

Internal Audit of the Management of Other Resources

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Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Management of Other Resources (OR) covering the period 1 January 2014 to 12 July 2015. The audit sought to assess the governance, risk management, and control processes over the management of OR.

OR funding has grown by almost 200 percent in the last 10 years, from just under US\$ 2 billion in 2005 to US\$ 3.9 billion in 2014. In 2014, OR was 74 percent of UNICEF's total revenue of just under US\$ 5.2 billion. Responsibility for managing OR is shared among all UNICEF offices at country, regional and headquarters level.

This audit looked into the OR management responsibilities of regional offices, the Division of Financial and Administrative Management (DFAM), Public Partnership Division (PPD), Private Fundraising and Partnership Division (PFP), Programme Division (PD) and the Office of Emergency Programmes (EMOPS) and how these responsibilities are discharged. The key responsibilities of each in the management of OR are described in the Background section.

The audit focused on the OR management processes related to signing of contribution agreements, accounting for OR, allotment/allocation, use of OR, reporting on the use of OR and achievement of results, monitoring OR performance, and closing expired OR grants and the related budget allotments. The audit was concerned with the management of OR funds rather than fundraising, and did not cover development of partnership relationships or the actual mobilization of resources.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the UNICEF divisions responsible for OR management have decided to take a number of measures. Four of these are being implemented as a high priority – that is to say, concerning issues that require immediate management attention. They relate to the following issues.

For action by the Division of Financial and Administrative Management (DFAM)

- There was inadequate identification, assessment and management of risks related to the management of OR, and delay in implementing its role as risk owner and main office responsible for the overall coordination of Enterprise Risk Management in UNICEF.
- As of 31 July 2015, there were US\$98 million of open receivables that pertained to expired grants. While DFAM subsequently confirmed that all but US\$ 2.4 million of the amount outstanding has been collected, the review and follow up of open receivables for expired grants should be prioritized.

For action by PD and the Office of Emergency Programmes (EMOPS)

- There were major delays in the submission of donor reports, and the accuracy of the status of submission of donor reports was not ensured.

For action by the Public Partnerships Division (PPD) and Private Fundraising and Partnerships (PFP)

- There was inadequate monitoring and follow-up with the offices concerned regarding preparation of donor reports within the agreed period to enable their submission to donors on time.

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 management of other resources, as defined above, were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report.

DFAM, EMOPS, PFP, PD, PPD, Executive Office, and FRG have prepared action plans to address the issues raised. OIAI will monitor implementation of these measures.

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Objectives and scope

The objective of the Audit of the Management of Other Resources (OR) was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of OR.

The specific objectives of the audit were to determine whether the following were established and functioning:

- i. Governance and supervisory structures over the management of OR funds.
- ii. Appropriate and adequate assignment and understanding of responsibilities for the management of OR funds.
- iii. An appropriate process for the assessment and management of risks associated with the management of OR.
- iv. An established performance measurement process, including standards and indicators to which management and staff are held accountable.
- v. An adequate quality control processes over the management of OR funds and reporting on their use to UNICEF management, donors and other stakeholders.

The audit testing covered the period 1 January 2014 to 12 July 2015. It focused on the OR management processes related to signing of contribution agreements, accounting for OR, allotment/allocation, use of OR, reporting on the use of OR and achievement of results, monitoring OR performance, and closing expired OR grants and the related budget allotments. For each section of this report, there is a brief explanation of the audit coverage, which between them define the scope for the audit.

The audit was concerned with the management of OR funds rather than with fundraising, and did not cover development of partnership relationships or the actual mobilization of resources.

Background

UNICEF has two basic types of resources, regular resources (RR) and 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 donor agreement. Country offices are expected to raise most of what they need to implement their programmes, as OR; in fact, UNICEF relies heavily on OR to implement its programme activities and fulfil its mandate.

OR are categorized as other resources – regular (ORR), for regular programme activities approved by the Executive Board; and other resources – emergency (ORE), raised for humanitarian action against valid humanitarian appeals. OR is further classified into thematic and non-thematic. Thematic OR funds are earmarked to directly support the achievement of key results aligned to the Strategic Plan focus areas or for humanitarian action. They are not necessarily country-specific.

OR has grown by almost 200 percent in the last 10 years, from just under US\$ 2 billion in 2005 to US\$ 3.9 billion in 2014. In 2014, OR was 74 percent of UNICEF's total revenue of just under

US\$ 5.2 billion. Responsibility for managing OR is shared among UNICEF offices at country, regional and headquarters level.

This audit looked into the respective OR management responsibilities of regional offices, the Division of Financial and Administrative Management (DFAM), Public Partnership Division (PPD), Private Fundraising and Partnership Division (PFP), Programme Division (PD) and the Office of Emergency Programmes (EMOPS). Their respective responsibilities in the management of OR are as follows:

- **Regional offices:** These provide regional guidance, oversight and support in the management of OR allocated to countries within their region, including quality assurance of donor reports. In 2014, total OR allotment available for country offices was US\$ 3.9 billion while around US\$ 0.1 billion was available for regional offices.
- **DFAM:** Responsible for receiving, recording and accounting for all OR contributions, including financial reporting to donors and to UNICEF management and the Executive Board. Total OR revenue in 2014 was US\$ 3.9 billion.
- **PPD:** Provides global guidance, oversight and support for the management of OR-related to the public sector (governments and inter-governmental organizations). Also responsible for signing donor agreements and transmittal of reports to public-sector donors where funding was negotiated at the global level. In 2014, OR revenue from the public sector was US\$ 2.7 billion.
- **PFP:** Provides global guidance, oversight and support in the management of OR related to the private sector. Also responsible for signing donor agreements, and transmittal of reports, with/to private-sector donors negotiated at the global level. OR revenue from the private sector was just under US\$ 0.9 billion.
- **PD:** Responsible for the overall coordination of the management of OR Global Thematic Funds (Non-humanitarian) and Multi-Country Non-Thematic Funds, of which US\$ 212.2 million and US\$ 336.6 million were allocated in 2014, respectively.
- **EMOPS:** Responsible for the overall coordination of the management of the OR Global Thematic Funds (Humanitarian) and global guidance, oversight and support in the OR management for humanitarian activities which amounted to just under US\$ 1.6 billion.

This report is organized into three broad areas: *Governance of OR management; Control processes for managing OR; Reporting, monitoring and closure of OR grants*. The scope of each area is explained at the head of each section.

Audit Observations

1 Governance of Other Resources management

In this area, the audit established whether:

- Policies, procedures and instructions for the management of OR were clearly defined and implemented.
- Risks related to the management of OR were systematically identified and adequately managed.
- An oversight body had been established to ensure cross-divisional coordination, and delivery of the key factors needed for effective management of OR and implementation of cross-cutting actions.
- Roles and responsibilities for the management of OR are appropriate and these responsibilities are understood.

The audit found that controls were functioning well over a number of areas. UNICEF had a clearly defined Global Resource Mobilization Strategy for 2014-2017. This provided direction for mobilization of resources to support the achievement of the UNICEF Strategic Plan 2014-2017 goals and outcomes in health, HIV/AIDS, water and sanitation, nutrition, education, child protection, social inclusion, and the two cross-cutting areas of humanitarian action and gender equality.

There was a steering committee to oversee the implementation of the Strategy and to ensure cross-divisional coordination and cross-cutting actions. The committee was chaired by a Deputy Executive Director with multi-divisional membership, including the Director or Deputy Director of the Office of Emergency Programmes (EMOPS); Division of Communication (DoC); Data, Research and Policy Division (DRP); Public Partnership Division (PPD); Private Fundraising and Partnership Division (PFP); and Programme Division (PD). The Committee had clear terms of reference and its meetings had clear agendas and records of decisions.

Under the new Global Resource Mobilization Strategy, responsibility for actual mobilization of resources had been delegated to country offices, regional offices and HQ divisions, with PPD and PFP providing overall guidance and support. The matrix for the division of labour among these offices was being developed at the time of this audit.

However, the audit also noted the following issues.

Policies, procedures and instructions for OR management

The Global Resource Mobilization Strategy for 2014-2017 states that a core element of resource mobilization is management of the resources raised, as donors will be influenced by transparency and accountability in the use of resources, results-based management and budgeting, 'value for money', and UN coherence. These issues will directly or indirectly affect future fundraising. It is therefore important that policies, procedures and guidelines related to the management of OR are comprehensive, up-to-date and risk-informed.

In January 2012, the Division of Financial and Administrative Management (DFAM) issued policies covering almost all aspects of OR management in UNICEF Financial and Administrative

Policy 3, *Revenue Management*, and in UNICEF Financial and Administrative Policy 2, *Budget Management*. However, these policies have not been updated to reflect changes in processes and responsibilities that have occurred since 2012.

For example, Policy 3 identified the Deputy Director, Finance Section, DFAM as responsible for managing risks related to income recognition from contributions and collection of receivables. However, this post had been merged with that of Deputy Director, Budget, and oversight over income recognition from contributions and collection of receivables had been reassigned to the Deputy Director, Accounts Section. Policy 3 also specified that OR contributions should be accepted subject to a 2006 Executive Board decision on the UNICEF Recovery Policy, but this has now been superseded by a 2013 decision increasing the base recovery rate from 7 to 8 percent.¹

Accountability for fundraising was described by Policy 3 as an accountability of PARMO² (now PPD) and PFP, but this became outdated with the issue of the new Resource Mobilization Strategy in the latter part of 2014. Policy 3 also did not touch upon the authority against which OR contributions can be received and did not assign the accountability for monitoring this.

When interviewed, DFAM considered the non-updating of the policy as low-risk. However, out-of-date or incomplete policies, procedures and guidelines can weaken accountability and transparency in managing OR. They could also lead to misunderstandings and to inappropriate recording of OR-related transactions.

DFAM stated that Policy 3 was reviewed in 2014, but the revised version had not been issued at the time of this audit in August 2015. DFAM said that heavy workload and competing priorities were the main reasons for the delay.

Agreed action 1 (medium priority): The Division of Financial and Administrative Management agrees to prioritize the review and distribution of policies, procedures and instructions for the management of Other Resources (OR), and their update to reflect current assigned responsibilities, accountabilities and revised Executive Board Decisions on recoveries.

Responsible staff: Senior Adviser, Office of the Comptroller

Date by which action will be completed: December 2016

Risk management

Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a structured and systematic assessment of risks to their objectives and planned results, and incorporate action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library. Risks have been grouped into 12 areas and the "owner" of each risk area has been identified at the global level.

Almost all these risk areas can be linked to the management of OR, but those that are directly related are: *Funding and external stakeholder relations; Results-based management and reporting; Budget and cash management; and Fraud and misuse of resources.*

¹ Cost recovery is an element of any grant that is allocated to UNICEF's ongoing overheads.

² Public Alliances and Resource Mobilisation Office.

The audit reviewed UNICEF's 2015 global risk profile, and the risk profiles and detailed analyses posted in inSight³ by PPD, PFP, PD, EMOPS and DFAM, to assess the adequacy of procedures for identification and management of the risks related to the management of OR. The audit noted the following.

PPD, PFP and EMOPS: Overall, the OR management-related risk analyses by PPD, PFP and EMOPS were found to be adequate. The risks identified were relevant, the sections headed "What the office is doing now to mitigate the risk" were clear and the "Action plan to further manage the residual risk" ⁴ responded to the risks identified.

An area for improvement in the action plans of PFP and EMOPS was the identification of who was responsible for a given mitigating action and the expected date of its completion. The audit noted that failure to identify these in the action plan for managing the risks weakened accountability for the implementation of the plans.

PD: PD also did not identify the staff responsible for taking an action or the expected date of its completion in its action plan.

In addition, PD's risk profile did not appear to be complete. For example, the division relied heavily on OR for its operation, with more than 60 percent of its posts (170) funded from this source – and 34 approved posts were vacant and unfunded at the time of the audit. Despite this, PD did not identify this reliance on OR as a risk to the achievement of its objectives.

The audit also noted that parts of PD were responsible for the overall management of the global thematic and multi-country non-thematic funds. The allocations amounted to US\$ 451 million, and unallocated funds to US\$ 404.3 million, as of 29 July 2015. However, except for the portion directly allocated to the division, it had very little control over the use of the funds as they were largely allocated and spent at the regional/country office level. There were therefore surely risks associated with management of funds over the office had no control, but they were not identified. Moreover the multi-country non-thematic funds required numerous donor reports. PD relied on those offices that received allocations from the grants for inputs to these reports. Delays to, and poor quality of, donor reports were risks that could affect PD's donor relations and future fundraising, but this was not included in PD's risk assessment.

DFAM: For 2015, DFAM identified only five risks to the achievement of its objectives and none of the residual risks were rated as significant.⁵ None of the risks mentioned OR or indicated there were any residual risks in its management.

Although dated 2015, the reported risk assessment was not up-to-date. For example, for the risk related to Governance and accountability, DFAM gave its current risk mitigation measure

³ inSight is the performance component in UNICEF's management system, VISION (Virtual Integrated System of Information). inSight streamlines programme and operations performance management, increases UNICEF staff access to priority performance information, and assists exchanges between country offices, regional offices and HQ divisions, as everyone sees the same data/information.

⁴ Residual risks are the remaining risks after considering the action currently being taken by the office. Residual risks are rated as *Extreme*, *Very High*, *High*, *Medium*, *Low*, or *Very Low* taking into consideration the likelihood of the risk occurring and the impact of the risk if it does occur.

⁵ *Extreme*, *Very High*, *High* risks are considered significant risks for purposes of ERM implementation in UNICEF.

as: “Proactive participation in new and emerging initiatives such as E&E”; however, this project (Effectiveness and Efficiency) had been completed in 2013. There were other significant risks within the purview of DFAM that had not been considered in its ERM report. DFAM indicated that it did not have a systematic process for documenting risks and the steps taken to mitigate them. Some of the OR-related risks involving DFAM are covered in this audit report.

Global: The risk of “Funding and external stakeholder relations” is directly linked to OR management. A total of 70 “High”, “Very High” and “Extreme” residual risks were identified by 50 offices in this area in 2015. Instruction 1 on “Risk Assessment and Reporting, 2015”, issued on 16 December 2014, defined the roles and responsibilities of the risk owner; among others, they include the following:

- Conduct annual review of the risks in their respective risk category/area, taking into consideration the risks raised by offices (including country and Regional and HQ), and identify significant UNICEF-wide risks (extreme, very high and high) for global action, together with the related action plan to better manage them.
- Consider the extreme, very high and high risks in its work planning and when designing internal control and risk management mechanisms, including developing or updating policies, procedures and guidance.
- Act on requests for support in managing significant risks and risks that have been escalated by country and/or regional offices and other HQ divisions.
- Monitor progress in lowering the level of extreme, very high and high risks and provide advice/guidance as appropriate.
- Participate in periodic quality assurance processes related to risk areas linked to their defined accountabilities.

These actions had not been taken by the risk owners of areas related to OR management. Moreover, the procedure for managing the risk-escalation process had not been clearly defined.

Agreed action 2 (high priority): The Division of Financial and Administrative Management agrees to strengthen management of risks related to Other Resources (OR) through the following steps:

- i. Review and update its risk profile and analysis related to the management of OR on the Enterprise Risk Management (ERM) site.
- ii. Ensure that its action plans clearly identify the “staff who will be responsible for taking the action” and the “expected date of completion of the action” for managing significant risks.
- iii. Provide guidance to risk owners to address common risks related to the management of OR that require a UNICEF-wide response.

Responsible staff: Senior Adviser, Office of the Comptroller

Date by which action will be completed: December 2016

Agreed action 3 (medium priority): Programme Division agrees to:

- i. Review its risk profile and analysis posted on the ERM site and ensure that risk information posted is accurate, complete and up-to-date, especially that related to the management of Other Resources.
- ii. Ensure that “staff who will be responsible for taking the action” and the “expected date of completion of the action” for managing significant risks are clearly identified in its action plans.

Responsible staff: Programme Division Director, Deputy Director (Planning/Field Engagement) and all Chiefs of Sections

Date by which action will be completed: July 2016

Agreed action 4 (medium priority): The Private Fundraising and Partnership Division agrees to:

- i. Ensure that action plans clearly identify the “staff who will be responsible for taking the action” and the “expected date of completion of the action” for managing significant risks, in order to ensure efficient implementation of the plan related to Other Resources management.
- ii. Implement its roles and responsibilities as described in the instruction issued on 16 December 2014 as owner of the risk area “Funding and External Stakeholder Relations”.

Responsible staff (PFP): Chief, PFP Programme Services Unit

Date by which action will be completed: June 2016

Agreed action 5 (medium priority): The Office for Emergency Programmes should ensure that its action plans clearly identify the “staff who will be responsible for taking the action” and the “expected date of completion of the action” for managing significant risks related to Other Resources management.

Responsible staff: Manager, Director’s Office and Planning Specialist

Date by which action is reported to have been completed: February 2016

2 Control processes for Other Resources management

In this area, the audit assessed the adequacy and effectiveness of control processes over:

- Contracting/signing of donor agreements.
- Accounting for OR.
- Allotment and allocation of OR.

The audit found that some controls were functioning well. They included those over the contracting/signing of donor agreements. UNICEF signed Framework Agreements with major donors after extensive discussions and review of the provisions for managing the grant. There was also clear understanding as to the authority delegated to the Country Representative and/or Regional Director for signing donor agreements at the field level. DFAM was normally consulted on issues related to financial management of the OR contribution.

However, the audit noted the following.

Recognition of revenue and deferred revenue

UNICEF adopted International Public Sector Accounting Standards (IPSAS) in 2012. It adjusted its Financial Regulations and Rules to align them with IPSAS requirements. In presenting the revised UNICEF Financial Regulations and Rules (E/ICEF/2011/AB/L.8) to the Executive Board, UNICEF informed it that revenue under IPSAS represents an enforceable right to receive an asset, regardless of the actual transfer of that asset.

The following was observed in reviewing of the application of the revenue policy.

Recording of OR Contributions/Grants: According to Rule 104.1 of the UNICEF Financial Regulations and Rules, *“supplementary financial resources are to be accepted on the basis of an agreement with the donor, or some other appropriate document, specifying the purpose and terms of the Contribution and shall be referred to as Other Resources.”* This is elaborated upon in para 38 of the UNICEF Financial and Administrative Policy 3, which specifies that *“The ‘acknowledgement/agreement’ must be more than simply announcing an intention (pledge) to transfer resources. There must be an enforceable agreement supporting the intention. This may be achieved through exchange of official letters (e.g. UNICEF requesting and the donor to confirm the amount to be transferred).”*

DFAM’s 2013 IPSAS policy position paper also indicates that *“Any contracts that require legislative approval by the donor government’s law making body are considered to be conditional agreements and not fully enforceable until the approval has been granted. Therefore, no asset is recognized on such contracts. These are disclosed as contingent asset instead.”*

Verification of a sample of grants showed that the basis used in recording the grants from a major donor were Grant Arrangements signed between the donor government and UNICEF. However, the Grant Arrangement specifically indicated that *“This Arrangement is not an international treaty and does not create any obligation under public international law. It is an administrative arrangement....”* Moreover, the contribution was subject to approval by the parliament of the donor government. This suggests that the sum should not have been recorded as an asset as defined by IPSAS, or as set out in the Financial and Administrative

Policy. At the time of audit on 21 July 2015, the total open contribution receivable from this donor as recorded in VISION (UNICEF books of accounts) was US\$ 74.5 million.

DFAM informed the audit team that a reversing entry is made at year-end prior to preparation of the financial statements to then offset the receivables recorded, but this is subsequently reversed in the following year to reinstate the receivables. DFAM also stated that grants requiring parliamentary approval by the law-making body of the donor government were recorded in the books of account in order to enable monitoring of the receivables, but they were tagged to assist identification.

Agreements with conditions: According to para 8 of Supplement 1 of the UNICEF Financial and Administrative Policy 3: *“An agreement is deemed to have a condition when the terms of the agreement prescribe how the funds are to be used and at the same time, explicitly require that the funds be returned in case these have not been used accordingly. Contributions Unit, Finance/DFAM records a liability (deferred revenue) when the receivable for the agreement with condition is recognized in the books. As UNICEF meets the terms prescribed by the donor, the condition is deemed met and the liability is released. Thus, revenue is recognized in the amount proportionate to the total expenditure to date (including recovery costs).”* This provision was based on the requirement of IPSAS 23 that if contributions have conditions where the donor not only restricts the use of resources, but also requires the return of resources if not used as specified, then revenue recognition needs to be deferred until the conditions have been satisfied.

In the 2013 audit of the 2012 UNICEF Financial Statements, the UN Board of Auditors noted inconsistencies in application of IPSAS 23 and recommended that DFAM improve its review process so as to detect them early, thus improving the quality of its financial information. DFAM adjusted its 2012 Financial Statements, recognizing contributions receivable and deferred revenue of US\$ 513.3 million. Additional review was undertaken in 2013 for the 2013 financial statements. DFAM had subsequently updated its IPSAS Policy Position paper on recognition of non-exchange revenue but had not updated the existing UNICEF Financial and Administrative Policy on Revenue Management.

In July 2014 DFAM had automated the recognition of receivables and deferred revenue, linking the payment schedule in the agreement to recognition of revenue; payments that were to be deferred were recorded and then moved automatically to revenue the date they became due, whether or not the conditions for payment had been met. This risked the overstatement of current revenue and understatement of deferred revenue.

In August 2016, DFAM issued a Policy 3 on revenue management that addressed the risks noted in this area. Therefore the audit has not issued a related recommendation.

Contributions receivables

Supplement 3 of Policy 3 provides procedures for following up on outstanding receivables and write-off of those that cannot be collected. The open contributions receivables pertaining to OR as at 21 July 2015 amounted to US\$ 2.3 billion.

Receivables pertaining to expired grants: Verification showed that US\$ 98 million of the open receivables pertained to expired grants. Of the open receivables, US\$ 90 million were in nine grants with seven donors that DFAM informed audit are billed after the expiry of the grants.

DFAM subsequently confirmed to audit that all receivables had been collected with the exception of US\$ 2.4 million, which require further attention and follow up.

Agreed action 6 (high priority): The Division of Financial and Administrative Management agrees to prioritize the review and follow-up of open receivables pertaining to expired grants and ensure that uncollectible accounts are written off on a timely manner in accordance with UNICEF Financial and Administrative Policy 3.

Responsible staff: Deputy Director, Accounts Section, DFAM

Date by which action will be completed: June 2016

Budget allotments

According to paragraph 42 of Supplement 5 of UNICEF Financial and Administrative Policy 2 (updated on 15 June 2015), *“Contributions to UNICEF are documented in agreements signed with donors and recorded in VISION by PARMO and PFP. The OR budget allotment is created when the DFAM Finance Section records the contribution receivable based on the agreement (and, specifically, when UNICEF has an enforceable right to receive and the receivable amount can be reasonably estimated).”*

In July 2014, DFAM implemented a system change to automate the recognition of receivables and deferred revenue even for those grants where conditions existed. In a number of cases, the payment of the contribution was also on an instalment basis where payment of the next instalment was subject to satisfactory performance. This change meant that, effective July 2014, budget allotments were released to recipient offices to the full amount of the grant, giving them authority to spend the budget whether or not UNICEF had earned the right to enforce the collection of the receivable. A risk analysis had served as basis for the above decision.

Although an e-mail was sent to all offices in July 2014 announcing the change, no formal guidance had been issued to them on the risks attached to this decision and how they should be managed. While some offices may recognize the risks, others may not. For example, the audit asked why the PD WASH⁶ Section had not allocated to intended recipients the unallocated balance of its multi-country non-thematic funds. PD informed audit that those budget allotments had not been earned, as the receipt of the next tranche was subject to satisfactory implementation of the previous tranche. Also, PD said that it was too risky to release the funds for implementation, especially considering the constant change in the value of the budget as a result of monthly revaluation.

As of 29 July 2015, the total OR budget allotment phased for implementation in 2015 was US\$ 5.9 billion out of total budget allotment of US\$ 6.4 billion available for 2015 and future years. Total contributions receivable as of that date were US\$2.3 billion.

The release of budget allotments against OR contributions where UNICEF had not earned an enforceable right to receive those contributions could lead to misuse of OR contributions, and to loss of funds if expenditures are subsequently disallowed by the donor concerned.

⁶ Water and sanitation.

Agreed action 7 (medium priority): The Division of Financial and Administrative Management agrees to issue formal guidance/instructions to those responsible for managing Other Resources, explaining the rationale for the change in the policy for the release of budget allotments, together with the risks involved and how these risks should be managed.

Responsible staff: Senior Adviser, Office of the Comptroller

Date by which action will be completed: Completed

Budget allotment: Global-thematic and multi-country non-thematic OR

Receipt of global thematic and multi-country non-thematic grants were recorded in the Business Area of the managing division/office. This overstated the available budget allotment of the offices. For example, the Manager's Dashboard in inSight as of 12 August 2015 showed that the Office for Data, Research and Policy (DRP) had "Funds on hand not allocated in the Current Year" of \$ 404.6 million, of which US\$ 38.7 million were expiring in six months. The budget allotments sitting in DRP were in fact for global thematic funds managed by Programme Division (PD). For EMOPS, the dashboard showed that it had "funds on hand not allocated in the Current Year" amounting to US\$ 52.4 million, but most of these funds were for allocation to other offices.

This affected the usefulness of the monitoring reports/tools for these offices, as information was inaccurate. It also affected global interpretation of consolidated dashboards; for example, it appeared that DRP received the highest OR allotment globally. Transparency was also compromised regarding unallocated global thematic and multi-country non-thematic grants, as they were hidden in the allotment of the division or office managing them.

Starting May 2013, this issue was raised by the Support Unit for PD and DRP, with continuous follow-up. The latest communication from the DRP Director to the Comptroller at the time of the audit fieldwork, dated 7 June 2015, stated that: "The immediate impact of this situation is an inoperable dashboard for DRP with 71 donor reports overdue and 275 million of unallocated funds, for example. This has rendered this tool useless, leaving DRP staff unable to properly manage our financial resources...late donor reports have begun to affect our relationships with donors and NatComs,⁷ which in turn compromises our fundraising ability. This situation also affects our financial stewardship resulting in low expenditure rates and lost funds for the Division." This issue had not been addressed more than two years after it was first raised.

Agreed action 8 (medium priority): The Division of Financial and Administrative Management agrees to establish a process to record the unallocated global, thematic and multi-country funds separately from the funds that are "owned" by an office; and, in the process, provide realistic dashboard information that can be used by the relevant offices/divisions to manage Other Resources.

Responsible staff: Chief, Budget Section, Division of Financial and Administrative Management

Date by which action will be completed: June 2016

⁷ National Committees for UNICEF. These are bodies that support, and raise funds for, UNICEF in individual countries.

Phasing of budget allotments

In accordance with UNICEF Financial and Administrative Policy 2, Supplement 5, budget allotments pertaining to OR grants were issued at the Business Area level (level 1). Heads of Offices were responsible for phasing the budget allotments into future years and allocating the current year's budget allotment up to the Output (formerly Intermediate Results) level,⁸ based on the approved workplans and relevant agreements with donors.

However, there was no assurance that this was being systematically done and there was no reliable and practicable tool to for monitoring of compliance. As at 29 July 2015, the total OR budget allotment phased for implementation in 2015 was US\$ 5.9 billion out of a total budget allotment of US\$ 6.4 billion. During the full year of 2014, total OR funds utilized (actual and committed) was only US\$ 3.6 billion – or 61 percent of the budget allotment currently phased for 2015. It therefore appeared that the budget allotment phased for 2015 was overstated as of 29 July 2015. This was exacerbated by the decision in July 2014 to issue the budget allotment to recipient/sponsored offices even for those pertaining to future years (see also observation *Budget allotments*, p14 above).

DFAM could have phased the budget allotment pertaining to future years to those years, which would have clarified the extent of budget allotment and would also have prevented offices from spending against budget allotments that had not been earned (offices cannot move budgets phased in future years into the current year). Offices would still be able to ask DFAM to move budget allotments from future years to the current one in case of exceptional need.

The situation described in this observation arose only in those cases where the grant agreement clearly indicated the yearly phasing of expenditure or planned instalment payments. In other cases, responsibility to ensure realistic phasing of budget allotments would still have to be assigned to the recipient/sponsored office.

DFAM Budget Section prepares a monitoring report for senior management and one of the indicators included in the monitoring report is phasing of expenditures. A key observation in the April 2015 monitoring report was the need for realistic OR expenditure planning, recommending that offices review and phase OR expenditure based on realistic plans. However, no concrete action had been taken to address the recommendation.

Unrealistic phasing of budget allotments affects UNICEF's ability to measure OR financial utilization performance and to take timely action to address bottlenecks in implementation. It also affects transparency and accountability in managing OR.

Agreed action 9 (medium priority): The Division of Financial and Administrative Management agrees to provide guidance and strengthen the monitoring of the phasing of Other Resources budget allotments, and provide support to offices that require it.

⁸ UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

Responsible staff: Chief, Budget Section, DFAM

Date by which action will be completed: June 2016

Global thematic OR

Thematic contributions are OR pooled funds, broadly earmarked for the achievement of outcomes or results as outlined in the UNICEF Strategic Plan 2014-2017, but without being allocated to a specific project or activity. The flexibility of thematic funding is supposed to allow UNICEF to respond more effectively, assist longer term planning and sustainability and save on transaction costs. Nine thematic funding pools⁹ had been established. UNICEF's wants to significantly increase thematic funding. However, thematic funding declined in 2014 by 5 percent compared to 2013. Overall thematic funding totalled approximately US\$ 340 million in 2014.

CF/PD/PRO/2014-004 provides the guidelines for managing thematic funds. These funds can be provided as global thematic, regional thematic or country thematic. Country- and region-specific thematic funds are immediately released to the respective country or regional office. For non-humanitarian global thematic funds (GTF), the Allocation and Ceiling Committee (ACC) chaired by the PD Director reviews the request for allocation of resources to the regional offices and makes recommendation to the Executive Director for approval. The regional offices allocate the share to countries within the region, using their own regional allocation processes (all had established such a mechanism). Global thematic funds are allocated through an on-line Allocation and Ceiling Tracker (ACT) in the Country Office Portal in the UNICEF Intranet site. The total approved GTF allocation to country, regional and HQ offices as of 16 July 2015 was US\$ 223.8 million.

The audit then reviewed the GTF processes, with the help of an audit questionnaire sent to all seven of the regional offices. It noted that latter were broadly satisfied with the global allocation process for GTF. However, the following issues were raised:

- There was a need to revisit and update the criteria for some strategic plan outcome areas.
- Better consultation between headquarters and regions was required to determine the allocation between the latter. The allocation for some regions was too small.
- When looking at the allocation criteria to regions, the availability of OR for emergency programmes (ORE) for regions/countries could also be taken into consideration. For those regions/countries with a lot of ORE, GTF allocation could be a bit less and the percentage allocation of GTF to 'donor orphan regions'¹⁰ could be increased accordingly.
- The process had improved but was still highly unpredictable and did not allow the regional office, nor the country offices, to plan properly. It would be helpful if a broad indication is given on the amount of funding that will be made available for a region and the criteria for deciding it. This would be very helpful for timely discussion with priority country offices.

⁹ The thematic OR funding pools do not contribute directly to a specific country/regional offices, but are aligned to the Strategic Plan 2014-17 outcome areas as well as for humanitarian action and gender. The nine for which contributions are being received and allocated are for the following thematic areas: Health; HIV & AIDS; WASH; Nutrition; Education; Child Protection; Social Inclusion; Gender Equality/Empowerment; and Humanitarian Action.

¹⁰ "Donor orphan regions" are those regions that receive minimal OR contributions.

- There should be only one line of communication from HQ to the regional office on the allocation of funds, in order to avoid confusion on the receiving end and avoid double-counting.
- The extent to which HQ/PD sections involved regional advisers in the decision of the share of funds received by regions varied. It would be good to standardize the process across sectors, with a high level of regional adviser involvement.
- It was also recommended that the cap of 12 percent of global thematic to regional offices be considered flexibly in the region.

The audit also noted the following.

Allocation and Ceiling Tracker (ACT): Feedback from both the regional office and headquarters identified the need to revamp the ACT, as it had become cumbersome to use. The platform was useful in monitoring the various steps in the approval of allocation of funds until they are signed off by the Regional Director and PD Director. However, the user interface to query ACT, and the reports generated from it, were not user-friendly. DFAM Budget Section, which is responsible for issuing the budget allotment for GTF, also found it difficult to locate the approved allocation for which the budget allotment was being requested. They had to scroll down all the entries because a filter had not been provided. PPD, with the assistance of PD, were working on revising the ACT to make the system more effective and to provide real-time information.

Monitoring use of the funds and results: Almost all regional offices said that they used existing institutional processes to check that funds were used for the intended purposes and that planned results were achieved. These mechanisms included country visits, programme discussions in technical networks, annual report reviews, and country programme document (CPD)¹¹ and mid-term reviews. Regional offices also used the Dashboard and Management Reports available in inSight in assessing the performance of country offices in utilizing the GTF.

Reporting: There was mixed understanding on the reporting requirement for GTF. According to the guide to thematic funds prepared by PPD, there is only one annual thematic report for each outcome or cross-cutting area for each level (global, regional, country), prepared for all donors that have provided thematic funding within that results area and level. However, some country offices that received allocation from GTF-prepared reports for the allocation received, although reporting on the specific GTF allocation was not required. The misunderstanding originated from recording the budget allocation, as the reports required were recorded in VISION when the budget allotments were recorded. Offices therefore prepared the reports, as they appeared outstanding in VISION.

Support structure within PD for GTF: With the abolition of the Division for Policy and Strategy (DPS) and integration of some of its function to DRP, the analytical support provided to the ACC by senior staff was lost. A junior staff member on stretch assignment was assigned to provide the support, but this assignment ended after 18 months of multiple extensions, and there was a gap of several months before PD was able to hire a replacement to support the GTF process. This was finally done during the third quarter of 2015. The gap resulted in inadequate attention to record-keeping and follow-up on the management of the funds.

¹¹ The CPD is the document that sets out the office's programme for the country programme cycle. It is submitted to UNICEF's Executive Board and, once approved, becomes the official blueprint for the country programme, which normally runs for five years.

Unallocated GTF: As of 29 July 2015, the total unallocated GTF with PD was US\$ 196 million, which had been fully phased to 2017.

Inadequate management of the global thematic funds and the multi-country non-thematic contributions could lead to ineffective and inefficient use of the funds.

Agreed action 10 (medium priority): Programme Division agrees that its Director, as Chair of the Allocation and Ceiling Committee, should initiate a review of the process for managing the global thematic funds, taking into consideration the observations in this report and the recommendations from the regional offices.

Responsible staff: Programme Division (PD) Director and PD Deputy Director for Planning/Funding

Date by which action will be completed: December 2016

Agreed action 11 (medium priority): Programme Division agrees to:

- i. Clarify the reporting requirements for recipients of allocations from global thematic funds (GTFs).
- ii. Working with the Public Partnership Division (PPD), complete the review and improve the functioning of the Allocation and Ceiling Tracker and make it effective and efficient in supporting management of GTFs.
- iii. Ensure that clear instructions are given to the Division of Financial and Administrative Management on the reports required for global thematic funds; regularly review the accuracy of the reports recorded; and provide feedback to correct any errors noted.
- iv. Strengthen monitoring of unallocated funds, ensuring their timely allocation. For those contributions where instalment payments are subject to satisfactory performance, indication of the availability of the funds will be conveyed for planning purposes.

Responsible staff: Programme Division Director and PD Section Chiefs

Date by which action will be completed: July 2016

Multi-country non-thematic grants

Multi-country non-thematic contributions, also known as “One Contribution One Grant”, refers to contributions provided by donors for specific programmes that are global or regional in nature, such as Immunization Initiative, Global WASH, Accelerated Child Survival & Development in West and Central Africa Region, etc.

In this type of contribution, the donors do not normally specify the recipient countries but allow UNICEF to decide where to allocate the funds, according to priorities and established criteria. PARMO (now PPD) had issued a directive (PARMO/Directive/2012-001/Supplement 6: Managing One Contribution One Grant) to guide the management of this type of OR contribution. The directive defined the roles and responsibilities of PPD, PFP, PD, EMOPS, regional offices and recipient offices and the procedures for managing multi-country non-thematic contributions.

The audit reviewed procedures pertaining to the management of multi-country non-thematic contributions, again taking into consideration the regional offices' responses to its questionnaire. It noted the following.

Amount of contributions: The total contributions received for multi-country non-thematic contributions was not readily available as they were not specifically coded. For PD, where the bulk of the contributions for this type of funding were received, the total for 2014-2015 based on its monitoring record was US\$ 771.6 million. US\$ 336.6 million were allocated in 2014 and US\$ 227.1 million in 2015, leaving an unallocated balance as at 29 July 2015 of US\$ 207.9 million. The phasing of unallocated funds was: US\$ 45.7 million for 2015; US\$ 36.5 for 2016; US\$ 26.6 for 2017; US\$ 20.7 million for 2018; US\$ 78 million for 2019; and US\$ 0.3 for 2020. The multi-country non-thematic contributions were grouped into themes and they were managed by specific sections within Programme Division.

Allocation process: The process for allocation of multi-country non-thematic contributions was less institutionalized than for GTF and the process had not been harmonized among PD sections managing the funds. Some sections, for example WASH, allocated the funds through the regional offices, which in turn allocated them to the countries within the region. However, other PD sections allocated funds directly to the country offices, albeit after some consultation with the regional office.

Sections filled in the form for the recommended allocation and this was signed by the section head and presented to the PD Director for approval. Criteria for allocation had been developed and agreed with the PD Director. However, the process had not been documented and there was no systematic review of the proposal, because of lack of structure within the Director's office to support the process. According to the PD Director, he relied on the good judgement of the section heads in making the proposal. In addition, by the time the contribution was received, the recipient office had been identified, although in some cases this was renegotiated.

Developing the proposal: The recipient offices were often agreed upon during the development of the proposal. PD sections worked very closely with the donor in developing the proposal for multi-country non-thematic programmes. However, the timing and degree of consultation with the regional and country offices were not consistent across all PD sections. One regional office commented that the proposal was more successful when it was involved from the beginning of the negotiation. In some cases, the regional office was brought on board much later and had less influence on the development of the proposal and allocation of the funds. This meant they would be implementing a proposal into which they had had no or little input.

Monitoring implementation: Regional offices used the Dashboard and Management Reports available in inSight for monitoring implementation. Beyond that, the role of the regional office programme sections varied depending on how the funding agreement was negotiated; some included monitoring and reporting roles, but others only required the statutory roles of programme guidance and oversight. Oversight and support visits were undertaken based on the guidelines associated with the funding. For example, one regional office stated that for the nutrition grant from a major donor, it visited each country that had received an allocation from the grant at least once per year for a field/supervision/monitoring visit.

Reporting: Donor reports were prepared by the PD section managing the multi-country non-thematic contributions. Recipients of the allocations from the grant were required to submit

Input Reports. In some cases, these were reviewed and/or consolidated by the regional office alone; in others, it did it jointly and simultaneously with HQ.

However, the requirement for Input Reports was not always captured in the donor report tracking in the grant management (GM) module of VISION. Thus some PD sections told the audit that the recipients of the grants were not always aware of the reporting requirement, thus causing delay in reporting. An enhancement in the GM module was introduced in 2014, and PPD issued an instruction to allow capture of two- and three-tier reporting processes, so that the responsibility of recipient offices and regional offices would be reflected in the system. The requirement for Input Reports was supposed to be registered by the office managing the grant (in this case, the PD Sections) as soon as the recipients were identified. However, PD sections were not aware of the enhancement, so the Input Reports were not consistently recorded in VISION. There were also some delays in the submission of donor reports related to multi-country non-thematic grants.

Regional offices' suggestions: The regional offices provided the following additional suggestions/comments to improve the management of the multi-country non-thematic funds:

- The process needed to be more defined in the organization. It would be good to standardize it across sectors.
- In order to strengthen accountability, regional office management should be involved when communicating the opportunities to country offices.
- A more consistent and transparent basis for allocation of the funds would be useful.
- Involvement of the regional office in the review, consolidation and quality assurance of donor reports from countries should be clarified, to reduce duplication of work of with HQ in both performing all roles.

Inadequate management of global thematic funds could lead to their ineffective and inefficient use. The lack of clearly defined and consistent procedures for managing multi-country non-thematic contributions could lead to misunderstandings.

Agreed action 12 (medium priority): Programme Division (PD) agrees to:

- i. Review and document the process for managing multi-country non-thematic contributions, including the planning, fundraising, proposal, allocation, utilization, and monitoring and reporting on the use of the funds – taking into consideration input from the regional office, and harmonizing the process across all sectors as much as possible.
- ii. Clarify the division of labour between PD and the regional offices on the quality assurance and consolidation of country office reports.
- iii. Ensure that clear instructions are given to the Division of Financial and Administrative Management (DFAM) on the reports required for multi-country non-thematic contributions; regularly review the accuracy of the reports recorded; and provide feedback to correct any errors noted. PD sections should record requirements for Input Reports as soon as allocations from the multi-country non-thematic contributions are recorded by DFAM in VISION.
- iv. Strengthen monitoring of the unallocated multi-country non-thematic funds, ensuring their timely allocation. For those contributions where instalment payments are subject to satisfactory performance, indication of the availability of the funds can be conveyed for planning purposes.

Responsible staff: PD Director, Section Chiefs, Deputy Director for Planning/Field
Engagement, and Chief, Programme Services Unit

Date by which action will be completed: July 2016

3 Reporting, monitoring, and closure of OR grants

In this area, the audit assessed the adequacy and effectiveness of control processes over:

- Donor reporting.
- Monitoring OR performance.
- Closing expired OR grants and the related budget allotments.

Timeliness of donor reporting

PARMO (now PPD) Directive 2012-001 Supplement 8 (revised 1 June 2014) states that timely submission of quality donor reports is one of the main accountabilities of UNICEF. Delayed or poor-quality donor reports may cause donors to delay payment of instalments or cease the programme. The directive further provides that UNICEF heads of offices have the primary responsibility for both quality and timeliness of reporting to donors. Donor-report timetables need to be a part of annual management plan of each office and should be reviewed frequently.

The audit found that almost all donor agreements covering OR contributions included donor reporting requirements. These were supposed to be entered in the Report Tracking of the VISION GM module at the time OR contributions were recorded. Likewise, actual submission of the donor reports was supposed to be recorded in the GM module. UNICEF's web-based Performance Management System, inSight, included dashboards and reports for monitoring timely submission of donor reports, with information extracted from VISION.

The donor report monitoring system showed that by end of 2014 3,659 reports were due, of which 794 (22 percent) were submitted late while 292 reports (or 8 percent) were overdue. HQ offices had the highest percentage of late submissions and overdue reports at 42 and 20 percent respectively. Middle East and North Africa (MENA) offices had the second highest level of late reports with 21 percent, followed by West and Central Africa (WCAR) offices with 13 percent. As at 29 July 2015, the overall percentage of reports submitted late went down to 12 percent. However, the overdue reports went up to 12 percent, with HQ offices still showing the highest percentage of late and overdue donor reports at 32 percent and 38 percent respectively.

PPD, PFP, PD, DFAM, EMOPS and the Middle East and North Africa Regional Office (MENARO) were asked to provide explanations for the delay in the submission of donor reports. The response of the various divisions and offices may be summarized as follows:

- Poor quality of data in the VISION GM module donor report tracking system, due to inaccurate recording of the reports required and which office was responsible for their submission; and non-recording or delayed recording of the actual submission of the report.
- Inadequate review of the accuracy of information in the Dashboard and management reports by the office/division/section concerned, and not taking action to correct errors noted.
- Late submission by implementing offices to PPD/PFP due to capacity issues and prioritization.

- Unclear definition of accountability for managing each grant and ensuring timely submission of donor reports.
- Inadequate training of staff responsible for managing the grants on the maintenance of the GM module, especially those processes related to the donor report tracking system and requests for extensions. (PPD subsequently provided refresher training on this area and therefore no action is recommended in this regard.)
- Delays in the implementation of agreed activities.
- Lack of automated notification when grant recipient/implementing offices post the donor reports in VISION.
- Inadequate oversight on the overall timeliness of submission of donor report reports and quality of data in UNICEF's management information/monitoring system.

Agreed action 13 (high priority): The Public Partnership Division and the Private Fundraising and Partnership Division agree to:

- i. Regularly follow up with offices to encourage them to submit the required donor reports within the agreed period, and to regularly monitor the accuracy of the status of submission of donor reports under their responsibility.
- ii. Issue reminders to all offices on the importance of timely submission of donor reports, and ensuring accuracy of information in donor report tracking system; and of the need to take urgent action on any inaccuracies noted.
- iii. As Secretariat of the Resource Mobilization Steering Committee, ensure that accountabilities for timely submission of quality donor reports are clarified in the ongoing review of the accountabilities framework for resource mobilization that is part of the Integrated Resource Mobilization Strategy.

Responsible staff: For PPD, Director; for PFP, Chief, PFP Programme Services Unit

Date by which action will be completed: Immediate

Agreed action 14 (high priority): Programme Division and the Office of Emergency Programmes should ensure the timely submission of donor reports under their responsibility, and the accuracy of information on the status of that submission.

For PD

Responsible staff: For PD, PD Director, Chief of Operations and all Chiefs of Section; for EMOPS, Planning Specialist, Manager, Humanitarian Capacity Development Project and Budget Assistant

Date by which action will be completed: March 2016

Quality of donor reports

According to UNICEF's Resource Mobilization Strategy 2014-2017, improved quality of reporting and organizational performance is essential to protect revenue received from major resource partners. CF/EXD/2003-013 states that recipients of budget allotments are responsible for ensuring that appropriate, high-quality reports are submitted as scheduled in the agreement with the donor. It also states that Regional Offices are responsible for oversight of country offices regarding quality and timeliness of donor reports, through regular sampling of reporting performance. As part of the action plan for implementing the new Resource

Mobilization Strategy, the accountabilities framework for resource mobilization set out in CF/EXD/2003-013 was being reviewed.

The audit surveyed regional offices to determine the current practices related to their oversight over the quality of donor reports. All regional offices said they had either reviewed in 2014-2015 the quality of donor reports submitted by the offices within the region, or planned to do so. The audit looked at the output of these reviews and overall found them adequate. However, it noted the potential for further improvement through harmonization and sharing of tools and practices. This is discussed in the following paragraphs.

Harmonization: Complete harmonization is not possible because of differences in the context of each region. The Central and Eastern Europe and the Commonwealth of Independent States (CEE/CIS) Regional Office did the quality assurance internally, and review of the documents showed that this built internal capacity. Also, the feedback to the country offices was personalized and follow-up was embedded in the processes so that improvement of the quality of donor reports was a continuous process. Similarly, the East and Southern Africa Regional Office (ESARO) undertook a review in order to ensure systematic follow-up. The plan included hosting an on-line forum to discuss the recommendations, and discussion at the Deputy Representatives, Operations and Monitoring and Evaluation meeting. There was also follow-up on specific issues/recommendations with relevant country offices.

In contrast, the Latin America and Caribbean Regional Office (LACRO) and Regional Office for South Asia (ROSA) used external services (through individual and institutional contracts). This allowed external experts to bring in new ideas beyond the guidance provided by PPD in assessing the overall quality of donor reports. However, the application of different approaches duplicated the work because each region developed their own terms of reference, methodology and tools. The selection process, criteria/categories assessed and the rating system used by regional offices also differed. The results of the assessments were therefore not comparable.

Tools/Checklists: Each region had their own checklist for quality assurance. LACRO developed five checklists that were based on the specific guidelines for corresponding types of report. ESARO's checklist built on that of PPD, but put greater weight on the quality of results-based reporting. ROSA had drawn up a checklist or "Donor Report Evaluation Sheet" in consultation with PFP, PPD and staff from country and regional offices.

The risks related the above practices are as follows:

- Should the Regional Office not conduct regular review of the quality of donor reports, it will be less able to identify weaknesses and introduce timely improvements.
- Duplication of efforts in developing methodology and tools for quality assurance of donor reports could result in waste of time, money and effort.

Agreed action 15 (medium priority): The Public Partnership Division and the Private Fundraising and Partnership Division agree to:

- i. In consultation with regional offices, review the methodology and tools developed by those offices in reviewing the quality of donor reports, with a view to practical harmonization of processes and tools to save time, money and effort, and allow comparability of the results of assessments.

- ii. As secretariat of the Resource Mobilization Steering Committee, ensure that the ongoing review of the accountabilities framework for resource mobilization as part of the Integrated Resource Mobilization Strategy, includes clarification of the accountabilities of regional offices with respect to oversight on the quality of donor reports.

Responsible staff: Chief, PFP Programme Services Unit; Senior Advisor, PPD

Date by which action will be completed: December 2016

Certified statement of accounts

One of the reports required by OR donors is the certified statement of accounts, which may be either interim or final. The requirement for the submission of the certified statement of accounts is normally documented in the donor agreement. UNICEF Financial and Administrative Policy 3, Supplement 1 states that: *“After the expiry date of a contribution, a final certified statement of account is prepared by Accounts Section/DFAM within six months of financial closure. Financial closure is 12 months after grant expiry.”*

The following are observations related to the management of the requirement for certified statement of accounts.

Certification of the statement of accounts: Preparation of the statement of accounts for donors had been automated in VISION, based on transactions recorded by the sponsored programme/recipient of the budget allotment (which could be country offices, regional offices or HQ divisions/offices).

According to DFAM, the appropriateness of the expenditure recorded against the OR budget allotment was the responsibility of the budget recipient. By “certified”, it simply meant that the statement of accounts were correctly extracted from VISION. The statement of accounts submitted to donors were signed by the chief of DFAM Donor Reporting Unit as “Prepared by” and signed by the Comptroller either as “Certified by” or “Approved by”. The responsibility of the head of the office managing the funds in ensuring the accuracy and consistency of the expenditure with the donor conditions was not clearly communicated and understood, which weakened the accountability of concerned staff.

DFAM informed the audit team that with the implementation of the new donor report it is working on, it is looking into the possibility of a formal “sign-off” by the head of the office that s/he has reviewed the expenditures charged to the grant and confirms that they are in compliance with the donor agreement.

Closure of all commitments: According to para 25 of Financial and Administrative Policy 3, financial closure implies that the financial activities have been completed and the final donor financial statement issued where required. However, instead of closing all commitments before preparing the final certified statement of account, DFAM’s Donor Reporting Unit closed all commitments except those related to direct cash transfers to implementing partners, and to travel. This practice could lead to expenditures being recorded after the final statement of account had been issued, resulting in negative balance/over-expenditure of financially closed grants. The audit noted that 592 grants that had been expired for over a year as of 15 August 2015 had negative balance of US\$ 11.2 million.

Agreed action 16 (medium priority): The Division of Financial and Administrative Management agrees to ensure that:

- i. The donor report monitoring tools available in inSight are reviewed to ensure that there are no overdue donor reports pertaining to the division, and the information in them is accurate.
- ii. Accountability for the certification of the accounts pertaining to donor contributions is clearly communicated to the head of the office that is the recipient of the funds.

Responsible staff: Deputy Director, Accounts Section, DFAM

Date by which action will be completed: April 2016

Closure of OR grants and budget allotments

UNICEF Financial and Administrative Policy 3, Supplement 1, defines the procedure for closing expired grants and the division/section/unit responsible for taking the necessary action. Detailed procedures for closing a grant under the different scenarios was provided in the policy – i.e. with unpaid grant balance; with unspent or overspent balance on a contribution; and procedure for write-off of uncollectible grants. It also states that if there is no unpaid, unspent or overspent balance on a contribution, based on the annual cumulative summary report issued by Accounts Section/DFAM, Budget Section/DFAM adjusts the budget to the final value of expenditures if required, and changes the grant status to “closed” by 30 September of each year.

As of 14 August 2015 there were 10,261 open grants in the GM module of VISION, of which 76 percent, or 7,812 grants, had expired. Of the expired grants, 6,330 had been expired for over a year and should have been financially closed. Some of these grants had expired over 10 years earlier, dating as far back as the year 2000, but they remained open in VISION. Delay in closing overspent expired grants results in an understatement of the total available OR for programme implementation, while underspent expired grants overstates it. Lack of action on the underspent grants also limits UNICEF’s ability to renegotiate and use the unspent expired funds for other programme activities. It can also delay compliance with the provisions of the grant agreement in cases where there is a specific requirement to return the unspent balance to the donor.

Too many open expired grants also make grant monitoring awkward. For example, ESARO’s Manager’s Dashboard showed 125 allotments but only 55 were active. It showed that ESARO had unallocated budget allotment of US\$ 2,401,362 and an unutilized budget allotment of \$16,519,668 as of 8 August 2015, but these amounts were arrived at taking into consideration the 70 grants that had expired and were therefore not available anymore for allotment and utilization. In addition, lack of action on expired grants is contrary to the requirements of UNICEF Financial and Administrative Policy 3 and PARMO Directive 2012-001 (updated in 1 June 2014), which provide clear guidance on how to close expired grants.

DFAM informed the audit team that it was not complying with the requirements of Policy 3 with regards to grant closure because the policy was drafted in 2011, before it had a complete understanding that grant accounting would change effective 2012 and the changes would have implications for grant closure. It stated that it needs to update policy 3 Supplement 1 to reflect all the steps that need to be completed before closing a grant in VISION.

DFAM further stated that there were very many open expired grants in the system because the existing dashboard, and reports generated from the funds utilization cube, tended to “inflate” the unutilized allotment at the country office level. The reason for this was that the total allotment included allotments on expired grants even though these allotments were no longer available for spending. DFAM told the audit that, working with ITSS, it would address this problem.

Agreed action 17 (medium priority): The Division of Financial and Administrative Management agrees to prioritize action for the closure of expired grants following: 1) revision of Policy 3 Supplement 1 on the closure procedures for open grants; and 2) revision of the logic used in generating dashboard and reports information on the unutilized grant allotments.

Responsible staff: Deputy Director, Accounts Section, DFAM

Date by which action will be completed: June 2016

Monitoring OR performance

UNICEF monitoring reports relevant to the use of OR include, among others, timeliness of submission of donor reports, status of utilization of funds, and open grants.

At the country office and at regional office levels, global dashboards and management reports were drawn up and made available online, with the status of donor report submission highlighted as one of the critical performance indicators. Management teams of all offices receiving OR are required to monitor the status of submission of donor reports so that appropriate action can be taken to ensure their timeliness. In February 2016, UNICEF, through the Field Results Group (FRG), enhanced the monitoring of indicators by introducing a country office performance scorecard covering quality assurance, financial management, people management and partnership management. The scorecard contains standard indicators that each UNICEF country office will draw from the inSight/Results Assessment module that, among other indicators, assist monitoring of the use of OR and the status of donor reports.

Headquarter divisions coordinated the management of Global Thematic Funds and Multi-country Non-Thematic Funds, and had overall oversight responsibilities on the use of these funds. However, there are no specific OR performance monitoring indicators for these funds. The FRG has said that a scorecard for regional offices and HQ divisions will be introduced before the end of 2016.

Responsibilities for correctness of OR information in inSight were not clear, which resulted in unreliable data for effective monitoring. For example the audit noted errors in the number of outstanding donor reports. Headquarters data showed the number of reports submitted late and overdue at 70 percent (32 percent and 38 percent respectively). However, not all the reports recorded as submitted late had in fact been late; the same applied to those shown as overdue. The main problem was inadequate attention to ensuring that submission of donor reports was promptly and correctly recorded in VISION by the office issuing the reports.

The audit was informed that the Vision Owners Group, co-chaired by DFAM with FRG, is responsible for the overall governance of data accuracy—through the “the inSight Technical Working Group” sub-committee.

Agreed action 18 (medium priority):The Field Results Group, working with the members of the inSight Technical Working Group, agrees to establish a process for reporting and addressing any identified inaccuracies that may arise in inSight scorecards, dashboards, and reports.

Responsible staff: Associate Director, Field Results Group

Date by which action will be completed: September 2016

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. 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. The heads of offices audited and their staff 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 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.