Internal Audit of the Ecuador Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/28

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Ecuador country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities. The audit team visited the office from 3 to 9 April 2013. The audit covered the period from January 2012 to the start of the audit.

Ecuador has a population of 14.5 million, of which about 5.2 million are under 18 years of age. Ecuador was ranked 89th out of the 186 countries on the UNDP Human Development Index for 2012. The World Bank reports its gross national income per capita as US$ 4,200 in 2011 (or US$ 8,510 when adjusted for purchasing power parity). Ecuador's 2009-2013 National Development Plan emphasizes poverty reduction, social inclusion, equality and justice.

The UNICEF country programme for 2010-2014 has a total budget of US$ 20 million. The mid-term review took place in 2012. The country programme consists of four main programme components: *Early childhood and adolescent health and nutrition*; *Universal education with equity*; *Strengthening of the comprehensive protection policy*; and *Cross-sectoral costs*. Of these four, *Universal education with equity* is the biggest, representing 33 percent of the country-programme budget. It aims at giving indigenous and Afro-descendent children and adolescents in the poorest areas access to high-quality services including properly funded, high-quality early education.

The Ecuador country office is based in the capital, Quito. It has a total workforce of 26 approved posts (three international posts, and 23 national positions including 11 national officers and 12 general service staff). At the time of the audit, five of the 23 posts were vacant.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. The report contains 18 agreed actions. Five of them are being implemented as a high priority; that is, to address issues requiring immediate management attention. They are as follows:

- The office will establish mechanisms to ensure that conflicts of interest are managed appropriately, and ensure that staff understand the obligations they incur when they sign the International Civil Service Commission's Oath of Office.
- The office agrees to take steps to strengthen the functioning of the contract review committee.
- The office agrees to strengthen the review of programme cooperation agreements (PCAs), to comply with the standard UNICEF format for PCAs, and to discontinue donor-driven proposals and selection of implementing partners.
- The office will clarify staff accountability, and define oversight and coordination mechanisms, to strengthen implementation of the Harmonized Approach to Cash Transfers (HACT). In particular, it will ensure that:
    - o all micro-assessments of partners are completed;
    - o the results of the micro-assessments are reviewed and appropriate action taken; and,
    - o there is an in-depth review of expenditures incurred by one particular partner,

with recovery of those expenditures not supported by the review.
- The office agrees to carry out adequate assurance activities, including programme monitoring, in order to manage risks as required under HACT.

Conclusion

The audit concluded that overall, controls and processes in the Ecuador country office needed improvement to be adequately established and functioning. The measures to address the issues raised are presented with each observation in the body of this report. The Ecuador country office has developed an action plan to address the agreed actions.

The Ecuador country office, with support from The Latin America & Caribbean Regional Office (LACRO), and OIAI will work together to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) July 2013

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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 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 defined key programme and office priorities, performance indicators, programme management and coordination mechanisms in the 2012 annual management plan. The office had also established the terms of reference of various governance committees, such as the country management team (CMT), contract review committee (CRC), joint consultative committee, local property survey board and programe coordination committee (PCM); these met in 2012 and 2013 and records were maintained of the meetings. CMT and PCM meetings discussed strategic issues, including the office structure for the new country programme, and the mid-term review (MTR).

The office had developed a table of authority in 2012 and 2013. Roles and functions in VISION[1] had been assigned to designated staff. In 2013, the office initiated a process of exploring new structure options with the entire staff; new structure proposals were provided and recommendations made to management. The final proposal was prepared and presented to the CMT.

Changes in staffing structure

In March 2013, the office submitted proposed staffing structure changes to the programme budget review (PBR). The PBR is a process by which a country office's proposed budget and structure are reviewed at regional level. The office prepared a list of posts to be abolished in the new structure and informed the audit that the list had been discussed and shared with the regional office for review and recommendations.

The Regional Office had been examining options for transition to a shared VISION transactions-processing hub, and had asked offices in the region to submit two alternative staffing structures to the PBR – one based on a proposal based on retention of transaction processing in the office, the other on joining a transaction-processing hub based in Panama. The regional office technical review chose the hub option, and the necessary changes were included in the revised 2010-2014 country programme management plan (CPMP)[2] presented to, and approved by, the regional PBR.

The revised office structure consisted of abolishing 21 of the office's 26 posts and establishing a number of new ones, so that there would be 14 posts for the remaining year of the country programme. The office PBR submission explained that the revised organizational structure responded to a lack of funding to support the current office structure as it was. The PBR submission was also intended to reflect the MTR that had been conducted in 2012.The changes were to take place by end of 2013 on the programme side, and the operations changes by May 2014.

The audit made a number of observations concerning the planned changes. First, they are to be implemented in the last year of the country programme; such changes could detract attention from programme implementation and affect the preparation of the next country programme.

Second, the office stated that although the report of the MTR had not yet been formally approved at the time of the PBR submission, it had been discussed and broadly agreed with Government officials (and in fact did get formal approval in April 2013, not long after the audit). The MTR document includes changes in the intermediate results, which are not reflected in the current country programme action plan (CPAP).[3] The revised country programme management plan (CPMP)[4] for 2010-2014 submitted to the PBR reflected important office structure changes that were not consistent with the signed CPAP. In particular, the signed 2010-2014 CPAP indicated the need for an admin-finance unit under

[1] UNICEF's management system, introduced in January 2012.
[2] 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.
[3] 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.
[4] 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.

operations that included IT support, logistics and transport. However, the PBR-approved minutes indicated that the office would join the Panama hub in May 2014 and some functions would not be retained in-country.

Furthermore, the office had been functioning without a permanent Operations Manager since August 2012. The Operations Manager, a National Officer (NO), had resigned on 31 July 2012. The office, with the approval of LACRO, decided to replace the NO position with international officers on temporary appointments. At the time of audit, an international position had been created and two international staff had been recruited to serve as operations managers for short periods of time – the first for three months and the second for four. The absence of continuity in an operations-manager function in the Ecuador office could eventually affect the effective and efficient transition to the newly-approved programme structure.

Agreed action 1 (medium priority): The office agrees to take the following measures, with support from the Regional Office:

i. Review changes introduced in the mid-term review document and the approved new country programme and determine key revisions that should be reflected in the country programme action plan.
ii. Ensure that there is a strategy for managing the transition to the newly-approved country programme structure. The strategy should include provision of an appropriate level of staff to support the transition, timely hiring processes to fill vacant posts and the review and/or establishment of work processes for processing of transactions through the hub.

Target date for completion: November 2013
Responsible staff members: Representative, Deputy Representative and Operations Manager

Conflicts of interest and ethical issues

The office noted instances of apparent conflict of interest resulting from family ties that staff members had with partners or donors. These had the potential to damage the country programme's effectiveness and UNICEF's reputation.

In 2009, a UNICEF staff member had informed the office of a family relationship with an official in an NGO implementing partner. The staff member suggested that the work performed by the NGO should be supervised by a colleague; however, that individual reported to her. The audit found no record of approval of this proposal and no record that the office managed the apparent conflict of interest.

In a second instance, the family relationship of a staff member in the Protection programme with an NGO implementing partner had not been formally recorded in 2010. This was despite the fact that although the project was initially managed by the Education programme, it was later moved to the Protection programme, as most activities related to that section. The staff member selected to handle the programme cooperation agreement (PCA) and monitor its execution was not related to the NGO's official, but reported to the staff member who was. Again, there was no evidence that the office had taken steps to manage the apparent conflict of interest. Further, although the PCA was signed and handled by the designated staff member, the audit found an occasion where the other staff member, who was related to the NGO official, certified a cash transfer as officer-in-charge when her supervisee was on leave. The payment was approved without any recorded acknowledgement of the apparent conflict of interest or measures to mitigate it. However, the office had ended its collaboration with the NGO in September 2012. (The audit noted further issues with the implementing partner in question; see observation *HACT implementation and assurance activities*, below).

There was also a family relationship between an official of a major local donor and the UNICEF staff member who managed activities funded by it. The apparent conflict of interest had been mitigated by the staff member delegating responsibility to manage these activities to a supervisee. However, there was no record in file of this delegation and no satisfactory evidence that the office management had been involved in managing the apparent conflict of interest.

Finally, there had been an instance in 2012 in which a staff member had used the UNICEF logo in a publication, and had written an article in a newspaper and signed it as a UNICEF staff member. There is some evidence that this publication may have affected UNICEF's working relationship with the Government. The office, and the regional Chief of Human Resources, had taken action to address the incident in 2013.

The above weaknesses could risk UNICEF's reputation and credibility.

The current Representative, who joined the office in 2011, has taken a number of steps to address the above issues and has requested all staff to attend courses related to ethics, prevention of abuse of authority and harassment. An ethics focal point has been appointed.

Agreed action 2 (high priority): The office agrees that it will, with the support of The Latin America and Caribbean Regional Office, establish procedures to ensure that apparent conflicts of interest are effectively managed in compliance with UNICEF procedures, including maintenance of appropriate documentation of those cases.

Target date for completion: September 2013
Responsible staff members: Representative and Operations Manager

Agreed action 3 (medium priority): The office will, with the support of the Ethics Office, establish systems to ensure that all staff understand the impartiality of international civil servants as required by the International Civil Service Commission's Standards of Conduct, and also understand that that impartiality is accepted by all when signing the oath of office.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative and Operations Manager

Performance evaluation

Punctuality of staff performance evaluation reports (PERs) was unsatisfactory. The audit noted that for 2011, only 52 percent office staff PERs (including the electronic e-PAS used for international staff) had been signed by all parties by the due date of February 2012. For 2012 only 40 percent (eight out of 20) were adequately completed by 12 April 2013. The delays were due to long vacancies in supervisory posts (Deputy Representative and Operations Manager).

Agreed action 4 (medium priority): The office should establish an effective mechanism for monitoring and follow-up of the completion of performance evaluation reports so as to ensure their timely completion.

Target date for completion: September 2013
Responsible staff members: Representative, Operations Manager and the Human Resources Assistant

Award of contracts and PCAs

The office issued 70 contracts in 2012, amounting to US$ 821,976. More than half those contracts were single-sourced.

In 15 out 17 of the sampled contracts reviewed, the selection was from a single source. It was also noted that requestors provided no clear selection criteria. For new supplier/service providers, a form was attached on which to provide more information; however, the form was not completed and no further information was provided to support the contract award. Despite this, the contracts were awarded.

Contract review committee (CRC): The office had an established CRC, with defined membership and clear terms of reference, to review procurement cases over US$ 20,000. In 2012, the CRC reviewed eight individual contracts, five institutional contracts and two supply procurements. It also reviewed six PCAs before August 2012, when this task was moved to a separate PCA review committee.

However, the audit noted that in four cases the CRC chairperson did not fulfill the chair's role, but acted instead as a CRC member while the committee was chaired by another CRC member. Also, a staff member who was not a member of the CRC attended the CRC meeting and signed the minutes as a CRC member. Inadequate segregation of duties was noted in two instances. In one, the CRC chair submitted a contract and then recommended its award in their role as chairperson; and in another instance a senior staff member both submitted a contract and approved its award.

PCAs: The office had signed various PCAs in 2012 and 2013. The audit reviewed a sample of these, and noted that the office was not using UNICEF's standard PCA format. For example, neither the clause on full co-operation with UNICEF audits, nor that related to the management of supplies, had been included in the agreements.

In one instance an NGO was selected by the donor. This donor-driven proposal was only discussed with the NGO and provincial government. UNICEF did not, therefore, properly discuss the expected results and the selection of implementing partners prior to the signing of the PCA with the NGO.

Agreed action 5 (high priority): The office agrees to strengthen the functioning of the contract review committee by:

i. Adhering to UNICEF Financial and Administrative Policy on the contract review committee with respect to timing and quality of submissions, membership, attendance, review and recording of discussions.
ii. Training staff to ensure that complete submissions are presented for review and

single-source procurement is fully justified as an exception and documented.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative and the Operations Manager

Agreed action 6 (high priority): The office agrees to strengthen the review of programme cooperation agreements through the PCA review committee, to comply with the standard UNICEF format for PCAs, and to discontinue donor-driven proposals and selection of implementing partners.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative and the Operations Manager

Governance: Conclusion

Based on the audit work performed, OIA concluded that the controls and processes over governance, as defined above, needed improvement to be adequately established and functioning.

2 Programme management

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

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

All the 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, in consultation with the Private Fundraising and Partnerships division (PFP), developed the individual contributions channel; this has resulted in increase in number of donors from 8,200 in 2011 to 13,780 in 2012. All donors were adequately recorded in DonorPerfect, the software used by UNICEF to manage donor information. Access security related to PFP transactions had been strengthened. Funds collected were immediately recorded, and confirmation of receipt shared with Finance.

Programme planning

In 2011, the office had developed consolidated workplans for each of the programme component results; these workplans were signed with the key government implementing partners (IPs) identified in the CPAP.

In 2012, however, the office did not require key government IPs to sign consolidated workplans. Instead, the office engaged with various IPs (government and NGO) through signed annual workplans (called POAs – *plan operativo annual*) and agreements (*convenios*). For the four programme component results, the office entered into 27 POAs/*convenios* with IPs. Information about these was shared with various key government IPs during the MTR and in sectoral meetings. However, in the absence of consolidated workplans, the key government partners did not have a consolidated picture on the range of UNICEF's support, especially in certain sectors. Furthermore, the office did not have a mechanism that gave major IPs a global understanding of UNICEF's contribution to expected programme results.

In 2013, there had been very few POAs signed at the time of the audit (early April), as the finalisation of the 2013 workplans awaited the signed MTR, and the inclusion of the MTR conclusions and recommendations into the 2013 annual workplans.

Agreed action 7 (medium priority): The office agrees to take the following steps:

i. Prepare consolidated workplans that meet UNICEF standards in format and content.
ii. Establish a process for obtaining timely written endorsement of workplans by key government implementing partners.

Target date for completion: December 2013
Responsible staff members: Deputy Representative

Defining, measuring and reporting of progress toward results

Results defined in the POAs were lacking in specificity and measurability. Some programme component results (PCRs) and intermediate results (IRs)[5] had no indicators; and some indicators had no baselines and/or targets. For example, four out of 10 indicators defined for Education PCRs and IRs had no baselines or targets. Also, three out of 13 indicators identified for PCR and IRs in Protection had no baselines/targets.

There were activities listed in the POAs that, when considered alone, were not sufficient to contribute to the achievement of the stated results. In the absence of a consolidated workplan, therefore, it was difficult to assess the progress toward defined IRs. (See also observation on *Programme planning*, above.) This was especially the case because there could be a number of POAs under a single IR. For example, under PCR 2, IR1.2 there were two POAs. Five POAs were signed under IR1.2. Under PCR3 there were nine POAs signed under IR3.2 and 10 POAs under IR3.3.

The 2012 MTR noted that the results defined in the 2010-2014 CPAP were not SMART,[6] and it was decided to redefine IRs so that they are focused, achievable with the available resources and measurable.

The audit's review of the result assessment module (RAM) in VISION[7] found that RAM entries were not done in accordance with UNICEF guidance. This requires entering statements of progress in the RAM immediately following a review with key partners (e.g. quarterly, mid-year, annual or mid-term reviews). The office indicated that all statements of progress entered in the RAM were a result of an internal quality review without the involvement of key partners.

Agreed action 8 (medium priority): The office agrees to strengthen quality assurance

[5] PCRs are defined as descriptions of significant change for children and women to which the UNICEF Programme of Cooperation will contribute. An IR is a significant change over a shorter period of time that will eventually contribute to the PCR.
[6] SMART = Specific, measurable, attainable, relevant and time-bound.
[7] UNICEF's management system, introduced in January 2012.

mechanisms to ensure that:

i. Workplans include definition of results that are specific, realistic and achievable, with indicators, baselines and targets well defined.
ii. There is consistency between information included in the signed workplans and VISION, and the roles of staff assigned to data entry and approval processes in the result assessment module (RAM) are clearly defined and the progress included in the RAM is subject to quality review.

Target date for completion: August 2013
Responsible staff members: Representative, Deputy Representative, and Monitoring and Evaluation Manager

Fundraising and donor reporting

The office had a private-sector fundraising strategy, but there was no overall fundraising strategy in 2012. There was therefore no strategy to cover thematic funding, funds from multilaterals, or funds from the National Committees for UNICEF (the bodies that fundraise for UNICEF in donor countries). The office had a number of donor proposals, but they were uncoordinated. Discussion with the Private Fundraising and Partnerships section in the Ecuador office confirmed that there was limited coordination within programme sections in terms of funding.

Six donor reports were due and were submitted in 2012, five on time and one late. Five donor reports are due in 2013, but they were not yet due at the time of audit. The audit reviewed two donor reports and noted that in one of the two reports, the office reported activities that were not in compliance with donor agreements. Examples included activities in provinces that were not supported by the donor, as noted in the observation *HACT implementation and assurance activities*, below. Furthermore, the donor report in this case indicated that the project was generally rated satisfactory, although the office had received various reports that identified serious weaknesses and control breakdowns.

Agreed action 9 (medium priority): The office agrees to:

i. Develop a clear and comprehensive resource-mobilization strategy in support of the country programme.
ii. Strengthen the donor-report quality assurance mechanism.
iii. Ensure donor reports are accurate.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative and the Fundraising Manager

Integrated monitoring and evaluation plan (IMEP)

The office had developed a 2010-2014 IMEP, which was included in the CPAP. The office had also developed annual IMEPs for 2012 and 2013. The following was noted:

- There were differences between the five-year IMEP and the annual IMEPs for 2012 and 2013, indicating that the five-year IMEP did not sufficiently guide annual research and evaluation activities.

- Comparison between the five-year IMEP and the 2012 IMEP noted that only three out of nine activities included for 2012 in the five-year IMEP were included in the 2012 IMEP and were completed.
- Three of the five activities in the 2012 IMEP were implemented as planned. However, the 2012 Ecuador Country Office annual report stated that the office had completed activities beyond those included in the 2012 IMEP – 16 surveys, studies and evaluations, according to the report. In fact, the audit found that these included not just studies and evaluations conducted in 2012 but also a publication that was part of a programme begun in 2006 and three studies begun in 2011.

Agreed action 10 (medium priority): The office should strengthen its processes for planning and implementation of research, studies and evaluations, and:

i. Ensure planning IMEP activities that are linked as much as possible to the multi-year IMEP in the CPAP.
ii. Establish a process for documenting reasons for revisions to planned IMEP.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative, and Monitoring and Evaluation Manager

HACT implementation and assurance activities

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT) policy. HACT requires offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes a macro-assessment of the country's financial management system, and micro-assessments of the individual IPs (both Government entities and NGOs). Assurance activities should include spot checks, programme monitoring and scheduled audits. There should also be audits of IPs expected to receive more than US$ 500,000 during the current programme cycle. Offices should also have an assurance plan regarding proper use of cash transfers. HACT is also required for three other UN agencies, and country offices should coordinate with them to ensure best use of resources.

In 2012, the Ecuador country office collaborated with 26 IPs, of which 17 were NGOs. No information was available regarding the total number of the IPs working with other UN agencies as well. As at 2 November 2012, cash transfers released to IPs amounted to US$ 2.9 million.

Macro-assessment*:* A macro-assessment of the Public Financial Management system of the government of Ecuador had been conducted in 2006 and updated in 2011. However, the macro-assessment report needed to be updated to reflect various changes introduced in the government financial structure, which now required all funds provided through international cooperation to be channelled to the central government through a unique national budgetary account. The 2010-2014 CPAP did not capture the impact of the change of the government financial framework and how to implement HACT in that context.

In 2012, because of these changes, the office had decided to stop direct cash transfers (DCT) to government partners at national level and implement the programme directly with various IPs (government institutions and NGOs) through signed annual workplans (called POAs – *plan operativo annual*) and agreements (*convenios*) as noted above. This mitigated risks created by the change in the government financial structure. For the future, however, the office indicated the need to train UN staff in the new Ecuadorian state regulatory processes.

Micro-assessments: Four out of five IPs that received over US $100,000 from UNICEF in 2012 were micro-assessed. The audit reviewed one of the four micro-assessments conducted, and noted that although the partner was rated high risk, there had been no follow-up action to ensure that measures were being taken to mitigate the risks identified. These included recent establishment of an automated financial system, and insufficient segregation of duties (for example, in the procurement system).

Assurance activities: Assurance activities (which include spot checks, programmatic reviews, and audits) are an important part of managing risk under HACT, as some of the documentation previously required for liquidation of cash transfers is no longer required. Assurance activities are especially important with partners that have been rated as high risk following micro-assessment.

Nine activities had been completed, including a scheduled audit. However, there was no systematic plan for the assurance activities. The audit also noted the following:

In one instance an IP that received over US$ 800,000 was rated high risk as a result of the micro-assessment carried out in 2009. This was because it did not maintain accounting records; only an Excel spreadsheet was provided. There was no follow-up done by the office, and subsequent assurance activities (financial audit and programmatic review) identified various weaknesses. For example the audit report, dated August 2012, noted that the NGO did not have financial statements, and provided no expenditure report for 2011-2012. For one intermediate result, there was no evidence on file of expenditure incurred. The audit did not find any evidence that the office had taken steps to mitigate the risk associated with the partner (for example, by requiring full supporting documents for the expenditure).

For IR1.5 *Field Mobilization and technical equipment and volunteers*, the NGO's expenditure was mainly the purchase of two vehicles. However, this was to have been covered by the government partner, not the NGO; this was clearly stated in the signed PCA.

The audit also noted that UNICEF's monitoring of activities completed by that NGO was weak and that the NGO had completed work that was not in line with the signed POA. This included the planting of 28,000 trees, and activities for creation of awareness of the importance of reforestation and environmental issues. Furthermore, under IR.2, the activities covered additional provinces that were not supported by the donor, while, as noted above, two vehicles that were supposed to be provided by the government had been purchased by the NGO using UNICEF funds not intended for that purpose. The NGO also failed to provide quarterly activity reports to UNICEF as agreed. It did provide a mid-year report, but this focused on the detail of activities rather than on results.

The NGO programmatic review by UNICEF staff suggested the need to strengthen the NGO's capacity for managing for results, and called for better monitoring, evaluation, implementation of activities, and verification of achieved results. The office stated that there were various meetings with the NGO throughout the year, but the audit found that they were not adequately documented.

There was also non-compliance with UNICEF financial rules. For example, the office decided to make direct salary payments to some NGO staff for the period April-June 2012. Such direct payments were in line neither with UNICEF rules and regulations, nor the signed PCA agreement.

By the end the project, various reports had identified serious weaknesses in the implementation of the programme, but they had not been addressed. At the time of audit, the office had decided to stop its cooperation with the NGO after the implementing period. The Representative had written to the NGO to this effect in July 2012 and activities with UNICEF ceased in September.

Agreed action 11 (medium priority): The office agrees to adhere to the requirements of the Harmonized Approach to Cash Transfers to implementing partners. Specifically, it agrees to:

i. In collaboration with UN country team, update the macro-assessment in order to reflect national policy changes, and train UN staff in the new Ecuadorian state regulatory processes.
ii. Review the HACT implementation process.
iii. Develop a HACT workflow to clarify staff accountability in preparation for the hub.

Target date for completion: November 2013
Responsible staff members: Representative, Deputy Representative, Operations Manager and Programme staff

Agreed action 12 (high priority): The office agrees to clarify staff accountability, and ensure that:

i. All micro-assessments of partners are completed.
ii. The results of the micro-assessments are reviewed and appropriate action taken, including use of methods for direct cash transfers that are appropriate for the level of risk identified for each implementing partner.
iii. An in-depth review is performed of expenditures by the NGO referred to above, and those that are not supported are recovered.

Target date for completion: October 2013
Responsible staff members: Deputy Representative, and Operations Manager

Agreed action 13 (high priority): The office agrees to ensure that there are adequate assurance activities, so as to manage risks in line with the Harmonized Approach to Cash Transfers. Specifically, the office agrees to strengthen programme monitoring to ensure that:

i. Activity implementation and results achieved are in line with those defined in the signed proposal.
ii. Monitoring reports are provided in compliance with signed agreements.
iii. Weaknesses identified in programmatic reviews are addressed, and action taken and documented.

Target date for completion: September 2013
Responsible staff members: Representative, Deputy Representative, Operations Manager and Programme staff

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over programme management, as defined above, needed improvement to be adequately established and functioning.

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.

Financial management

The audit reviewed the balance of general ledger accounts related to the office as at 13 November 2012 together with a sample of transactions, and noted the following:

General ledger (GL) coding*:* There were several GL accounts with incorrect balances. These were: Video & Film production costs (-2,050.00), Telephone (-7,955.52), and Miscellaneous Operating Expenses (-136,030.83).The wrong balance shown in the Miscellaneous Operating Expenses was caused by the incorrect posting of VAT recovery against this account. Errors in recording arose through inadequate knowledge on how to code and the impact of erroneous coding to the UNICEF books of accounts, as well as insufficient knowledge of SAP functionality related to recording and reporting. Incorrect GL coding could lead to incorrect donor and financial reporting.

Cash forecast and bank optimization: The office complied with the recommended practice of preparing cash forecasts and posting figures on the bank optimization module on a monthly basis. However, the analysis of actual expenditures against forecast figures showed an unutilized balance of US$ 1.04 million as of December 2012. The country office had identified the issue and raised it with the Regional Office and the Division of Financial Management (DFAM). Steps were being taken with DFAM to address this issue.

Bank reconciliations: There were delays in clearing reconciling items, and written explanations were not provided for 49 items in the office's three bank accounts that had been outstanding over six months as of 31 December 2012.

Vendor master record: The office had no formal process for the creation of vendor records. The Human Resources Assistant was in charge of the creation of vendor records in VISION, but this process was not formalized in writing. A review of the vendor records for suppliers and service providers located in Ecuador showed that some were duplicated in VISION; 11 out of the 29 vendor records were correctly marked for deletion and there were cases of charges being posted against both duplicated vendor records.

The office stated that the above weaknesses occurred because of challenges of implementing VISION, including inadequate guidance and training on how to maintain some of the accounts. Another contributing factor was insufficient staff capacity in the Operations section, which was understaffed from May 2012, including vacancy of the Operations Manager post from July 2012. Almost all the above issues were known and identified by the office, and steps had been taken by the acting Operations Managers to address a number of them.

Agreed action 14 (medium priority): The office agrees to strengthen staff knowledge in VISION, and:

i. Establish a process to ensure correct general ledger codes are used for all financial transactions and clear the negative balance in the goods-in-transit account.
ii. Establish a control mechanism for the creation of vendors in VISION that can record the requestor and justification for creation; establish controls over records duplication; and block the posting of duplicated invalid vendor records.
iii. Ensure that challenges in implementing VISION are addressed through training and guidance of concerned staff.

Target date for completion: September 2013
Responsible staff members: Operations Manager, Finance Assistant, and Human Resources Assistant

Disaster recovery plan and VISION implementation

The audit inspected the server room and noted that security measures for computer installations were not in line with UNICEF guidelines. There was computer equipment lying on the floor due to the lack of secure space in the office; also the ICT equipment was stored with flammable materials. At the time of the audit there was no disaster recovery plan. In the absence of such a plan, the office did not have a mechanism to ensure continued availability of essential ICT services in the event of disaster.

The office self-assessment of VISION implementation showed that users were not sufficiently trained in the system. Moreover, the training plan for 2013 did not include VISION training.

The absence of an operations manager could explain some of the above weaknesses.

Agreed action 15 (medium priority): The office agrees to review the gaps in compliance with ICT standards and:

i. Develop and test a disaster recovery plan.
ii. Conduct VISION training in areas where gaps are identified.

Target date for completion: October 2013
Responsible staff members: ICT Assistant and the Operations Manager

Management of property, plant and equipment

The information retrieved from the VISION Fixed Assets Module showed eight vehicles. Of these, two had been sold in 2012 but were still shown on the inventory.

Two more vehicles, both quite old, had been donated to the Government at *municipio* level several years earlier; but they were still recorded in the system, as the title to the vehicles had not been transferred – although the vehicles were donations, and there were no plans for them to be returned to UNICEF. This situation had arisen because the cars' registration in Ecuador could not be traced, and their title could not therefore be transferred.

The audit also noted that 15 inventory items with a total value of US$ 88,928 lacked an inventory number; for 17 inventory items worth a total of US$ 91,554, no location was specified; and six inventory items were incorrectly recorded, as the serial numbers were duplicated in VISION.

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

i. Remove the sold vehicles from the inventory.
ii. Seek guidance from the Division of Administration and Financial Management on how to handle those vehicles that have been donated to the Government but are still in the UNICEF inventory on loan and cannot be recorded as disposed of.
iii. Review the property, plant and equipment management process and carry out a physical count, locating, identifying and where necessary tagging items, and updating VISION.

Target date for completion: November 2013
Responsible staff members: Finance Assistant, Human Resources Assistant, and ICT Assistant

Collection of contributions on behalf of the staff association

The audit was informed that Ecuador Staff Association had been conducting various activities on behalf of its members. The review noted that UNICEF retained a percentage of staff salaries on behalf of the Staff Association to pay for some these activities. The percentage retained was 1 percent before April 2012; it was reduced to 0.75 percent after that date. However, a sample review of payrolls in 2012 showed that in some cases the percentage retained was over 5 percent, because the salary deductions also included payment for mobile phone services agreed between the Staff Association and the telephone company, as well as the cost of other services. Those transactions were carried out on the Staff Association's behalf without adequate authorization and review.

Agreed action 17 (medium priority): The office agrees to discontinue deduction from salaries on behalf of the Staff Association, and seek guidance from the Division of Administration and Financial Management on how to treat past payments collected on its behalf.

Target date for completion: August 2013

Responsible staff members: Representative and Operations Manager

Value Added Tax (VAT)

The office did not enforce the terms included in the PCAs regarding VAT. One PCA reviewed stated that UNICEF would not cover VAT, but cash-transfer disbursements made to the NGO included a VAT component (12 percent of the cost) that had not been recovered by UNICEF. For 2012 and 2013, the total amount in outstanding VAT refunds was US$ 100,000.

Agreed action 18 (medium priority): The office agrees to clarify staff accountability for ensuring that compliance with the terms included in the PCAs – specifically, ensure that UNICEF does not cover VAT, and establish a mechanism to recover outstanding VAT refunds.

Target date for completion: October 2013
Responsible staff members: Representative, Deputy Representative, Operations Manager and Programme staff

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'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, OIA 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, OIA 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.