

# Internal Audit of the Islamic Republic of Afghanistan Country Office

December 2013

Office of Internal Audit  
and Investigations (OIAI)  
Report 2013/53



## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Islamic Republic of Afghanistan Country Office. The audit team visited the Afghanistan Country Office from 16 September to 15 October 2013. The audit sought to assess the governance, programme management and operations support over the office's activities, and covered the period from January 2012 to September 2013.

The budget for the 2010-2013 programme is US\$ 401 million, of which US\$ 158 million is Regular Resources (RR) and US\$ 243 million is Other Resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed; OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as Other Resources. The Afghanistan programme is the fourth largest of all Executive Board-approved UNICEF country programmes in terms of RR.

### Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to address all the issues raised in this report. Two of these are being implemented by the country office as a high priority – that is to say, they concern issues that require immediate management attention. These measures are as follows:

- The office agrees to strengthen coordination with the Ministry of Finance to bring about meaningful participation by UN agencies in ongoing policy dialogue on aid effectiveness. The office will also include, in the country programme for 2015-2019, an adequate strategy for UNICEF to meet the Government's needs for oversight and coordination of UN programmes in the country.
- With regard to construction of schools, the office agrees to consult the Ministry of Education and respective donors in making the necessary adjustments to ensure that construction is undertaken within an agreed timeframe. The office also agrees to ensure sufficient staffing in its construction unit; secure the Ministry of Education's commitment to expedite the procurement process; review the work of the third-party monitoring organization; take appropriate action to ensure timely receipt of monthly progress reports and other deliverables; and obtain the required local procurement authorization from Supply Division.

### Conclusion

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

The Afghanistan country office, with support from the Regional Office for South Asia, and OIAI will work together to monitor implementation of the measures that have been agreed.

## Contents

<b>Summary</b>	<b>2</b>
<b>Objectives</b>	<b>4</b>
<b>Audit Observations</b>	<b>4</b>
<b>Governance</b>	<b>4</b>
Satisfactory key controls	4
UNICEF’s engagement in national policy dialogue	5
Staffing issues	6
Staff security concerns	7
Business processes	8
Ethics	9
Management priorities	9
Delegation of responsibilities and assignment of authorities	10
Governance: Conclusion	11
<b>Programme management</b>	<b>12</b>
Satisfactory key controls	12
Results-based planning	12
Partnership with NGOs	13
Management of grants	14
Harmonized approach to cash transfers	15
Schools construction	19
Global Partnership for Education	20
Programme implementation – Polio eradication	22
Programme management: Conclusion	23
<b>Operations support</b>	<b>24</b>
Satisfactory key controls	24
Management of cash transfers	25
Supply procurement and logistics	25
Contracts for services	27
Operations support: Conclusion	28
 Annex A: Methodology, and definition of priorities and conclusions	 29

## 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. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

## Audit observations

### 1 Governance

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

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

All the areas above were covered in this audit, with specific focus on the Health and Nutrition, Education and Water and Sanitation Hygiene programmes.

#### Satisfactory key controls

The office stated that 95 percent of UNICEF programme component results were aligned with national priorities. Discussions were also underway within the office to adopt the National Technical Assistance guidelines (which aim to harmonize the salary structure of project staff based in Government ministries).

The office was piloting a new management approach aimed at intensifying community engagement. This approach had been tried with ongoing polio and education related activities, and the office reported some positive results. The office was also trying new approaches to security risk management in programme delivery.

A mid-term review of the country programme had led to changes in the priorities for the next two years, taking into account key factors such as the socio-economic status of women and children within a changed, evolving development context in Afghanistan, recommendations from the Committee on the Rights of the Child (CRC) to the Government of Afghanistan, UNICEF experience and performance for the past two years and feedback from government and non-government partners, and the need for UNICEF to bring clearer focus and accountability, and better delivery of results.

There was a rigorous recruitment process to secure national and international staff whose skills were aligned with programme strategy. All new staff had briefing sessions with programmes, operations and the staff association. The office had initiated training on harassment. Further, three gender awareness training sessions were conducted in 2011, and a women's forum was held for female staff, aimed at addressing their security-related concerns.

Most of the staff had completed mandatory security training (and those that had not were recent arrivals). The office undertook security risk assessments in cooperation with the UN Department of Safety and Security (UNDSS) before field travel. The office premises in Kabul complied with the Minimum Operating Security Standards (MOSS) requirements.

### UNICEF's engagement in national policy dialogue

The Ministry of Foreign Affairs is primarily responsible for oversight and coordination of the UNICEF-supported country programme. In this capacity, it convenes and coordinates annual reviews, mid-term reviews and country programme development meetings. The UNICEF office is responsible for preparation of rolling workplans with line ministries. However, the audit made the following observations regarding policy dialogue between UNICEF, and the Government and other development partners.

**Coordination with Ministry of Finance:** The audit visited the unit responsible for managing aid effectiveness within the Ministry of Finance (MoF). The United Nations Assistance Mission in Afghanistan (UNAMA), which represents the UN community in the country, is the liaison between the MoF and UN agencies including UNICEF. UNAMA convenes the coordination meetings with the MoF and donors and also represents the rest of the UN at these forums. While valuable, this mechanism alone did not enable UNICEF to engage effectively with the Government and the multilateral and bilateral donor community in Afghanistan regarding policy on aid effectiveness and the performance of its country programme.

In its mid-term review of the country programme, the office identified a need for stronger policy dialogue and influence with Government and other partners. The development of a new country programme for 2015-2019 provides an opportunity for the office to clearly meet the Government's needs for oversight and coordination of the programmes implemented by UN agencies, including UNICEF, and to outline an appropriate related strategy for the country office.

**Agreed action 1 (high priority):** The office agrees to:

- i. With assistance from the United Nations Assistance Mission in Afghanistan and the rest of the UN country team, strengthen coordination with the Ministry of Finance to bring about meaningful participation by UN agencies in ongoing policy dialogue on aid effectiveness.

- ii. Include in the country programme for 2015-2019 an adequate strategy for UNICEF to meet the Government's needs for oversight and coordination of UN programmes in the country.

Staff responsible for taking action: Representative, Deputy Representative

Date by which action will be taken: June 2014

### Staffing issues

As of 30 September 2013, the office had a total of 288 staff, of which 55 were International Professionals (IPs), 79 National Officers (NOs), and 154 General Service (GS). Staff numbers had increased from 310 to 319 effective 1 July 2013, due to the need to increase the number of staff working on polio eradication activities. Most positions created were for national professional officers, who were under recruitment at the time of audit in September 2013.

**Vacant posts:** The Health and Nutrition section had 14 positions, of which two had been vacant for three to four months. The Education section had 12 positions, of which four had been were vacant from 15 to 21 months as of September 2013. The office said that this was mainly due to difficulty in getting suitable candidates, especially national candidates with the qualifications and experience for senior national professional officer positions. The office re-advertised some posts four to five times.

**Staff turnover:** In 2013, four of the five section chiefs either had left or were due to leave within a month because their tour of duty was over. This had reduced the office's ability to ensure smooth continuity in critical functions, and focus on programme areas like Health and Nutrition and WASH. In addition, turn-over of both national and internally-recruited staff was high. In 2012, 28 national staff and 13 IPs had left. Of the 28 national staff, 14 had abandoned their posts, and a number left for continuing education. Further, some posts had remained vacant in various locations due to security concerns.

**Staff in-country for long periods:** Conversely, there were six IPs who had stayed for four or more years, due to lack of success in moving elsewhere (two had been included in the ongoing rotation exercise). UNICEF's organizational policies do not assure staff of being placed after completing a tour of duty, and the new policies on mobility may require staff to separate in the event they fail to secure another duty station to move to. After having served in a complex environment like Afghanistan, staff felt that these policies were unfair.

The office pointed out that this was in fact recognized at Regional Office and HQ levels. The unit in the Division of Human Resources (DHR) responsible for recruitment of staff in emergency duty stations also confirmed to the audit that the rotation policy is currently under review, and issues related to staff serving in these complex situations were being carefully considered. Ongoing support was provided to these offices on a regular basis, and annual meetings were held with human resources officers in these countries to discuss specific concerns. In addition, the DHR unit and the Regional Office were collaborating to develop a strategy to address this area.

**Kandahar zone office:** The audit visited Kandahar zone office, which had been completely overhauled in 2011. A review of its office structure noted significant gaps in staffing. Out of a planned complement of 23 posts, five technical posts had not been filled. Three of these vacant posts had been created to strengthen the Polio programme. The Child Survival Officer, a highly committed and competent staff member, was responsible for activities related to four

intermediate results in Kandahar, and handled major components of the health and nutrition programmes; this made him crucial to the programme and meant that his loss to the office would be a significant risk. By contrast, each of these components was handled full-time by a competent technical specialist at country-office level.

In addition, this particular zone office operated in a region of considerable complexity, with a deficit of skills. Each of the provincial partners visited expressed a dire need for more technical support. (More positively, the audit met government officials and was told that the credibility of the zone office was high. One of the factors the officials highlighted was the prolonged presence in, and follow-up visits to, the region by the Representative, and their constructive approach.)

The above issues constrained effective support to programme implementation; and increased workload and pressure on staff who remained in-country, and for the human resources unit.

The office had developed a human-resources plan. It had also identified actions on staffing as part of its risk and control self-assessment (RCSA),<sup>1</sup> such as engagement with DHR on staff recruitment, entitlements, mobility and welfare in emergency duty stations, contributing to the UNICEF policy dialogue on these areas; and exploring alternative ways to implement the programme in the event that national staff left Afghanistan and/or IP staff were relocated as part of contingency planning.

**Agreed action 2 (medium priority):** The Division of Human Resources, together with the regional office and the country office, agree to:

- i. Develop a comprehensive plan and human resources strategy for the country office that addresses the situation of staff who have stayed four years and more, including assisting their transfer to other duty stations (assuming acceptable performance).
- ii. Prioritize the search for solutions to reaching a satisfactory staff complement for the Kandahar zone office.

Staff responsible for taking action: Chief Business Partner, Emergency Recruitment and Staffing Section

Date by which action will be taken: April 2014

### Staff security concerns

The UNICEF office, with other UN agencies, had drawn up a programme criticality framework. This was used to determine the criticality level for specific activities within a given geographic location and timeframe. This assessment was then used to ensure that UN personnel did not take unnecessary risks and that those who remained in-country worked on activities that were of highest priority for UN strategic results. The framework also allows country-level programme managers to design programmes and activities to involve known, predictable and acceptable risks.

However, the audit was told that, at times, staff were reluctant to carry out road missions in

---

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

some areas, based upon their own assessments and understanding of the situation. The risk approach does not address either the right of staff to decline missions on account of perceived security risk, or the right of management to order such missions when the risk has been assessed as acceptable. Staff also felt that the compensation in case of death was not commensurate with the actual loss in life earnings.

Also, the office stated that some national staff were reluctant to disclose to their communities that they worked for UNICEF due to fear of harassment; however, although the audit confirmed these concerns with some staff, the office had not checked how prevalent they really were.

**Agreed action 3 (medium priority):** The office agrees to carry out periodic discussions with staff on safety and security, so as to assess the causes of staff perceptions of insecurity; and implement corrective measures, such as clarification of existing security measures, and/or escalation of issues to the relevant HQ office concerned.

Staff responsible for taking action: Security Advisor

Date by which action will be taken: October 2014

### Business processes

The office proposed to centralize a number of financial transactions currently done in the office sections and zone offices in a Business Support Centre, or VISION<sup>2</sup> Hub, in Kabul. It had conducted an exercise to identify the processes that could be performed in the Hub; the Regional Office assisted this review. In mid-2013 a transaction analysis was done to establish the workload in each office and guide the roll-out strategy for the Hub. The volume of direct cash transfer (DCT) payments, travel authorizations, operations payments and purchase orders was considered. The office also reviewed the number of cheques issued, in case this had a bearing on centralization of bank accounts. The VISION hub was expected to free many Programme Assistants from transaction processing and free up their time for programme planning, implementation, monitoring and reporting.

To implement the hub, the office had established positions for one Hub Officer and six Hub Assistants. As of October 2013, it had recruited the Hub Officer and had chosen three of the Programme Assistants for the Hub Assistant posts. However, since the Hub had not yet been officially launched, the staff in question were still working in programme sections.

The office stated that the programme sections and zone offices would maintain the existing staffing structure and Programme Assistant positions. However, those remaining in the sections and the zone offices will no longer be processing certain transactions, such as raising requisitions and funds commitments and payment requests, which will be done by the Hub.

However, the office had documented neither a cost-benefit and risk analysis, nor the rationale for establishing the Hub with seven staff members over and above the existing structure. Moreover, the office retained some manual processes that took considerable staff time. Contrary to UNICEF policy, staff were required to produce hotel receipts when they travelled to field locations and stayed in hotels in locations where there was no fixed DSA rate. Some

---

<sup>2</sup> VISION is UNICEF's management system, introduced in January 2012. It permits efficiencies in transaction processing through their concentration in hub locations, and several UNICEF country offices/regions have considered the use of such hubs.



staff members also pointed out that excessive paperwork was involved in the travel processes and that staff were also required to submit ticket stubs and boarding passes in settling their travel claims. These optional, manual controls reduced the office's effectiveness and efficiency.

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

- i. Develop a clear strategy, with measurable desired results, to monitor the efficiency and effectiveness of the Business Support Centre (or VISION hub), and document lessons learned.
- ii. Streamline manual processes into VISION to the extent possible, and discontinue the practice of adding low-value manual controls not required under UNICEF policy.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: January 2015

## Ethics

The office's RCSA identified corruption as a risk to efficient and effective implementation of assisted programmes and to staff security. Staff received ethics training that included integrity, respect for human rights, abuse of authority, and impartiality. Some communication on ethical practices was also undertaken during general staff meetings, and training had been provided on UNICEF's whistleblower policy. Issues related to impartiality and upholding the tenets of the oath of office had been included in the monthly general staff meetings through the general discussion relating to programme.

However, the office had not yet instituted a practice of publicly administering the UN oath of office, or defined an office-specific values and ethics code of conduct with clear procedures to mitigate the risks. Neither had it yet notified staff of formal channels to report suspected improprieties.

**Agreed action 5 (medium priority):** The office agrees to contextualize the UNICEF Code of Conduct to the situation in Afghanistan and increase its efforts to periodically assess and report on the effectiveness of the actions taken to mitigate corruption risks.

Staff responsible for taking action: Representative and Human Resource Manager

Date by which action will be taken: February 2014

## Management priorities

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. Country offices are also expected to prepare an annual management plan (AMP) in which they establish key priorities and assign staff responsibilities for them. Progress on these priorities should normally be monitored by an office's country management team (CMT), which renders advice to the head of the office on issues pertaining to the management of the country programme and strategic programme and operations matters.

The office had prepared a CPMP in 2012, following a consultative process. This outlined management strategies, priorities and indicators. The audit was told that the office had not

prepared an AMP for 2012 and 2013, since the CPMP was valid for two years. However, the audit's discussions with various teams noted differing descriptions of the key management priorities for the year. This lack of clarity on management priorities, coordination mechanisms and related staff responsibilities and accountabilities was due in part to the absence of an AMP, which should outline these, and help the office consolidate relevant management documents and tools. This also enables an office to ensure that the human, material and financial resources of the country office remain focused on the agreed management priorities.

**Agreed action 6 (medium priority):** The country office agrees to prepare an annual management plan in 2014 that outlines management priorities, and clearly communicate them to staff; and to ensure that key management indicators are systematically and consistently reviewed.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation; and Chief of Operations

Date by which action will be taken: October 2014

### Delegation of responsibilities and assignment of authorities

The Representative had assigned responsibilities and delegated authorities for financial controls to staff members at the country office and the zone offices. The delegation of authorities was done through the preparation of the Table of Authority (ToA) and the VISION role mapping; these were approved by the Representative. In accordance with UNICEF procedure, staff members delegated with financial authorities acknowledged their acceptance of the assigned responsibilities and authorities by signing the designation letters.

The audit noted the following:

**Approval levels:** The designation letters signed by the staff members indicated that the country office had adopted a three-tier release strategy which defined financial limits. However, the audit noted that this strategy was not consistently followed in the implementation of the delegated authorities. For example, only one of the nine cases reviewed involving US\$ 500,000 or more had been approved by the Representative. Also, of 144 funds commitments with value ranging between US\$ 100,000 and US\$ 500,000, only seven had been approved either by the Deputy Representative or by the Chief of Operations. The remaining funds commitments were approved by other staff without designated authority. In fact, discussion with staff members within the sections indicated that the section heads' US\$ 50,000 limit was quite low, given that each section was responsible for managing over US\$ 30 million of annual budget.

**ToA and assignment of authorities:** The audit review noted inconsistencies between the ToA and role mapping approved by the Representative, and the actual assignment of authorities to staff members in VISION. For example, according to the role-mapping document approved by the Representative, there was only one officer designated as approving officer. However, there were 18 officers with access to the approving officer function in VISION. These inconsistencies could lead to staff performing functions without appropriate authority. This was mainly due to insufficient understanding and monitoring of the office's release strategy.

**Zone offices:** The office had adopted a decentralized approach for programme implementation, and had assigned this responsibility primarily to zone offices. The zone office chiefs indicated that sometimes their level of authority in VISION was not commensurate with

operational responsibilities – for example, initiating programme cooperation agreements (PCAs) and managing budgets for their zones. Further, the current table of authority approved by the Representative did not reflect delegation of authorities to staff at the zone offices.

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

- i. Ensure that the assignment of access and authorities in VISION is consistent with the Table of Authority and the role-mapping document approved by the Representative.
- ii. Review implementation of the delegation of authorities for financial controls and provide training to staff members to ensure that the delegation of authorities is clearly understood and that staff perform their functions within defined financial limits.
- iii. Review whether the assignment of authorities to zone offices is commensurate with the level of responsibilities in implementing the programme.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: February 2014

#### Governance area: Conclusion

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

## 2 Programme management

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

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

All the areas above were covered in this audit, except for evaluation. This was omitted because in 2012 the country office had completed a comprehensive mid-term review (MTR), which resulted in significant shifts in programme emphasis. In addition, the current country programme is due to end in 2014 and a country-programme evaluation has been planned for this point.

### Satisfactory key controls

As part of the MTR, UNICEF had adequately mapped all of its expenditures by province to ascertain to what extent there was a match between organizational intent and resource allocation, and to verify if UNICEF was spending most of its funds on the areas of most need.

The office made effective use of mobile technology to successfully monitor critical programme interventions such as polio eradication initiatives in priority areas. Text messaging was being piloted with the objective of integrating use of mobile technologies into the country programme monitoring framework.

### Results-based planning

The office had developed national and region-specific rolling workplans (RWPs) for 2012-2013—generally aligning with the revised programme results framework.

The intermediate results (IRs) defined at national level were the same as those for the regions, even though the major aim of having region-specific workplans was to focus programme implementation on region-specific disparities facing children. The country office had wanted

to avoid having too many IRs, as that could hamper monitoring. This was reasonable, but had resulted in a lost opportunity, in that the results framework allowed for the definition of targets and/or milestones against IRs; the country office could have used this to plan against region- and context-specific targets and outputs. The absence of region-specific targets also reduced the focus of programme performance monitoring (see action 10 below) and subsequent monitoring of progress against planned results. In this context, the audit noted that the mid-term review had found a lack of congruence between those provinces where UNICEF has been investing its resources and those where levels of deprivation are highest.

The audit also noted that some indicators against IRs did not have adequate baseline information, which constrained systematic determination of progress towards planned results. The office stated that there were still weaknesses in defining realistic measurable indicators within some programmes.

Notwithstanding the above, the MTR noted progress in programme implementation despite the following constraints: rising insecurity, insufficient government capacity and leadership, absence of reliable data for evidence-based planning, and lack of long-term predictable funding for development programmes.

**Agreed action 8 (medium priority):** The office agrees to, from 2014 onwards, define targets against intermediate (IRs), as relevant, for each region, to strengthen results-based monitoring; and continuously provide training to programme staff and partners in the development of specific and achievable results, and outlining appropriate indicators.

Staff responsible for taking action: Chief of Planning, Monitoring and Evaluation; and Chief of Field Coordination

Date by which action will be taken: June 2014

### Partnerships with NGOs

In 2012, the office spent approximately 54 percent (or US\$ 15.8 million) of its funding through NGOs. The office had entered into a total of 27 programme cooperation arrangements (PCAs) in 2012 and 18 PCAs in 2013, with a UNICEF commitment totalling US\$ 10.1 million and US\$ 4.7 million respectively. A total of 34 micro-assessments had also been carried out to assess the administrative and financial capacities of some international NGOs.

The audit noted the following areas for improvement:

**PCA lead time:** In a meeting with 11 NGOs that collaborate with UNICEF, the audit was told that planning, reviewing and finalizing programme cooperation agreements (PCAs) took sometimes as long as five months, which in turn shortened the time available for implementation – sometimes of emergency activities. The audit was also informed by the NGO implementing partners that although a lot of effort was put into the planning and preparation of PCAs, less effort was spent on monitoring implementation of activities.

In 2012-2013 the office approved eight no-cost extensions, mostly to nutrition PCAs that had been supported from emergency funding. This was because of an inability to complete planned activities within specified timeframes, due to inaccessibility, insecurity or shortcomings in partner capacity. The audit noted that these constraints were already known to the office through its successive implementation activities, and could have been mitigated

through advance planning. The office commented that the short duration of grants (ranging from six to nine months) was a primary cause as well.

**Agreed action 9 (medium priority):** The office agrees to provide staff with the appropriate training and guidance to:

- i. Reduce the time taken to plan and prepare programme cooperation agreements, leaving more time for implementation.
- ii. Assess in advance the timeframes for implementation of PCAs, taking due account of known constraints to programme implementation, and review the possibilities of obtaining grants of longer duration, especially for emergency activities.

Staff responsible for taking action: Chief of Operations and Chief of Planning, Monitoring and Evaluation

Date by which action will be taken: June 2014

## Management of grants

The Afghanistan country programme is heavily dependent on a limited number of donors. The audit reviewed the area of grant management and funds utilization, and made the following observations.

The programme areas of Education and Health and Nutrition had the highest OR flow. Education received strong support from thematic funds<sup>3</sup> and from UNICEF Afghanistan's largest single donor, the Government of Japan. In the last three years, the Education programme had received US\$ 34.7 million in OR from thematic funds and US\$ 36 million from Japan in OR and ORE<sup>4</sup> funds. Two other large donors contributed US\$ 10 million and US\$ 5.2 million respectively between 2009 and 2011.

The Health and Nutrition programme had received strong OR and ORE support during the current and previous country programmes. The largest donor in this area over the past three years had contributed a total of US\$ 29.2 million. It was followed closely by another donor, which gave US\$ 27.2 million in the same period, while a third one contributed US\$ 11.4 million. A significant proportion of the OR funds received for the health programme were earmarked for the polio eradication effort. In 2011, for example, roughly US\$ 17 million of the US\$ 27.3 million OR received was committed by donors for polio eradication in Afghanistan. The office acknowledged that reliance on only two Government donors for such large proportions of OR support posed a risk to its programme, and was committed to broadening its donor base through active outreach and follow-up with well-constructed proposals, defining results and reflecting donor interests, concerns and policies.

The office's funding status in 2013 (as of 30 September) was that, of US\$ 149.5 million in planned expenditure, US\$ 133 million or 78 percent was funded; of this, US\$ 77.5 million had so far been utilized. The proportion of the programme funded for 2013-2014 by programme

---

<sup>3</sup> Thematic funds are funds donated for a particular area of UNICEF work; although they can be directed towards one country, they can also be regional or even global, and can be used more flexibly than most other forms of OR.

<sup>4</sup> ORE = Other Resources Emergency, OR funds allocated or donated to fill an urgent gap.

component results (PCRs)<sup>5</sup> as at September 2013 varied from 33 percent (*Education of girls and women*) to 57 percent (*Partnerships, resources, public support mobilized*). The Programme Support component was 61 percent funded. While most IRs were over-funded in 2012, in 2013 there were shortfalls ranging from 28 percent to 59 percent for individual IRs.

The office had a total of 55 grants, ranging from US\$ 18,692 to US\$ 22,585,366, during the period under audit (from January 2012 to September 2013). The Resource Mobilization Strategy and the accompanying workplan had been regularly updated over the past two years. The audit noted the following areas related to management of grants that required improvement:

- As of 1 September 2013, the total unutilized amount for all grants that had expired since January 2012 was US\$ 960,000. The office noted that an agreement was made with one of the donors to re-programme US\$ 345,000 from grants that had expired in 2013.
- The audit review also noted over-expenditure on some grants, mainly due to freight costs or exchange-rate differences in DCT liquidations. The VISION system does not prevent over-spending against grants. The audit was informed that, to avoid over-expenditure, the office monitors expenditure against grants monthly, and every two weeks for grants near the expiry date.
- The audit was informed that information regarding grants expiry, and details on all open commitments, were disseminated twice monthly to section chiefs. In addition, the budget unit held monthly meetings with programme section chiefs and zone-office chiefs to discuss funds utilization by IR and by cost centre, planned expenditures, and reasons for low utilization rates. These were also discussed with senior management and, where necessary, budget execution issues were discussed during CMT meetings.

**Procurement against expiring grants:** Cases were noted where unplanned procurement of supplies was made at year-end against grants about to expire. For example, in one case the requisition and purchase order for school furniture for an amount over US\$ 600,000 were placed just before the year-end and expiry of the grant. There was no government request for this procurement. In another case, the order was placed for procurement of school furniture for US\$ 258,000 just one day before the expiry of the grant. Late procurement of supplies reduced the office's capacity to implement planned activities and achieve planned results within the agreed timelines.

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

- i. Review its quality assurance mechanisms to ensure timely utilization of grants.
- ii. Train staff, and establish mechanisms, to strengthen planning of procurement of supplies, to avoid rushed procurements just before expiry of grants; and to implement planned activities and achieve expected results within the agreed timelines.

Staff responsible for taking action: Reports Specialist

Date by which action will be taken: June 2014

## Harmonized Approach to Cash Transfers

---

<sup>5</sup> A PCR (programme component result) is an output of the country programme, against which resources will be allocated. An intermediate result (IR) is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

HACT also includes assurance activities, promoting accountability and strengthening the financial management and internal control mechanisms of the implementing partners. The activities include spot checks of use of funds by implementing partners, monitoring of programme implementation, audits of partners receiving a certain level of funds, and (where required) special audits. The risk assessments and assurance activities are supposed to be carried out in cooperation with the three other UN agencies that have also adopted HACT.

While the office had provided some training on HACT to relevant staff, interviews showed that the understanding of what it entailed varied amongst both programme and operations staff. Also, it was not evident that responsibilities had been clearly delegated; specific tasks had been delegated to operations staff, but programme staff's participation was sporadic. The office had not in fact completely implemented HACT. The audit had some specific observations in this area and they are given below.

**Micro-assessments:** The office relied on the World Bank for the risk rating of Government counterparts, all of which were rated "high". For other partners, the office commissioned an external international accounting firm to undertake micro-assessments of NGOs. Out of 34 micro-assessments of NGOs in 2012 and 2013, 32 were assessed as High or Significant risk. Eleven of the 12 NGOs told the audit that these assessments had not been well done; with some NGOs, there was no systematic de-briefing, and three NGOs did not receive copies of the micro-assessment reports. The NGOs mentioned that the annual audits that were mandatory in their organizations were not taken into consideration by the contracted accounting firm. As a result, most NGOs felt that the "high risk" rating assigned to them was not adequately supported. The audit also noted that implementation of recommendations from the micro-assessments was not systematically followed up.

**Assurance activities:** The purpose of assurance activities was to determine whether the funds transferred were used by the partners for the appropriate purpose, and in accordance with the stipulated procedures. The scope of assurance activities required by UNICEF and other UN agencies is guided by the risk ratings assigned to the implementing partners following the micro-assessments, and the amount paid in cash transfers to the partners by the agencies. The strongest assurance activities should be directed to those partners with the weakest management practices.

Though the office had not developed an assurance plan, it had implemented some types of assurance activities. However, the lack of an assurance plan had reduced the office's capacity to demonstrate that it had obtained reasonable assurance that the funds were used for the intended purposes and in accordance with UNICEF policies and procedures.

The audit also made specific observations regarding the individual assurance mechanisms. There are three of these:

- **Financial spot checks** or on-site reviews of partners' financial records for cash



- transfers.
- **Programme monitoring**, which provides assurance of the implementation of supported activities.
  - **Scheduled audits** of partners' internal controls for the management of cash transfers.

The audit's observations on these three assurance mechanisms are given below.

**Financial spot checks:** In cases where the office could not conduct periodic on-site visits to perform financial spot checks because of accessibility constraints (due to lack of security or other reasons), it asked partners to submit detailed receipts, bills and invoices, so as to verify that the funds were used for the intended purposes. However, the huge number of documents received from partners created an enormous workload for both programme and operations staff, who had to review these documents. In seven out of eight sample cases reviewed by the audit, the time taken from receipt of liquidation documents from partners to verification of liquidation was 40 days or more (in the eighth it was 18 days). Moreover the office's system of requesting receipts did not provide reasonable assurance that funding had been used as agreed, since it was not always possible to know whether the receipts were genuine.

The audit team visited partners at national and provincial levels and noted that they all maintained manual systems of accounts (in Excel), predisposing accounts to errors. None of them undertook any spot checks in the provinces to check accounts maintained by their sub-national partners. For one government partner, basic financial systems were weak; cash transfers received from UNICEF had not been correctly recorded in its books of accounts and it did not carry out bank reconciliations.

While the UNICEF office had provided advisory and technical support to various ministries, it had not undertaken a systematic assessment of the support required to strengthen assurance-related mechanisms. The partners visited by the audit, including the Ministry of Education and the Ministry of Public Health, indicated that the staff involved with management of cash transfers had not been trained by UNICEF. Further, the partners had not received any written guidelines on the management of cash transfers, such as how to request them and what to provide to UNICEF when doing so, how to manage them, and how to report on their utilization. Limited training and lack of written guidelines were cited by the partners as factors contributing to delays in disbursement of funds, as some of the requests had to be returned by UNICEF to the partners for missing required information.

**Programme monitoring:** In response to a prior audit recommendation, the office had introduced a system for monitoring the country programme in August 2013. This included both situation and programme performance monitoring.<sup>6</sup> Programme performance monitoring was fed from national information collection systems and field monitoring by staff, consolidated in a field trip reporting system on Lotus Notes through various monitoring and information collection tools.

Currently, monitoring activities are based on access to supported provinces and districts within them. The audit assessed monitoring activities by reviewing the number of field trips undertaken by staff from the office in Kabul and also from the zone offices. The audit found that national staff undertook 11 percent more trips than international staff. However, the analysis also showed that the security-related risks, while still considerable, did not constrain

---

<sup>6</sup> Situation monitoring looks at changes, or lack of them, in the situation of children and women. Performance monitoring concentrates on the programme achievement of specific results against those planned.

international staff's ability to support capacity building and monitor activity implementation. The highest number of trips by international staff (34 percent) in both years was to field locations (Kandahar).

However, the audit noted the following with regard to programme monitoring.

- There was no plan that integrated programme monitoring as part of assurance activities. Programme Specialists/Officers planned their visits to partners as part of their travel plan for programme monitoring (see also the section of this observation on financial spot checks, p17 above). However, since the office had not implemented systematic assurance activities, spot checks on implementing partners' financial records were not included as part of these visits. Instead, the office requested all supporting documentation for on-site review by designated staff, as explained above.
- The field data collection tool was detailed; it required staff to report on progress against results, but, due to the lack of zone-specific targets within the tool, staff found it vague, long and cumbersome to complete. Also, the indicators that would assist more systematic monitoring were absent in the tool.
- The audit was not able to ascertain whether end-user monitoring of supplies was carried out. However, the office noted in its programme performance guidelines that this was not being done systematically.

**Scheduled audits:** The office had not prepared a plan for scheduled audits of NGOs and government partners. At a higher level, the 2010-2013 CPAP<sup>7</sup> clearly mentioned the role of the Supreme Audit Institution (SAI)<sup>8</sup> in carrying out assurance activities of Government ministries. However, the office had not yet taken steps to identify specific areas to work with the SAI and rely on its assurance. During the audit team's visit to the SAI, the Auditor General expressed willingness to collaborate with UNICEF and stated that it audited projects funded by the World Bank under a capacity-building arrangement with the latter. It was agreed that further detailed discussions should follow to determine specific areas of collaboration in assurance activities between UNICEF and the SAI.

Further, when the audit visited the line ministries (Public Health, Rural, Rehabilitation and Development, Education), it was informed that each of these ministries had an audit division. However, the office had not explored the role such audit divisions could play in strengthening assurance mechanisms for partner ministries.

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

- i. Develop and implement an assurance plan that will define the nature and extent of assurance activities (including financial spot checks, programme monitoring and scheduled audits of partner's internal controls) to obtain reasonable assurance on whether funds are used for the intended purposes, and in accordance with UNICEF policies and procedures. In cases where financial spot checks cannot be used as a source of assurance, the office agrees to consider obtaining additional assurance by increasing the extent of programme monitoring, and/or through scheduled audits.
- ii. Assign responsibilities and accountabilities for systematic implementation of

<sup>7</sup> 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.

<sup>8</sup> The SAI in Afghanistan is the Control and Audit Office of the Transitional Government of the Islamic Republic of Afghanistan.

assurance activities, according to the current policy that requires programme sections to lead this function.

Staff responsible for taking action: Deputy Representative; Chief of Operations; Chief of Planning, Monitoring and Evaluation; and Finance Manager

Date by which action will be taken: December 2014

**Agreed action 12 (high priority):** The office agrees to:

- i. In collaboration with Government implementing partners, outline a set of activities aimed at strengthening their assurance mechanisms, and discuss/explore the role of the ministry divisions in this regard.
- ii. Follow up with the supreme audit institution (SAI) and agree on the nature, frequency and type of assurance related activities they can undertake in relation to Government implementing ministries that receive funds from UNICEF.

Staff responsible for taking action: Chief of Operations

Date by which action will be taken: December 2014

### Schools construction

UNICEF was assisting the Ministry of Education (MoE) with a construction project under the “access and retention” area of the *Basic education and gender equality* programme. The project, with funding amounting to US\$ 22.7 million, aimed at construction of 70 schools in three central highland provinces (Bamyan, Daykundi, and Ghor) for the period of three years from January 2012 to December 2014. An international NGO had been contracted in 2012 to assist with risk analysis assessment, community mobilization (for gaining communities’ acceptance and participation in monitoring and sustainability), and quality control. As of October 2013, 23 school buildings, or 33 percent of the 70 schools, were under construction, with a target for completion of end 2013 or early 2014. The on-going construction work for the 23 schools started in March 2012. The bidding for the second phase (24 schools) was underway in October 2013 and construction was expected to start in March 2014.

The office had established a construction unit with three staff positions – one international professional and two national officers. The international position (which was grade P3) was vacant as of October 2013. The office had hired a construction engineer on a Temporary Assistance arrangement who performed the functions of the head of the unit. The education unit as a whole is supported by two programme assistants.

The audit noted the following.

**Delays and utilization rate:** As of October 2013, a total of US\$ 2.5 million or 11 percent of the total budget had been spent. This was about 50 percent below the expected utilization rate. This was partly due to slow hiring of 23 contractors for phase one, which took about six months. Also, the hiring of the third-party monitor took about nine months. There were also delays in obtaining documents from construction contractors. The MoE’s design, site surveys and procurement processes had also been slow. For example, the award to contractors for the second phase of the construction (24 schools) was expected to be on 5 August 2013 but as of October 2013, the tendering process was just starting.

The audit noted that the office had not carried out an assessment of the Government

partner's capacity to undertake the procurement processes. As a result, key risks and capacity gaps associated with the construction project had not been identified and addressed before delegating the procurement process to the Government (see also the recommendation relating to this observation under the observation *Supply procurement and logistics* on p22, below). In addition, although the procurement process had started in 2012, as of October 2013 the office had not yet secured a local procurement authorization (LPA) from Supply Division (as is required by UNICEF's policies and procedures).

**Monitoring:** The NGO, hired by the office, had not been delivering as expected under their contract, which started in February 2013. For example, while it claimed to have been performing community mobilization and to be monitoring construction activities, it had not submitted monthly reports for the last five months. Also, it had not submitted any invoices for the work done as a third-party monitor. The contract with the third-party monitor was for US\$ 1.2 million, but as of October 2013 the office had received invoices for only US\$ 94,000. The third-party monitor informed the audit that there was lack of clarity on the deliverables under the contract. The deliverables were revised and clarified by UNICEF in August 2013. The third-party monitor had not yet developed and submitted to UNICEF the design, methodology and work plan for social mobilization and monitoring activities.

At the current pace of the programme implementation, there is a high risk that the project will not be completed within the planned timeframe. The office had indicated delays in implementation of the project in the quarterly reports submitted to the donor, and had had some discussions about possible delays with the MoE. However, there were no concrete plans to assess the need to extend the project implementation period.

**Agreed action 13 (high priority):** The country office agrees to:

- i. Follow up with the Ministry of Education's procurement department to discuss constraints and solutions, and secure commitments for expediting the procurement process.
- ii. Review the work of the third-party monitoring organization in line with the contract, identify causes for low performance, address constraints and take appropriate action to ensure timely receipt of monthly progress reports and other deliverables.
- iii. Follow up with Supply Division to ensure the local procurement authorization is secured as required.
- iv. Ensure sufficient staffing in the construction unit, including filling the post of the head of the unit.
- v. In consultation with key stakeholders within the MoE and the donor, assess the likelihood of completing the project within planned timeframe and budget and with the expected quality, and make adjustments as necessary.

Staff responsible for taking action: Chief of Education; Construction Engineer; Supply Manager

Date by which action will be taken: March 2014

### Global Partnership for Education (GPE)

The GPE programme aims to help the Government of Afghanistan achieve the goals of Education for All (EFA) and is aligned to the country's Education Interim Plan (2012-2014). The GPE fund amounts to US\$ 55.7 million for three years from 2012 to 2014, with Denmark providing coordination. An amount of US\$ 9 million, or 16 percent of the total, was disbursed

from UNICEF New York directly to the Ministry of Finance in October 2012.

As a supervising entity, UNICEF is expected to provide expert assistance to the MoE and its partners to monitor progress in programme implementation, to assess on-going programme achievements, and to provide on-the-job capacity-building. UNICEF also has a fiduciary supervisory role in that it is designing the funding processes for the GPE Programme to create a sound control environment. There were mechanisms for planning and monitoring the implementation of the programme activities, and UNICEF, as a supervising entity, worked closely with MoE and other stakeholders to provide the required technical input. UNICEF had contracted an accounting firm to perform its duties as a fiduciary agent, including monitoring and reporting on activity implementation and utilization of funds as per terms of reference.

However, with only 15 months left before the planned completion of the programme by 31 December 2014, the implementation rate on all four priority areas was significantly below expectations. So far, the activities implemented related to preparatory work such as recruitment of key personnel, development of training materials and some training activities.

The half yearly progress review report (January-June 2013) prepared by the contracted accounting firm identified a number of gaps in the implementation of the programme by the MoE, including: absence of periodic programme targets, limiting assessment of progress made; gaps in budget monitoring, and expected financial reports not produced as required; bank reconciliations not done on time; non-compliance with grant covenants; and other matters. The report contained recommendations to address the problems identified, but as of October 2013 these had not been implemented.

The office explained that some discussions had been made with the MoE regarding the need to carry out assessments to identify bottlenecks and address the constraints, but no concrete action plan had been developed and agreed as of October 2013. Further, although the accounting firm included recommendations to address the implementation gaps, the root causes of these gaps were not identified. However, the delays in implementation of activities included slow release of funds to the provinces. This was reflected in very low financial utilization rates. A further cause was that the agreement was only signed in September 2012 and the first release of funds made in October 2012, although the GPE programme is meant to be for three years, 2012-2014.

Out of US\$ 9 million released by UNICEF New York to the government in October 2012, only US\$ 500,000, or 6 percent, had been spent as of 30 June 2013.

**Agreed action 14 (medium priority):** The country office, in collaboration with the MoE and other key stakeholders, agrees to:

- i. Follow up with the Ministry of Education and other key stakeholders to identify root causes of delays, and identify specific measures to be taken to address the constraints to the implementation of the GPE programme; and ensure that the recommendations made in the half-yearly progress report are addressed.
- ii. In view of the implementation rate, review the assumptions in the GPE implementation plan and revise the time-frame for completion of the programme as appropriate, taking account of cost implications.
- iii. Document and share lessons learned with UNICEF headquarters, regional office and other offices implementing or planning to implement GPE programmes with UNICEF being a managing or supervising entity.

Staff responsible for taking action: Deputy Representative, Chief of Education and Programme Specialist

Date by which action will be taken: June 2014

### Polio eradication programme

The country office has worked with the Afghanistan government on polio eradication under the health and nutrition programme since the 1990s. In 2012, UNICEF spent US\$ 19.8 million on the polio eradication programme. The annual budget was estimated at US\$ 53 million for 2013 and 2014. The 2012-2013 programme, which was aimed at eradicating polio in a target population of about 8.8 million children under five, was implemented in partnership with the World Health Organization (WHO) and donors including the Canadian International Development Agency (CIDA), Japan and the World Bank. WHO was responsible for training of vaccinators, polio surveillance and post-campaign assessments. The Ministry of Public Health (MoPH), WHO and UNICEF had established financial committees in four of the 34 provinces (Helmand, Kandahar, Nagahar, and Kunar) where most of the campaigns, and the biggest funds disbursements, were, with 13 rounds of polio campaigns completed between since January 2013 (as of September).

The audit observed the polio immunization activities in the Eastern Province and noted a high level of commitment. The activity was run professionally and the country office was taking full account of the security risks specifically related to cross-border immunization activities. It had established a two-way immunization process for people crossing to Afghanistan and into Pakistan. However, the following was noted.

**Management of funds:** Around the end of 2011, CIDA reported that it had received allegations of irregularities on the management of funds in the implementation of the polio programme in some of the communities. However, the UNICEF office identified no specific fraudulent activities. UNICEF, in collaboration with WHO, had strengthened controls on the management of funds and implementation of planned activities so as to minimize the risks of fraud. A training of trainers on management and accountability had been carried out in 2012 with primary health care officers, provincial and regional immunization officers, NGOs, and UNICEF national and provincial teams. This training, which had been conducted in the southern and eastern provinces and was under preparation for the south-east, aimed to improve the quality of campaigns and the management of funds so as to reduce the risks of fraud and misuse of funds.

**Risk mitigation:** UNICEF and WHO had conducted a risk assessment and developed a risk-mitigation plan with specific actions and key performance indicators to address key risks, such as hiring and supervision of vaccinators, payments as per plan and waste of vaccines. However, the plan, containing 24 mitigation measures, had too many performance indicators (46) and no targets. The lack of targets limited the capacity of UNICEF and WHO to measure and report on progress, and the high number of indicators led to burdensome monitoring and reporting.

The audit also noted during field visits that the persons responsible for coordinating polio programme activities were not aware of the issues, risks and planned actions included in the risk-mitigation plan. Moreover, responsibilities for implementing the mitigation measures and reporting on their implementation were not clearly defined and understood. The plan indicated that the MoPH, WHO and UNICEF were jointly responsible for each of the 24

mitigation measures. However, the individual responsibilities of each partner were not established. Further, the responsibilities for, and format and frequency of, reporting on progress against the risk mitigation plan had not been defined. There had been discussions between WHO, CIDA and UNICEF on this, but no final agreement. As of October 2013, no progress reports had been prepared by UNICEF or received from the provinces.

**Release of funds:** WHO was responsible for operational activities and carried out the contracting of various activities and procurement in conjunction with the MoPH, following a signed micro-plan. However, the funding for these operational activities (approx. US\$ 14 million in 2013) was managed by UNICEF and released to the Provincial Health Departments. There were some delays in the release of these funds, for various reasons – including the existence of DCTs that had been outstanding over nine months (UNICEF’s procedures do not permit release of DCTs to partners with previous transfers outstanding for that period). These delays resulted in delays to implementation. During the audit visit, WHO indicated that there had been some discussion regarding the transfer of funds to it for operational activities, but no concrete decision had been made as of October 2013.

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

- i. Review the mitigation plan to ensure a manageable number of indicators with specific targets on them; clarify responsibilities for implementation of the mitigation measures, with Ministry of Public Health (MoPH) playing a more proactive role in reporting progress against set indicators and targets; clarify timing and format of the annual report on implementation of the plan.
- ii. With assistance from UNICEF HQ, follow up with the World Health Organization to finalize timelines and procedures for transferring operations costs from UNICEF to WHO, in consultation with MoPH and key donors.

Staff responsible for taking action: Chief of Polio Programme and Chief of Operations

Date by which action will be taken: June 2014

### Programme management: Conclusion

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

### 3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules 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 areas above were covered in this audit.

#### Satisfactory key controls

The office ensured that the bank signatory panel was up to date, and that documents relating to financial transactions – including cheques, payment vouchers and supporting documents – were kept in a secure restricted place. The office carried out bank reconciliation of all bank accounts maintained in Kabul and at the zone offices, and reconciling items were cleared within reasonable time. The 2012 year-end accounts closure reports were processed and submitted to the Division of Financial and Administrative Management (DFAM) according to the established timeline.

The audit visited warehouses in Kabul and Kandahar. There was adequate segregation of duties in the receipt, recording, and authorization for issue of supplies from the warehouse. The office carried out a physical inventory count twice a year, and an unannounced audit test of inventory records did not find any discrepancies. The office was working with DFAM in cleaning up the Property, Plant and Equipment (PPE) records, removing disposed-of and low-value items from the inventory records. Responsibilities for custody, recording, and physical verification of PPE were adequately segregated and, overall, PPE was well managed.

The physical security of ICT equipment in the server room was well maintained and access to UNICEF network and application systems was properly managed.

As part of its business continuity strategy, the office operated a remote disaster recovery site that was synchronized with the main office data centre through use of remote backup and replication in Afghanistan, and another disaster recovery site had been installed in another location.



## Management of cash transfers

A total of US\$ 86 million was released to programme implementing partners during the period from January 2012 to September 2013. The audit review noted areas for improvement with regard to requesting, processing and liquidating cash transfers.

Cash transfers were not made in accordance with the agreed timeline for implementation of programme activities established in the rolling workplans or in the PCAs. In 19 cases reviewed, cash transfers were not released before the start of the activities, with delays ranging from 11 to 103 days. For example, the cash transfer to support advisors in education for the period from January to July 2013 was released only in June 2013.

The delays in cash transfers to partners were due to slow internal processing of transfers by the office. In 11 of the 23 cases reviewed, the processing time from receipt of partners' request to payment date ranged from 31 to 100 days. Further, the implementing partner's requests for cash transfers did not consistently provide sufficient information, such as the planned activity start date and reference to the annual workplan. In five out of the 23 cases reviewed, the partners' request did not provide information on when the activity was expected to start so as to ensure that the release of funds could be made before the activity start date.

Significant delays were also noted in the processing of reimbursement-type cash transfers. In three out of seven cases reviewed, the payments were made to the partners within three to six months of the receipt of expenditure receipts and invoices from the implementing partners. Late submission of supporting documents was reported as the main cause.

While the office had mechanisms for periodic monitoring of the status of outstanding DCTs, more effort was required to minimize the amount outstanding for over six months. As of August 2013, this was about US\$ 2 million, or 15 percent of the total outstanding DCTs. Of the US\$ 2 million, about US\$ 1.4 million had been outstanding for over nine months. It was noted that about US\$ 600,000 of DCT outstanding over nine months was due to an automated-system problem, whereby a liquidation could not be effected. The office was following up with DFAM to resolve it.

**Agreed action 16 (medium priority):** The country office agrees to strengthen monitoring mechanisms to ensure that cash transfers (advances and reimbursement) are processed, released and liquidated on time. (See also agreed actions 9 and 11 earlier in this report).

Staff responsible for taking action: Deputy Representative, Chief of Operations, Finance Manager, Section Heads and Planning Specialist

Date by which action will be taken: January 2014

## Supply procurement and logistics

Total procurement of programme supplies amounted to US\$ 22 million in 2012 and US\$ 14 million in 2013 (as of 30 August). The main items included medical supplies, school furniture and supplies and printing. About 10 percent of all supplies were locally procured; the remainder were obtained through offshore procurement.

There was adequate application of UNICEF standard procedures, with detailed tabulation of bids and notes prepared with justification for selection of suppliers. The suppliers were given sufficient time to prepare and submit bids (14 to 30 days), and bids-opening attendance sheets

were prepared. Where cases were submitted for review by the Contract Review Committee (CRC), the submissions were well prepared and the deliberations well documented. Wherever applicable, technical inspections were carried out through an inspection company or by staff members.

However, the audit also noted the following.

***Delivery of supplies:*** In nine of the 15 cases reviewed by the audit, there were delays in delivery of programme supplies by suppliers to the warehouse. The delays ranged from two to 112 days after the purchase orders' target arrival dates, with five being over 35 days. The office had a system for monitoring delivery against target arrival dates, but did not always use it effectively. Further, in 10 of the 15 cases reviewed, there was no evidence to show that the supplies had been delivered to the partners.

***Procurement through partners:*** Significant amounts of supplies were procured by the government partners using cash transfers from UNICEF. However, the country office had not assessed the procurement capacity of the government partners to identify and address capacity gaps. This limited assurance regarding funds given to partners for procurement of supplies.

***Inventory in the warehouse:*** The audit noted that US\$ 2.7 million-worth of supplies, or 71 percent of the total inventory (which was US\$ 3.8 million), had been in the warehouse for over six months as of 30 September 2013. Of this, US\$ 1.7 million-worth had been in the warehouse for over 12 months. About US\$ 700,000 of this consisted of prepositioned supplies, but that still meant that about US\$ 1 million worth of supplies for the regular programme had been in the warehouse for over 12 months.

Poor planning, including absence of distribution plans, was the main cause of slow movement. However, severe weather conditions also hampered speedy movement of supplies to project sites. In 2012, the nine-month closure of the border with Pakistan contributed to delays in receiving and forwarding supplies. Improvement in planning for procurement and distribution was needed to ensure speedy movement of inventory from warehouse to the partners.

***In-country logistics:*** The country office was carrying out in-country logistics, including customs clearance of imported supplies, transportation and warehousing. The total amount spent on in-country logistics for the period from January 2012 to September 2013 was about US\$ 1.2 million. The office did this because programme partners lacked the capacity. However, the office had not assessed that capacity; moreover there was no clear strategy for building it, and transferring these responsibilities to the government.

***Supporting documentation:*** The audit noted 16 cases of payments for supplies with significant values (ranging from US\$ 17,000 to US\$ 325,000) against hand-written invoices. Such invoices did not provide information such as tax registration numbers of the suppliers; some were not numbered, and/or lacked letterhead or company logo. Further, the suppliers did not consistently provide delivery notes. Only UNICEF goods receipt notes done manually by the office were attached.

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

- i. Provide guidance to partners to ensure that partners' requests for supplies provide sufficient information for the procurement process.

- ii. Ensure that the monitoring tool developed by the office is consistently used to track delivery of supplies and promptly address any delays, and ensure that supplies are procured and delivered to the partners on time.
- iii. Discontinue procurement of supplies through government partners unless those partners' capacity has been assessed and mitigating controls are in place to address gaps.
- iv. Review the inventory of programme supplies and ensure that all supply items (excluding those that are prepositioned) are promptly distributed to programme partners upon receipt in the warehouses.
- v. Undertake assessment of the in-country logistical capacity of partners and, working with government partners, develop an exit strategy for gradually handing over responsibilities for clearing, forwarding and distribution of programme supplies.
- vi. Ensure that, for significant amounts, proper invoices and delivery notes are provided for supplies received from the suppliers.

Staff responsible for taking action: Supply and Logistics Manager

Date by which action will be taken: June 2015

### Contracts for services

The country office issued 326 contracts for services during the period from January 2012 to September 2013. Of the 326 contracts, 264 were for corporate contractors and 62 were for individual consultants. The audit noted the following.

**Single-source selection:** The audit review of a sample of seven individual contracts for services noted that five were single-sourced. Although the office had recorded the reasons for this, including difficulty in getting candidates with suitable skills and rehiring of consultants who performed well in previous contracts, the excessive use of single sourcing in the selected sample limited assurance that the office was getting the best services available.

**Amendments to contracts:** Where there were amendments to the contracts, the office did not ensure that those involving an increase of more than 10 percent in cost were resubmitted to the CRC before the amendments were agreed with the contractors. In one case, a contract that was reviewed by the CRC with a start date of 22 May 2013 with total cost US\$ 778,000 was amended with a cost increase of US\$ 702,000, or 90 percent of the original amount. In another case, a contract for US\$ 278,000 had been amended with an increase of US\$ 128,000, or 46 percent of the original amount. In both cases, the requests for amendments were only submitted to the CRC after commitments had been made and contractors had incurred the additional costs and provided the services.

**Supplier performance evaluation:** The office did not consistently ensure that the performance of consultants and institutional contractors was evaluated at the end of the contract. In eight of the 15 sampled cases, the final evaluation reports were not on file and not attached to the final payments. Three of the eight cases related to individual consultants and five to institutional contracts. The lack of final evaluation limited assurance regarding the achievement of objectives and value for money, and reduced the office's capacity to identify lessons learned and improve contracting practices.

**Processing of contracts in VISION:** The audit noted processing errors and incomplete information regarding contracts in VISION. For example, in processing advances against contracts, proof of receipt of deliverables was recorded in VISION before the service was

rendered. Also, the travel costs were not included as a line item on the contracts in VISION; instead, the office issued travel authorizations separately. Other errors noted included extension of contracts done by issuing new contracts instead of amending existing ones because staff did not know how to make amendments. Further, the information regarding contracts was not consistently filled in under the relevant header/tabs in VISION. For instance, evaluation, sourcing, competitive/single source, and CRC review were not reflected in VISION.

The gaps noted above were partly due to inadequate oversight on contracts management. For example, the Human Resources Unit did not always review the proposals for hiring individual consultants, and did not review compliance with required processes in VISION. Although VISION training had been provided in 2012, refresher training would help to strengthen staff understanding of key aspects of contracts management.

**Agreed action 18 (medium priority):** The country office agrees to:

- i. Ensure competitive selection of consultants and use single source-selection on an exceptional basis only, in accordance with UNICEF policy and procedures.
- ii. Ensure that proposed amendments with cost increases exceeding the allowable threshold are submitted to the CRC for review before commitments are made and additional costs are incurred by the contractors.
- iii. Ensure that there is final performance evaluation of consultants and institutional contractors and that evaluation reports are kept on file and used to support payment of final consultancy fees.
- iv. Ensure that travel costs related to contracts for services are included in the costs of contracts and correctly coded as separate line items on contracts in VISION.
- v. Request the Human Resources Unit to review all contracts for individual consultants before contracts are issued, and monitor for compliance with all requirements in VISION.
- vi. Provide refresher training to staff on contracts management, including creation of contracts and amendments in VISION, to ensure that contracts are processed and managed in accordance with UNICEF requirements.

Staff responsible for taking action: Chief of Operations and Human Resources Manager

Date by which action will be taken: March, 2014

### Operations support: Conclusion

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

## Annex A: Methodology, and definition of priorities and conclusions

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

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