progress towards the targets and planned results related to the office priorities as defined in the office Annual Management Plan (AMP). This will allow the office to assess the continued relevance and appropriateness of selected priorities, and provide guidance on addressing bottlenecks in achieving planned results/targets.
ii. Ensure that the Programme Meeting meets as planned, and that its mandate as defined in the AMP is respected so that it can provide the CMT with the input it needs to analyse programme performance and provide strategic guidance as required.

Responsible staff members: Deputy Representative and Chief PME
Date by which action will be taken: July 2016

Papua zone office

The audit visited Papua zone office, which manages two other zone offices (Jayapura and Manokwari). It is the largest zone office, with 30 positions and a budget allocation of US$ 3.6 million in 2015.

The zone office held monthly programme meetings that were minuted and posted in the shared drive. It also sent the Jakarta office monthly reports on the liquidation status of outstanding DCTs and implementation of planned assurance activities, as well as the status of some indicators related to Operations, such as office vehicle utilization report and petty cash. However, the audit noted that neither the AMP nor the CPMP[5] clearly defined the roles and accountabilities of the zone offices.

There were no specific workplans for the Papua zone office. According to the zone office, the

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

programme staff and their respective partners discussed the programme activities to be implemented, and the results of these discussions were then shared with the Jakarta office as input to the overall multi-year workplan (MYWP). Once these MYWP were approved, they were used by the zone-office programme staff to identify the activities related to their area. However, these activities were set out in broad terms in the MYWP, and needed to be broken down into more specific activities/tasks for the operational workplans of the zone office. For example, for 2015, the following two activities were planned for Child Protection in Papua: "Strengthen child protection legal framework at province and district/city level"; and "Strengthen initiative on child abuse prevention and conduct documentation [of] prevention". There were no operational workplans with specific activities detailing how these broad activities will be implemented.

In 2014, the country office had conducted an evaluation titled "Equity-Focused Formative Evaluation of UNICEF's Engagement in the Decentralization Process in Indonesia", and one of the recommendations accepted by the office was to develop the terms of engagement for field offices, including what was expected from them. In response to this, the field offices had started to prepare a field office management plan. However, this had not been finalized at the time of the audit.

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

i. Finalize the preparation of the field office management plan, and define the zone office's roles and accountabilities in such a way as to guide their operations and priorities for each year.
ii. Monitor the implementation of the zone offices' plans, including their priorities.

Responsible staff members: Chief PME, and Chief of Field Offices (CFO)
Date by which action will be taken: July 2016

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.

The audit found that controls were functioning well over a number of areas. The office had completed six evaluations during the period 2014-2015, three of which had been rated by the Evaluation Office as highly satisfactory. Management responses were prepared to address evaluation recommendations and implementation of planned actions was followed up.

All the 19 donor reports that were due in 2014 were submitted on time, as were all but one of the 16 due in 2015. The reports complied with UNICEF quality standards. The office also submitted reports to its Private Sector Fundraising (PSFR) donors.

However, the audit noted the following.

Advocacy

The 2011-2015 country programme included a comprehensive *Communication*, *Resource Mobilization and Partnerships* programme, which combined external and digital communication, knowledge management, communication for development (C4D), partnerships and PSFR into one cluster. Following the mid-term review (MTR) in 2013, the Communications Cluster had also started working on an Innovation Lab.[6] However, the office

[6] UNICEF describes the Innovation Labs as "open, collaborative incubation accelerators that bring business, universities, governments and civil society together to create sustainable solutions to the most pressing challenges facing children and youth." See http://www.unicef.org/innovation/innovation_73201.html.

has not developed an advocacy plan that identified the priority topics for advocacy and analysed the options for public and private advocacy in the Indonesian context, and clarified roles and responsibilities and possible timelines.

For 2014, programme sections were asked to identify advocacy priorities and these were consolidated by the Communication Cluster. According to the Cluster, this was not done for 2015 as the office was working on the basis of a two-year workplan and these priorities had not changed. However, there had been no assessment of what had been achieved in 2014 and what remained to be done, or what improvements and adjustments should be made, in 2015.

The office had a Publications and Materials Review Committee chaired by the Chief of the Communication Cluster. The committee met on an *ad-hoc* basis for a formal review of documents for printing. The communications team said the committee could have greater impact if it were engaged upstream, helping shape the kinds of reports or publications that were created, including identification of audiences, purpose and opportunities for dissemination and use, rather than simply giving the green light to Supply Section for printing.

The office said that the above areas would be addressed in the new 2016-2020 country programme. The outcome for communications in the new country programme provides that the Communication and Public Advocacy Programme aims to ensure government and others prioritize the evidence-based realization of child rights. The first output will be the development of an advocacy strategy, with priority topics, that sets out the options for public and private advocacy in the country context, and assigns roles and responsibilities with possible timelines.

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

i. Develop an Advocacy Plan, defining the priority topics for advocacy in the Indonesian context, and clarifying roles and responsibilities and possible timelines.
ii. Establish a mechanism to ensure that advocacy activities are monitored on a regular basis.
iii. Review the functioning of the Publications and Materials Review Committee with a view to strengthening its role in shaping the kind of publications or materials that will be produced, including identification of audiences, purposes and opportunities for dissemination and use.

Responsible staff members: Deputy Representative, Programme Cluster Chiefs, Chief of Communications, Communication Specialist, Multimedia Specialist and C4D Specialist, CFOs
Date by which action will be taken: April 2016

Resource mobilization[7] plan

The office had had a fundraising strategy for the 2011-2015 country programme cycle. For the new programme cycle (2016-2020), it had produced a rolling resource mobilization plan and mechanism. A resource mobilization group had been established, headed by the Representative. It was planned this would meet to: identify fundraising opportunities to

[7] While the terms "resource mobilization" and "fundraising" are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

address specific funding needs; coordinate resource mobilization activities, including assignment of staff members for specific tasks; and update the rolling resource mobilization plan as necessary.

However, resource mobilization in UNICEF covers not only fundraising for UNICEF-supported programmes, but also leveraging resources for children – for example, by persuading Governments and other partners to devote more of their resources to programmes or activities that benefit children and women. In fact, both the 2011-2015 programme and the new 2016-2020 country programme were designed to leverage resources for children.

This was not captured in the draft Resource Mobilization Plan. It covered only fundraising, although Indonesia is a middle-income country and the funds that go directly to UNICEF to implement programmes for children have been significantly decreasing. This is reflected in the new country programme's OR budget, which at US$ 119.7 million is 6 percent less than that of the 2011-2015 programme (US$ 127.5 million).

Agreed action 5 (medium priority): The office agrees to amend its Resource Mobilization Plan for the new country programme 2016-2020 to incorporate its strategy for leveraging resources for children.

Responsible staff members: Representative, Chief Communication, and Chief PFP
Date by which action will be taken: April 2016

Management of partnerships

One major challenge for programme implementation in Indonesia was the ongoing requirement for UNICEF and other development partners to comply with government regulation PP/10/2011. This required that funds transferred to sub-national government be channeled through national line ministries, who were to share in accountability for the proper utilization of the funds. This took effect in August 2013 and had led to significant delays in implementation and reduction in programme expenditure.

A programme review conducted with the Government at the end of 2014 found this procedure a significant constraint to programme implementation at decentralized level. The office had been working with the Ministry of National Development Planning (BAPPENAS[8]) and the Ministry of Finance to develop standard operating procedures for line ministries to use in channelling funds to sub-national level.

In the meantime the office had also been working more with NGOs for programme activities at the sub-national level. Agreements with both international and local NGOs had increased from three at the start of the country programme in 2011 to 32 in 2013. By November 2015, it had jumped further, to 93 active project cooperation agreements (PCAs) and small-scale funding agreements (SSFAs). Of the 93 active PCAs/SSFAs in 2015, 61, or 66 percent, had an agreement value of less than US$ 50,000.

This imposed an administrative burden on the office, and it was exploring ways of reducing the number of small NGO partners with which it worked. The office said that mapping of NGOs working in a particular thematic or geographical area was being considered in developing the

[8] BAPPENAS: *Badan Perencanaan Pembangunan Nasional* (from the name National Development Planning Agency).

Field Office Management Plan for 2016. It also said it was aware of the need to consolidate the small SSFAs to reduce the cost/work involved in managing these small agreements. Government partners had been consulted on how to build partnership with NGOs into the multi-year workplan.

The audit also noted the following.

Partnership agreement: In its visit to the Papua zone office, the audit met two nongovernmental organizations (NGOs). With one of these, the office had signed a PCA and committed itself to contribute approximately US$ 670,000. This NGO had been formally established in June 2014, the same month that its partnership cooperation agreement (PCA) with UNICEF was submitted to the Contract Review Committee (CRC).[9]

The NGO explained that since it was newly formed and had no prior partnership experience, it had initially proposed to the UNICEF office a smaller project with activities that were within its expertise and capacity. However, the office asked the NGO to extend the scope of the activities to those that were to have been implemented by the Provincial Health Office (PHO), as the UNICEF was not allowed to transfer funds directly to the Government partners at the decentralized level.

This appeared to mean that the NGO had to engage in activities for which it did not have any experience, such as WASH[10] activities for example (and the NGO had been rated as high risk in the micro-assessment[11]). In fact, the NGO was not implementing these additional activities; it just helped channel the funds to the relevant government partners that were actually doing so, because UNICEF was not permitted to transfer funds to Government partners at the sub-national level. In the PCA, however, the NGO was presented as responsible for the implementation of all activities. In the audit's view, this was not appropriate; it could for example have given UNICEF little redress if the activities had not been implemented as agreed.

Review of PCAs: The audit also noted that in 2014 the Contract Review Committee (CRC) had reviewed the proposed PCAs related to the two NGOs visited in Papua. In fact, PCAs were meant to be reviewed by an office's dedicated PCA Review Committee (PCARC); CRCs are supposed to consider contracts with suppliers and contractors, not agreements with NGO partners. Moreover the review focused on the financial management capacity of the NGOs, but the content of the project documents were not examined. This could be due to the fact that the CRC did not include sufficiently senior programme staff.

For 2015, the office had strengthened its PCA review process by establishing a PCA Review Committee chaired by the Deputy Representative. The name of the committee was subsequently changed to the Partnership Review Committee in line with the revised procedure for managing collaboration with NGOs in April 2015.[12] The office had briefed

[9] The CRC is an internal body in a UNICEF office that scrutinizes all contract agreements with external organizations over a certain value, typically US$ 50,000 (though an office can set it lower if it wishes).
[10] Water, Sanitation and Hygiene.
[11] Micro-assessments are part of the Harmonized Approach to Cash Transfers – see observation on p16 below.
[12] The regulations for much of the period under audit were set out in the Guidelines for Programme Cooperation Agreements and Small Scale Funding Agreements (CF/EXD/2009-011). With effect from 1 April 2015 these guidelines were superseded by UNICEF Procedure For Country And Regional Office Transfer Of Resources To Civil Society Organizations (FRG/PROCEDURE/2015/001), which introduces a number of changes (for example, SSFAs may now be used up to a threshold of US$ 50,000).

concerned staff on the new procedures and other related policies, and had strengthened the PCA review process applying the requirements of the revised procedures. The PRC had strengthened its review process, focusing on the quality of PCAs – particularly with regard to formulation of outputs and activities, as well as indicators and targets.

Monitoring outputs from PCA/SSFA agreements: Both NGOs met by the audit in Papua confirmed that they reported only on the activities implemented, rather than against the results and indicators included in the respective PCAs. In fact, when the audit reviewed the project results matrices of the PCAs pertaining to these partners, it found many gaps in those results and indicators that would have made it harder to report accurately against them. For example:

- Results were not specific to the partnership but referred to the overall programme outputs.
- Indicators were formulated as expected results (example: "Strengthen the health systems to improve the availability and quality of integrated services and supplies in health system in support of improved integrated programs performance"). An indicator should not be a result in itself, but a metric that helps assess whether that result has been achieved.
- Indicators without baselines or with vague target values (example: "Larger percentage of government's public resources invested within the C-IMCI total budget".)
- Indicators that were difficult if not impossible to measure (example: At least 50 percent of eligible parliamentarians and key stakeholders in Jayapura and Jayawijaya districts have 50 percent increase in awareness after the activities).
- Strategic activities were not always clearly stated (example: "New-born care service strengthening").

In the case of the NGO partner visited in Papua that was channelling funds to the PHO (see *Partnership agreement*, previous page), the partner explained that the results and indicators for the areas covered by the funds it was channelling were just copied from the workplan and from PHO plans without further analysis.

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

i. Clearly define the responsibilities of an NGO in signed agreements when it is used to channel funds to other partners.
ii. Ensure that Project Cooperation Agreements/Small-Scale Funding Agreements capture accurately the activities assigned to the partner, and include clearly defined results and indicators.
iii. Ensure that all NGO partners are briefed on their accountability for reporting against agreed planned results and that compliance is monitored.
iv. Continue its efforts to find alternatives to working with a large numbers of small NGO partners, in order to rationalize the cost/workload involved in managing these collaborations.

Responsible staff members: Deputy Representative and relevant Programme Staff, Cluster Chiefs, Chief PME, and CFOs
Date by which action will be taken: April 2016

Ownership of programme by Government at sub-national level

The audit visited a community-based violence prevention project implemented in partnership with a local NGO in a village in the district of Jayapura. According to the office, the provincial department responsible for women's empowerment and child protection was the government counterpart in this project and was expected to scale up this model. However, even though approximately 20 events (workshops, training sessions, role plays) were organized in this pilot village, the government counterpart did not participate in any of these events. The office did not give a clear reason. In these circumstances, it was not clear how this model would be scaled up by the Government.

The audit also met the PHO staff member responsible for coordination of cooperation with UNICEF and found she was not aware of the details of this cooperation and did not have a copy of the signed workplan. Moreover the zone office confirmed that there had been no formal programme reviews in 2014 and 2015, whether mid-year or annual reviews, as their focus was on the follow-up of PCA implementation and on the preparation of donor reports.

The audit noted that the absence of agreed-upon operational workplans and of joint programme reviews seemed to be the contributing factors to the lack of ownership of the programme by the government counterparts. However, one Government partner visited by the audit in Jakarta emphasized the need for active involvement of the government partners at the sub-national level from the planning and selection process to implementation, monitoring and evaluation, in order to promote ownership and ensure the sustainability of the programme. The UNICEF office told the audit that it was trying to encourage better acceptance of NGOs by the different layers of Government as partners in programme implementation, as well as programme planning, monitoring and evaluation.

Agreed action 7 (high priority): The office agrees to ensure that government partners, especially those at the sub-national level, are informed of selection of NGO partners; that, as much as possible, sub-national government and NGOs jointly plan, monitor and review agreed activities; and that the process is adequately documented.

Responsible staff members: Deputy Representative, Cluster Chiefs, CFOs, and PRC Secretary
Date by which action will be taken: April 2016

Harmonized Approach to Cash Transfers

Offices are expected 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 implementing partners expected to receive US$ 100,000 or more per year from UNICEF. At country level, HACT involves a macro-assessment of the country's financial management system.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audit and special audits. There should also be audits of implementing partners expected to receive more than US$ 500,000 during the programme cycle. HACT is also required for UNDP and UNFPA and the agencies are meant to work together to implement it.

A revised HACT framework, endorsed by UNDP, UNFPA and UNICEF, was adopted in February 2014. In addition, with effect from 1 July 2015, UNICEF issued new UNICEF-specific HACT guidelines to all Regional Offices.

The country office's cash transfers to implementing partners in 2014 amounted to US$ 6.5 million, representing 26 percent of the 2014 total expenditure. As of the end of October 2015, cash transfers for 2015 had amounted to US$ 5.3 million or 33 percent of total expenditure. The office collaborated with 138 partners during the programme cycle.

The audit noted the following.

Oversight of HACT implementation: UNICEF participated actively in the UN HACT Advisory Group and had established its own HACT working group. The office had drawn up HACT Assurance Plans for 2014 and 2015 that included plans for micro-assessments, spot checks, programmatic visits and audits. The plan was regularly reviewed by the office's HACT group and presented to the CMT. Management indicators related to HACT implementation were included as management key performance indicators of the office.

However, implementation of the 2014 and 2015 Assurance Plan was low (see p17 below). In addition, the planned amount of cash transfer for 2015 had not been reviewed to see if it was still accurate. This review is important as the figures are used for determining the need for micro-assessments and other assurance activities.

Macro-assessment: The macro-assessment of the Public Financial Management (PFM) system and country economic context is supposed to be done once per programme cycle, preferably during the country programme preparation phase. The macro-assessment is used as input to the UNDAF.[13] It is also used to decide whether to rely on a country's Supreme Audit Institution (SAI)[14] for audit of government partners. The macro-assessment can be based on existing surveys or documentation.

The latest macro-assessment had been in 2008. In 2014, the office engaged a local audit company to do the macro assessment, but it did not deliver, and eventually opted to have its contract cancelled. In 2015, the office engaged a firm under an LTA (long-term agreement) for HACT Services to do the desk review based on some documentation collected by the office (the macro-assessment can be based on existing surveys or documentation). However, this documentation was found to be inadequate. At the time of audit in November 2015, the office was coordinating with the other UN agencies in the country regarding completion of the macro-assessment.

Training of partners and staff on HACT: The office trained staff and partners involved in the management of cash transfers. However, visits to implementing partners in Papua (three

[13] The United Nations Development Assistance Framework (UNDAF) is a broad agreement between the UN as a whole and a national Government, setting out the latter's chosen development path, and how the UN will assist.
[14] The Supreme Audit Institution in a country is typically the Comptroller General, Auditor General or National Audit Office. In this case it is the Audit Board of the Republic of Indonesia.

NGOs and one Government partner) showed that even though they had received training, they had not yet fully grasped the principles of HACT. None referred to a risk-based approach to transfer of cash to partners, or to frequency of assurance activities being based on the level of risk of the partner. Even though they received copy of their micro-assessment and spot-check reports, none of them knew their risk-level rating or its implications. In general, HACT approach was perceived by these partners as an additional burden and complexity in UNICEF administrative procedures.

Micro-assessment: A micro-assessment is a review of an individual implementing partners' financial and procurement management capacities. It is done by an external service provider once per programme cycle. Micro-assessments are done of partners expected to receive US$ 100,000 or more per year,[15] and are used to determine the partner's risk rating. This in turn will be used to decide what type of cash transfer is appropriate and what the level of assurance activities should be. A micro-assessment should also identify opportunities for capacity development.

As of 30 October 2015, the office's updated Assurance Plan showed that of planned 81 micro-assessment activities, 70 (86 percent) had been completed. However, the audit's verification showed that by the criteria above, only 31 partners required micro-assessment in 2015. Further, as of 30 November 2015, only 17 of these had been assessed; thus performance was only 55 percent. The discrepancy was mainly due to inclusion in the 2015 Plan of micro-assessments of partners where planned cash transfer for 2015 was less than US$ 100,000. Offices may, if they wish, apply a simplified financial check, rather than a full micro-assessment, in these cases. Also, review of sample micro-assessment reports showed non-compliance with the report format as required in the revised HACT Framework of February 2014.

Spot checks: A spot check is a review of financial records to obtain reasonable assurance that amounts reported by implementing partners on the FACE form[16] are accurate. Spot checks are performed in the office of the implementing partner where the financial records are kept. Spot checks are not audits, and the extent of expense testing is generally lower.

For 2015, the office planned to undertake 59 spot checks but as of 30 October 2015, only 19, or 32 percent, had been completed. Also, the spot-check format was one agreed by the UN in the country prior to the implementation of the revised UNICEF-specific HACT Framework in July 2015. The latter set out new procedures for the spot checks and for the reporting format. The audit also noted that the spot-check reports omitted details of the transactions reviewed.

OIAI visited five implementing partners in Jakarta. Two said they had not been briefed on the results of the spot check; in one case, the spot-check report had not been shared with the partner after more than six months. Two partners had not implemented the recommendations from the spot check.

In Papua, the audit verified the spot checks conducted by the office for the two NGOs visited. In addition to the review of internal controls, these spot checks had included review of the

[15] For partners receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure.

[16] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. See observation on the use of the FACE form on p22 below.

supporting documents of a sample of liquidations. However, the audit review of these samples showed that some aspects were overlooked. In particular, for both NGOs, the FACE forms were not correctly filled in (the certification box was not checked in any of the liquidations verified); and in one case, a refund was reported in the column reserved for the authorized amount. In another case related to an NGO that received more than US$ 650,000, the spot check did not flag that there was only one cheque signatory instead of the two signatories required to allow for adequate segregation of duties.

Programmatic visits: The programmatic visit is a component of programme monitoring and is also a component of HACT. It provides assurance that results reported by the partner are accurate. The objective of a programmatic visit is to obtain evidence on the status of implementation of the programme, and review progress, challenges and constraints, and ways to address them. Depending on the nature of the programme, programmatic visits may be trips to a field location (field monitoring), meetings with key stakeholders, and/or UNICEF staff's direct observation of completion of activities/outputs.

In the 2014 Assurance Plan, the office reported that 46 of the 91 planned programmatic visits (51 percent) were completed by year end. For 2015, 181 programme visits were planned, of which 118 (65 percent) had been reported as completed by 30 October 2015. However, a review of sample Programmatic Visit Reports showed a lack of record of work done to secure evidence on progress, challenges and constraints in implementation.

Scheduled audits: The scheduled audit is a systematic and independent examination of data, statements, records, operations and performance of an implementing partner carried out by an external service provider. For UNICEF, a scheduled audit is an internal control audit. A financial audit is conducted if the implementing partner is shared with another adopting agency and is rated high or significant risk. The period under audit is defined by the UNICEF office commissioning each audit, and is typically one year. One scheduled audit is required for all implementing partners that have received more than US$ 500,000 during the programme cycle. Offices may also undertake annual scheduled audits in place of spot checks on Significant and High risk partners receiving more than US$ 500,000 a year.

Of the office's 138 partners, 18 partners had received more than US$ 500,000 since the start of the programme cycle in 2011 up to the date of the audit (November 2015). The office records showed that 15 of these partners had been audited. However, 13 of the audits covered transactions of the implementing partner for the year ended 31 December 2011, when UNICEF cash transfers had (with one exception) not reached the US$ 500,000 threshold. In fact cash transfer to eight partners had reached less than US$ 100,000 (in four cases, less than US$ 50,000) at the time of the scheduled audit. The office said that the audits pertained to cash transfers in the previous programme cycle. However, audits should pertain to the current programme cycle.

Most of the audits were conducted by the government's Supreme Audit Institution and the office was not charged for the cost of the audit. The request for such an audit was sent by the office of the UN Resident Coordinator (UNRC) for all UN agencies. Each UN agency submitted their request for audit to the UNRC for consolidation. In sending the request for 2015, the UNRC shared the Audit Terms of Reference according to the revised HACT Framework for consideration in conducting the audit.

Follow-up on recommendations: The office had started to develop a formal process to track the implementation of recommendations from micro-assessment, spot checks and scheduled audits.

Agreed action 8 (medium priority): The country office agrees to:

i. Complete a macro-assessment of the Public Financial Management (PFM) system for audits of government partners. This will be done in coordination with the other UN agencies.
ii. Ensure that implementing partners, including the sub-national NGOs, are trained on Harmonized Approach to Cash Transfers (HACT) approach and procedures in accordance with HACT guidelines.
iii. Regularly review the HACT Assurance Plan, especially the planned cash transfer for the year, to have an accurate basis for determining the need for micro-assessments and other assurance activities.
iv. Ensure there is a process to monitor the full implementation of the HACT assurance plan.
v. Apply the required format for micro-assessments, spot checks and programmatic visits, consistent with the requirements of the revised HACT framework.
vi. Establish a quality assurance process over the completed spot checks and take corrective action as needed.
vii. Ensure that reports from the micro-assessments, spot checks, programmatic visits and scheduled audits are shared promptly with the partners concerned, and monitor, and follow-up on, implementation of agreed recommendations.

Responsible staff members: Representative, Deputy Representative, HACT Focal Point, Finance unit, Cluster Chiefs, Chief PME, and CFOs
Date by which action will be taken: November 2016

Integrated Monitoring and Evaluation Plan

UNICEF offices prepare an Integrated Monitoring and Evaluation Plan (IMEP) that includes studies, research and related activities as well as formal evaluations. Together with Government partners, the office had drawn up a five-year IMEP for the country programme cycle 2011-2015 and this was attached to the Country Programme Action Plan (CPAP)[17] signed with the government.

The office had put together annual IMEPs in 2011, 2012 and 2013 by collecting planned IMEP activities from the agreed workplans, but did not always refer to the five-year IMEP to ensure consistency. As part of the mid-term review (MTR) in 2013, the office had updated the five-year IMEP, recording the actual activities completed in 2011-2013 and indicating the planned activities for 2014 and 2015. However, the annual IMEPs for 2014 and 2015 were also not consistent with the revised five-year IMEP because, as in prior years, they had been drawn up without direct reference to it, by collecting planned IMEP activities from the workplans.

Only two of the four planned surveys and studies in the revised five-year IMEP were in the 2014 IMEP. Of the remaining two, one was postponed to 2015 and the other was dropped.

[17] The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

Both had originally been planned as inputs to the development of the new country programme. The activity that was postponed to 2015, “Children and urbanization study to inform new country programme development”, was still on-going at the time of audit in November 2015, after the new country programme had been defined. The audit also noted that this was a carry-over from 2013 IMEP.

Implementation of the planned activities in the 2014 IMEP was low. In 2014, only 14 out of 26 activities were completed. Of the surveys and studies, only three of 10 were completed, while of the three evaluations planned, only two were done.

For 2015, only one study and no evaluation was included in the revised five-year IMEP but in the 2015 annual IMEP, 15 surveys and studies and one evaluation was included. The completion rate of the 2015 IMEP by end of October 2015 was only 17 percent.

Agreed action 9 (medium priority): The office agrees to strengthen the management of the process of developing, implementing and monitoring of activities planned in the Integrated Monitoring and Evaluation Plan (IMEP), and taking the following steps:

i. Make direct reference to the five-year IMEP, and justify any adjustment from it in writing.
ii. Introduce an adequate vetting process to ensure that what is planned can be realistically achieved with the available resources.
iii. Establish a system for monitoring the implementation of the planned activities to ensure that they take place, and are completed as planned to serve the intended purpose. This will include clear division of labour among units/clusters for managing and tracking the IMEP activities.
iv. Systematically vet and supervise IMEP activities to ensure they are on track in achieving the desired high-quality output.

Responsible staff members: Chief PME
Date by which action will be taken: March 2016

Programme management: Conclusion

Based on the audit work performed, OIAI concluded 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 and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

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

All the above areas were covered in this audit.

The audit found that controls were functioning well over a number of areas. The office had improved its financial management by reducing the number of bank accounts and establishing an e-banking system with automatic transfer of data to the bank. Monthly bank reconciliations were completed on time for each active bank account. End-of-month balances in the bank statements were reported accurately, and reconciling items were systematically cleared the following month, leading to very few outstanding reconciling items. The closure of accounts were done in good time as per UNICEF guidelines, and any pending transactions were followed up promptly.

However, the audit noted the following.

Bank charges

The audit reviewed the trial balances for the period covered by the audit and noted that bank charges had increased from about US$ 1,200 in 2014 to about US$ 72,000 in 2015 (as of the end of September) – an apparent increase of 5,884 percent.

The office explained that this was due to the fact that up to 2014, Private Sector Fundraising Sector Fundraising (PSFR) income was recorded by the partner banks on net basis, without detailing charges already deducted for services performed – for example, taking funds from credit-card accounts of individuals who had pledged a monthly amount to UNICEF. In 2015, the recording was done on a gross basis in order to comply with Private Fundraising and Partnership (PFP) guidance. The charges were therefore detailed as deductions from the gross income, and it had become apparent just how much the office was paying in bank charges. In 2015, the bank charges on PSFR revenues amounted to an average of US$ 8,500 per month.

According to the office, the rates charged by the four banks that process the office's PSFR transactions varied between 0 and 2.93 percent of the gross revenue. PFP guidance encourages country offices to negotiate the lowest bank fees possible, or even free banking services. There had been some negotiation to reduce bank charges, but this had not been sufficient to get the lowest rates, and had not been pursued with all the banks handling PSFR income. The office had also not conducted a structured analysis of bank charges.

Agreed action 10 (medium priority): The office agrees to conduct a structured analysis of bank charges and carry out systematic negotiation to lower banking service fees, so as to maximize the funds collected through Private Sector Fundraising.

Responsible staff members: Finance Officer
Date by which action will be taken: June 2016

General Ledger coding

Most of the General Ledger (GL) codes used in the sample of transactions reviewed by the audit were not correct. All consultant contracts were recorded as management consultancy fees (GL 7040310), even though they were related to regular programme activities. Direct cash transfers (DCTs) transferred to NGOs for the implementation of workplan activities were wrongly coded as training for NGO partners. For institutional contracts, cases were found where improvements to leased premises were coded as programme-related construction, and a study was coded as an evaluation.

The office stated that UNICEF chart of accounts had been shared with staff, but those interviewed by the audit were not aware of the GL codes for the transactions they usually processed. Errors in GL coding lead to inaccurate financial reporting.

Agreed action 11 (medium priority): The office agrees to train staff involved in inputting General Ledger codes on transactions, and establish a monitoring system to ensure that transactions are correctly coded.

Responsible staff members: Finance Officer and Finance Assistant
Date by which action will be taken: June 2016

Use of FACE forms

Funding Authorization and Certificate of Expenditure (FACE) forms[18] are used to request new cash transfers, or report on the utilization of cash transfers received, or for both.

Depending on how the FACE form is used, the responsible implementing partner is supposed to check a defined box to either certify that (a) funds requested represent estimated expenditure as per the agreed workplans (in the case of requests for cash transfers); or (b) that the actual expenditure has been disbursed in accordance with the workplans and authorized budget and that supporting documents are available and can be made available for verification within five years from release of the cash transfers (in the case of liquidation

[18] The 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.

of a previous advance). When the FACE form is used for both request and liquidation of cash transfers, both boxes should be checked.

The audit review noted that in the majority of the FACE form samples reviewed, the implementing partners did not check the right box, but the responsible programme staff approved the forms anyway. This practice weakened the commitment of the implementing partner and the whole process, as under HACT, the FACE form is the main supporting document for cash disbursements and liquidation.

The review of a sample of FACE forms showed other gaps. Certain parts of the FACE form that should be completed by the office, such as the authorized amount, the expenditure accepted by the office and the outstanding balances, were, in many cases, completed by the partner instead. The office said that the contents of these parts of the FACE form had been agreed by email. However, the way in which the FACE form is completed should reflect the review process as conducted. Each part of the FACE form should therefore be completed by the party responsible for that area of the form.

In one case, the reported expenditures for certain budget lines exceeded the amount that had been authorized. The office prepared a note for the record (NFR) explaining the reason of the over-expenditure, which was approved by the management on an exceptional basis. However, the NFR did not record as required the impact on programme implementation considering that the increase in the cost of certain activities was more than 80 percent.

The period of reporting (period covered by the liquidation) was, in general, either not indicated, or was not the same as in the authorized request (Example: Dec 2015 instead of Jan-Mar 2015).

Finally, as a standard procedure of the office, the expenditure reported by the partner included also the refunds, and hence did not reflect the actual expenditures. For example, the authorized amount was US$ 100 or equivalent and actual expenditure was US$ 80, and US$ 20 was unspent and therefore refunded – but the total amount that would be reported as expenditure by the partner on the FACE form would be US$ 100 and the FACE would be approved by the programme officer without making any correction.

Agreed action 12 (medium priority): The office agrees to review its procedures and train staff and partners to ensure that Funding Authorization and Certificate of Expenditure forms, which serve as the basis for the disbursement and liquidation of cash transfers, are correctly filled and certified.

Responsible staff members: Section Chiefs, Chief of Field Offices, all staff
Date by which action will be taken: June 2016

Consultancy contract management

The audit reviewed the office’s management of consultants, individual and institutional contracts and noted areas for improvement.

Consultants and individual contracts

In 2014 and 2015 (as of October), the office had approximately 162 consultants and individual contractors worth about US$ 2.5 million. The audit selected a sample of nine consultants and individual contracts and noted the following weaknesses.

Performance of staff functions: Seven of the nine contracts reviewed were related to staff functions. According to UNICEF guidance, consultants may not perform regular and continuing staff functions. Where an individual contractor is temporarily engaged to perform duties and functions similar to those of a staff member, there should be a clear strategy for a long-term regular staff solution; there appeared to be no such strategy in these cases.

The audit noted that the recruitment of these contractors was based on the needs expressed by chiefs of sections, that the consultancy plan did not distinguish individual contractors who perform tasks similar to those of staff, and there was no overall system to analyze and rationalize the staffing support needs.

Contract duration: In five of the nine cases, the work was not completed, and the final deliverables submitted, within the duration of the contract. However, the contracts were not amended accordingly. The office stated that its practice was that if the deliverables were delayed but without change in cost, then the contract was not extended. However, the audit noted in the case of a contract extension that involved additional cost, the deliverables and the instalments were not updated to reflect this, so that it was not clear what the extra cost was for here.

Consecutive contracts: In one case, a consultant was issued two contracts for two consecutive periods, so as to secure their availability for the whole assignment without exceeding the 11.5 months maximum allowed duration of a contract. Moreover, the cumulative value of the two contracts exceeded the US$ 50,000 threshold above which a single contract would have been submitted to the Contract Review Committee (CRC). Where this happens, and the two contracts are within the same year, the second contract should be submitted to the CRC; this had not been done.

The first contract was not completed on time, and the second contract was delayed by more than four months without adjusting the start date. As the two contracts were signed at the same time, the office had committed itself to the second contract without the possibility to reverse its decision based on the evaluation of the first contract.

Payment schedules: In six cases reviewed, the payments were not made according to the contract schedule. For one contract, the second and third instalments were combined into one, as were the fourth and fifth instalments – and the last payment was made more than six months after the date indicated in the contract. According to the office, the causes included poor performance of some consultants, which meant more time was required to review and improve the deliverables. In some cases delay was due to non-availability of partners involved in the consultancy.

For contracts of more than six months, the mandatory intermediary evaluation was not always done, and when it was, it was not always on time. Some were completed after a three-month delay. Also, the results of final evaluations of completed contracts were not recorded in the office's roster in order to update the profile of the relevant consultants and serve for future reference.

Institutional contracts

In 2014, and 2015 up to October, the office was engaged in 146 institutional contracts, for a total amount of US$ 5.65 million. The audit reviewed a sample of seven institutional contracts.

In four contracts the dates of payment of the instalments were not indicated. Instead, the payments were linked to a percentage of progress of work without target dates. This creates a risk that the office could lose control over the duration of the contracts. The audit also noted that the results of the evaluations of completed institutional contracts were not used to update the profile of the vendors.

The audit noted a case in which significant changes had been made to the conditions of a contract, which was then not resubmitted to the CRC for review. The CRC had recommended award of the contract for an amount of up to the equivalent of about US$ 540,000, which was within the budget committed by the authorizing officer. This recommendation was approved by the Representative. However, due to lack of funds, a partial contract was issued for about US$ 190,000 only, with a provision for amendment as and when additional funding was made available. Despite this change the case was not referred back to the CRC for review and approval by the Representative. The office also did not document mitigation measures in case the total funding of the contract was not made available.

In another case, the terms of reference were significantly changed and the work was completed six months after the original expiry date, but the contract and revised ToR were not resubmitted to the CRC. This would have allowed the CRC to determine whether the additional work was of the same nature as that originally specified, and therefore whether it needed to be charged at the original rate.

Monitoring of contracts

The office generated monitoring reports from the system on a monthly basis to identify the expiring contracts and liaise with relevant programmes to close them in the system. However, this monitoring did not seem to be effective. The audit review showed that 30 institutional contracts and five individual contracts had expired but were still open and carrying total balances of US$ 266,739 and US$ 200,000 respectively. The final deliverables for five contracts were not yet submitted, but the contracts had not been extended to reflect this.

The office had no benchmarks against which it could measure progress and assess whether the implementation of contracts was on track or not. For example, the rate of implementation of the procurement of services was at only 31 percent as at October 2015 but management had not followed up on the cause of this.

Finally, the audit noted that data and information on institutional contracts recorded in VISION was incorrect. For example all completed evaluations were marked in the system as missing, but the audit found that some had in fact been done but were not recorded as such in VISION. In another example, the office selected contractors on the basis of competitive selection process carried out by other offices (other UN agency, or another UNICEF country office), but these cases were recorded as single-source selections and the CRC references were not systematically reported.

Agreed action 13 (high priority). The office agrees to strengthen its controls over the management of contracts by taking the following steps:

i. Establish a process to rationalize the use of consultants/contractors and define a clear strategy for a long-term regular staffing solution.
ii. Define the target dates for the deliverables for all institutional contracts.
iii. Amend contracts to document any changes in the timing of submission of agreed deliverables and any significant changes in the payment schedule.

iv. Grant a contractor only one contract at a time and issue any subsequent contract to that contractor only once the previous contract has been completed and evaluated.
v. Where contracts awarded to a contractor have a cumulative value that exceeds the established threshold (US$ 50,000 at the time of audit) within a calendar year, submit them to the Contract Review Committee (CRC).
vi. Submit to the CRC any proposal to modify substantive terms and conditions of contracts previously reviewed by it.
vii. Where contracts are not completed within the contract period, amend them to reflect the new milestones and target dates of completion.
viii. Complete all contractor evaluations, both intermediate and final, in a timely manner and record the results of final evaluations of completed contracts in the office's roster, in order to update the profile of the relevant consultants and serve for future reference.

Responsible staff members: Responsible programme cluster, Section Chiefs, Human Resource Unit (HR), and Supply Unit
Date by which action will be taken: June 2016

Agreed action 14 (medium priority): The office agrees to strengthen its monitoring of contracts by taking the following steps:

i. Periodically review and systematically follow up on the status of contracts to ensure that open contracts are closed if the work has been completed, or an extension proceeded with if needs be.
ii. Establish benchmarks to measure progress and assess whether implementation of contracts is on track or not.
iii. Periodically review the information on contracts in VISION to ensure that it is complete and accurate.

Responsible staff members: HR Unit, Cluster Chiefs
Date by which action will be taken: May 2016

Management of travel

The country office spent US$ 2.4 million on travel from January 2014 to October 2015. About 83 percent (US$ 2 million) of this amount was for staff travel on official business, 13 percent (US$ 313,000) for consultants and 4 percent (US$ 104,000) for non-staff and non-consultant travel. Travel plans were drawn up monthly for programme and operations sections, usually during the last week of the previous month. The travel plans were used to manage staff travel effectively, and audit verification of a sample of duty trips found that they were all as planned.

UNICEF guidance is that travel authorizations (TAs) should be certified by the traveller within 15 days after completion of the trip in order to close the TA. No new TAs should be issued to that individual if the previous TA has been open for more than 15 days. However, as of 22 October 2015, 117 TAs had been open for more than 15 days after completion of travel, of which 37 had been open between 31 and 60 days and a further 35 for more than 60 days. Out of these 117 open TAs, 57 related to 24 staff members who were being issued new TAs even though they had not certified their previous trip within 15 days. The issue had been discussed in a number of CMT meetings, but the guidance to not authorize any new TA for a staff member who had not certified previous travel was not strictly enforced.

This situation was due to a combination of factors. First, the Indonesia office linked certification of the TA to the preparation and approval of the trip report, which could take time. Second, if there had been changes to the initial itinerary or in respect of other entitlements or miscellaneous expenditures, the traveller was supposed to inform the travel unit. The travel unit in turn requested the budget owner to authorize the change/s in order to finalize the certification. In practice, the travel unit was not always informed of the change/s or was informed after a delay.

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

i. Remove the requirement that travels can be certified only upon preparation and approval of the trip report, while ensuring that controls are in place to ensure that trip reports are prepared, and are reviewed promptly by the respective supervisors.
ii. Review its current process to ensure that changes to the originally authorized travel are reviewed and approved promptly.
iii. Ensure that the organizational guidance on travel certification is enforced and that exceptions are authorized by the Representative.

Responsible staff members: Chief of Operations
Date by which action will be taken: November 2015

Business Continuity Plan

The latest update to the office's Business Continuity Plan (BCP) had been in April 2015, to reflect changes in the office staffing. However, during the period covered by the audit (2014-2015), the office had not conducted a simulation exercise of the BCP with the use of essential staff and alternate site, because of competing priorities (management transition, premises renovation and preparation of a new country programme).

The audit visited the Jayapura zone office and noted that it did not prepare a BCP of its own or a simplified version of the country office's. The zone office indicated that as a preparatory measure in case of a crisis, it had received an "Office in a box"[19] in November 2010. However, the zone office had not opened this box, was not aware of its contents and had not tested it.

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

i. Conduct regular full simulation exercises of the Business Continuity Plan and use the results to improve the plan.
ii. Ensure that zone offices have their own simplified version of the Business Continuity Plan, that they are briefed on the content of the "Office in a box", and that the equipment in this box is tested and updated as required.

Responsible staff members: CMT, Chief of Operations, and CFOs
Date by which action will be taken: June 2016

[19] An "Office in a box" is a rapidly deployable emergency office that contains basic equipment and facilities quickly required by emergency staff located in remote areas during a natural disaster response.

Information and communication technology (ICT)
The East Asia and the Pacific (EAP) Regional Chief of Information and Communication Technology (RCICT) visited the office from 3-7 August 2015 and conducted a peer review of the status of the office's ICT infrastructure, the IT Disaster Recovery Plan and the Business Continuity Plan (BCP).

The RCICT identified a number of gaps and recommended in particular that the office improved its controls over the DonorPerfect servers, strengthened its backup procedure (documentation, offsite storage and restoration), upgraded some key IT equipment in line with the organizational guidelines (such as LAN switches), and updated, and conducted regular simulation exercises on its BCP (see previous observation). The office established an action plan to address these recommendations and the IT officer was monitoring its implementation.

However, the audit noted that, on request of their supervisor, consultants could access the office's ICT system or part of it following the same provisioning procedure for regular staff. They were not required to sign a non-disclosure agreement before being granted access to UNICEF core systems, as stipulated by UNICEF guidance. The office was not aware of this guidance, and at the time of the audit, 14 consultants had access to the office ICT system.

The audit also noted that the expiry date of access of staff recorded in the active directory was always one day beyond the expiry date of their contract. The office said this was to allow staff to complete the separation procedure. This is not in line with UNICEF guidance, which states that access to ICT systems should not be permitted beyond the contract expiry date.

Finally, the office had no procedure for the testing of data backup. The office said that it relied on *ad hoc* requests received from staff to recover lost files. This did not provide assurance that all the backup hard drives were working properly. The audit noted also that the uninteruptible power supplies (UPSs) used as back up were not tested either.

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

i. Require consultants to sign the non-disclosure agreement before they are granted access to UNICEF core systems.
ii. Grant access to current staff and consultants only up to the expiry date of their contracts.
iii. Establish a process to ensure that all backup hard drives are tested on a regular basis.

Responsible staff member: Chief of Operations, Chief of HR, and ICT Unit
Date by which action will be taken: June 2016

Operations support: Conclusion
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over operations management, 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, and 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.