Internal Audit of the Armenia Country Office

December 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/50

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Armenia Country Office. The audit was conducted during the period 26 August to 19 September 2013. The audit covered governance, programme management, and operations support during the period from 1 January 2012 to 26 August 2013.

Armenia is a landlocked country situated at the crossroads of Western Asia and Eastern Europe. The country office is based in the capital, Yerevan, with no zone offices. It has a total workforce of 19 including two international professional (IP) posts, seven national officer (NO) posts and 10 general services (GS) posts, of which three (one IP, one NO, one GS) were vacant at the time of the audit. The country programme has two main components, *Child rights monitoring and social policies* and *Systems strengthening in social sectors*.

The initial country programme for 2010-2015 had an approved budget of US$ 8.7 million, of which US$ 4.5 million was to come from Regular Resources (RR) and US$ 4.2 million from Other Resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed; OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR. In August 2013, the Regional Office approved an additional US$ 3.2 million, to come from OR, bringing the total budget for the country programme to US$ 11.9 million, of which US$ 4.5 million (38 percent) was to be funded from RR and US$ 7.4 million (62 percent) from OR.

Action agreed following 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 the issues raised in this report. The report does not contain any high-priority issues. However, four medium-priority actions are included in the governance area, four are included in programme management and one in operations support. These are described in the report.

Conclusion

The audit concluded that overall, 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 measures to address the issues raised are presented with each observation in the body of this report.

The country office, with support from the Regional Office of Central and Eastern Europe and the Commonwealth of Independent States (CEECIS), and OIAI will work together to monitor implementation of these measures.

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Objectives

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

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had implemented a staffing structure, and reporting lines, as set out in the Country Programme Management Plan (CPMP). [1] The office also had appropriate supervisory structures in the form of office committees and teams. The terms of reference and membership of these committees and teams were defined and documented. Based on the samples reviewed, Contract Review Committee (CRC) and Programme Cooperation Agreement Review Committee (PCARC) reviews were based on adequate submissions.

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

Country Management Team

The office had a Country Management Team (CMT) with defined terms of reference and membership. According to the Programme Policy and Procedures Manual, the CMT is the central management body for advising the Representative on procedures, strategies, programme implementation, management and performance, and should meet regularly and as often as required. CMT meeting minutes should record decisions and actions taken, particularly in areas of low performance. The CMT had met six times in 2012, and five times in 2013 up to August.

In the Office Management Plan (OMP), the office had defined 14 key performance indicators for implementation of the country programme. However, the audit's reviews of the CMT minutes and interviews with staff found that the CMT reviewed no more than four indicators regularly. The office said that discussion of some indicators was not fully reflected in the minutes. Also, it was difficult to get all the CMT members together in the office, making it harder to meet regularly to monitor these indicators. For example, in 2012 there was no meeting during November-December, so the four indicators that were planned for CMT review at year-end were not monitored. These included the percentage of total cash assistance requisitions issued in the last quarter, and the percentage of professional staff who spent at least 10 working days on planned learning.

The audit also noted a couple of CMT decisions that were not aligned with UNICEF rules and regulations. In July 2012 the CMT agreed with a proposal to hire service providers (printing, translating, editing) with competitive pricing that were not covered by United Nations country team (UNCT) long-term agreement (LTA) and without any justified competitive selection to ensure value for money. Also, in March 2013, the CMT decided to receive bids by email from service providers and individual consultants located outside of Armenia. In fact such bids should be received by ordinary mail, so that the office can open bids simultaneously, to ensure fair competition and prevent inappropriate sharing of information. During 2012-2013, of 34 contracts (individual and institutional), seven involved international contractors, and on two occasions bidding proposals were received by email.

Agreed action 1 (medium priority): The office agrees to ensure that the Country Management Team meets regularly, at appropriate intervals, and regularly monitors all the key management performance indicators in the Office Management Plan, and records their performance status in its minutes.

Staff responsible for taking action: Representative
Date by which action will be taken: December 2013

Agreed action 2 (medium priority): The office agrees to ensure that the Country Management Team members understand their advisory role and ensure their decisions are informed by sufficient analysis and in line with UNICEF's rules and regulations. In this regard, the office will ensure that selection of service providers is competitive or is otherwise justified, and that the CMT also revisits its decision to receive bids via emails.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: December 2013

Key management priorities and results

An office's OMP is expected to define key annual management priorities and results, such as key aspects of coordination and partnership, major advocacy themes, or areas for improvement. These priorities and results should reflect the outcome of the office's Risk and Control Self-Assessment (RCSA).[2]

However, the 2012-2013 OMP did not specify the key management priorities and results. Neither did it reflect the results of the RCSA, although the office had conducted RCSA reviews twice a year during 2012 and 2013. Instead, under the section on key management priorities and results, the OMP listed the Programme Component Results (PCRs) and Intermediate Results (IRs) for the 20120-2015 country programme itself.[3] These are the results that the country programme aims to achieve for children, whereas the management priorities listed in the OMP should be the day-to-day priorities that should guide management in its support of those longer-term objectives. Failure to define those priorities, and to link them with the RCSA, will weaken an office's ability to focus the use of financial and human resources on the most significant programme priorities and results.

Agreed action 3 (medium priority): The office should refine the key management priorities and results. These should be developed in consideration of Risk Control Self-Assessment review results and documented in the Office Management Plan.

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

Staff performance evaluations

Staff performance evaluations were not always completed on time. At the time of the audit in September 2013, of the 17 staff in the office, five had not finalized their performance evaluation reviews (PERs) for year-end 2012, and additional four staff had not finalized theirs for the 2013 mid-year review. The office informed the audit that the final year-end discussions had been completed, but that due to other priorities, the finalization took longer than expected. Inadequate or late performance evaluations may weaken staff accountabilities and affect the timely identification of bottlenecks and their resolution. They could also demoralize staff.

Agreed action 4 (medium priority): The office agrees to ensure that staff priorities are established and agreed with the individuals concerned, and that performance is assessed and reported in a timely manner.

Staff responsible for taking action: Operations Manager
Date by which action will be taken: March 2014

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[2] Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform an RCSA at regular intervals. 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.

[3] A PCR is an output of the country programme, against which resources will be allocated. An IR is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the governance area were generally established and functioning during the period under audit.

2 Programme management

In this area, the audit reviewed 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.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had established rolling workplans for 2012-2013, complete with activities, timelines, implementing partners and budget. They had been endorsed by the government counterparts. There were clear performance indicators, baselines and targets for the PCRs and IRs in the Country Programme Action Plan (CPAP),[4] providing a basis for monitoring and reporting on the programme results.

Harmonized Approach to Cash Transfers (HACT)

In 2012, the office had expended US$ 398,000 in direct cash transfers (DCTs); in 2013, as of 26 August, it had expended US$ 277,000 in DCTs.

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT exchanges a system of rigid controls for a

[4] 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.

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). It also includes assurance activities – spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits.

In Armenia, the UNCT had launched a joint initiative on HACT in 2007 and the macro-assessment on the government financial systems was conducted in the same year. However, the HACT procedures had not been fully adopted.

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. However, the office had micro-assessed 21 of its 22 implementing partners as of August 2013, without other UN agency collaboration. It did not know which of these partners also worked with other agencies. According to the office, the other UN agencies in the country had not fully implemented HACT and it was not a part of common operating procedure nor an item discussed at UNCT meetings.

The office is also expected to establish an assurance plan for its assurance activities regarding the use of DCTs by partners. Based on the results of the micro-assessment and the individual partner's risk ratings, the assurance plan should specify the frequency, schedule and the tests needed (spot checks and/or special audits) to provide assurance on the DCT-funded activities.

The office did have an assurance plan, but it had not been fully implemented. Of six spot checks that were planned in 2012, three were completed. In 2013, of 14 spot checks planned, two were completed at the time of the audit. For 2013, the majority of the incomplete spot checks were planned in the fourth quarter. The audit also noted that the plan included only 15 of the 22 partners receiving DCT assistance. While all partners receiving larger amounts of DCTs (over US$ 20,000 per year) were covered, there were no established criteria for which ones should be included. The assurance plan was not based on risk; while no partner was rated as high risk, the same frequency of spot checks was planned for both the partners rated as medium and low risk. The office informed the audit that the partners rated medium risk were required to submit additional financial supporting documents (such as invoices) when liquidating the DCT, but this was not in line with the HACT procedures; they are intended to eliminate such documentation where possible.

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

i. Prioritize the full implementation of Harmonized Approach to Cash Transfers procedures, and where possible, work jointly with the UN country team towards the establishment of oversight and coordination mechanisms.
ii. Develop an assurance plan based on defined criteria for prioritization of partners, including the identified risk levels, and establish mechanisms to ensure that the plan is implemented.

Staff responsible for taking action: Representative and Operations Manager
Date by which action will be taken: March 2014

Field monitoring

Offices are expected to establish a monitoring framework that includes detailed plans and schedules of the field visits, analysis of information, progress reporting and action taken. The office had instituted a quarterly travel plan in October 2012, including the field visits for programme monitoring. The audit reviewed the travel plan for the last quarter of 2012 and found that of the eight trips planned for the quarter, four were for programme monitoring. However, they did not take place (and were to have been for only one programme section). Four field visits for programme monitoring did take place, but had not been included in the plan. Inadequate planning for field monitoring may prevent prioritization of the activities to be reviewed and the timely detection of any bottlenecks.

The audit also noted that, with the introduction of UNICEF's new management system, VISION, in January 2012, the office had had to discontinue the existing field monitoring system. The office had not established mechanisms to replace it, and therefore had no mechanism to systematically plan and implement field visits and follow up on their results.

Agreed action 6 (medium priority): The office agrees to introduce a field-monitoring process covering all relevant programmes, including preparation of a plan, reporting of the results and monitoring of implementation and follow-up actions.

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

Resource mobilization strategy

Offices are expected to develop a clear and comprehensive resource mobilization[5] strategy for securing approved OR in support of the country programme. The strategy should outline the main existing and potential governmental and inter-governmental funding sources, and opportunities in the private sector including National Committees, inter-organizational arrangements as well as new aid channels such as global funds, and foundations. The strategy is expected to be focused on flexible and long-term funding and set specific resource mobilization targets for the programme period and outline how, where, when and with whom resource mobilization activities will be undertaken.

In the Country Programme Document, the office's approved budget for the country programme 2010-2015 was US$ 8.7 million. With the additional US$ 3.2 million in the OR ceiling approved in August 2013, the office's total budget for the country programme was US$ 11.9 million. Of this, US$ 7.4 million was to come from OR, and US$ 3 million (41 percent) of it was unfunded at the time of the audit.

The office's CPMP, OMP and RCSA all specified development of a resource mobilization strategy, but at the time of the audit this had not been done. The office said it planned to recruit a consultant to help develop the strategy and that the new modules for project proposals were under preparation, and would be presented to potential donors – in Armenia and outside – with the focus on private-sector donors.

During the audit's discussion with the CEE/CIS Regional Office, the Regional Office stated that

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

the office's strategy for fundraising should be geared more towards a collaborative approach than an individual one.

Agreed action 7 (medium priority): The office agrees to develop a resource mobilization strategy that is in line with the collaborative strategy adopted for the CEE/CIS region and assign responsibility to monitor its implementation.

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

Evaluation

According to the Programme Policy and Procedures Manual, each programme component should be evaluated at least once during the country programme cycle. The office had established an Integrated Monitoring and Evaluations Plan (IMEP) for the country programme cycle 2010-2015, as well as the annual IMEPs for 2012 and 2013. However, the office's IMEP for the country programme cycle did not include all the programme components.

The office's country programme had two programme components results (PCRs) – PCR 1 on *Child rights monitoring and social policy*, and PCR 2 for *System strengthening in the social sector*. However, the three evaluations activities that the office had planned for the 2010-2015 country programme cycle were all for PCR 2. The office informed the audit that PCR 1 was a new component and the office lacked the knowledge to evaluate it.

Agreed action 8 (medium priority): The office agrees, with the support of the Regional Office as needed, to develop an evaluation plan that covers all the key programme component result areas.

Staff responsible for taking action: Representative and Deputy Representative
Date by which action will be taken: March 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.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit excluding asset management.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had adequate procedures for payment of DCTs. The audit tested a sample of DCT payments and found that they were timely, and based on adequate supporting documents with appropriate segregation of duties. Funds were also released based on signed Programme Cooperation Agreements and Small-Scale Funding Agreements.

There were adequate procedures for bank reconciliations, which were timely and were correctly performed following prescribed procedures.

Contracts

From January 2012 to 26 August 2013, the office issued 69 individual consultant's contracts with a total value of US$ 264,000 and 25 institutional contracts worth a total of US$ 200,000. There was room for improvement in contract management, in the systems for signature, evaluation and closure.

For 27 individual contracts, there were no signature dates recorded in the system, so the audit could not determine whether they had been signed before the contract began.

Thirty-four individual contracts and nine institutional contracts were marked as open although their contract end date had passed. Of these, 26 of the 34 open individual contracts and all of the nine institutional contracts lacked completed evaluation reports. UNICEF procedures require evaluation reports for consultants and contractors to be completed before final payments are made. Of those contracts that had been formally closed, 15 individual and eight institutional contracts also lacked completed evaluation reports.

Agreed action 9 (medium priority): The office agrees to ensure that contracts are signed and closed on time and that contractor performance evaluations are complete prior to final payment.

Staff responsible for taking action: Monitoring and Evaluation Officer and Operations 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 the control processes over the operations support 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'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.