Internal Audit of the Georgia Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/48

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Georgia Country Office. The audit was conducted during the period 13 June to 26 July 2013. The audit covered governance, programme management, and operations support during the period from January 2012 to June 2013.

The country office is based in Tbilisi, with one sub-office situated in Sokhumi in the breakaway region of Abkhazia. There are 37 posts, of which four were vacant posts as of 23 May 2013. The 2011-2015 Board-approved country programme has a total budget of US$ 29.05 million, of which US$ 3.75 million is Regular Resources (RR) and US$ 25.3 million is Other Resources (OR). Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources 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.

The country programme's overarching goal is to support those elements of the Government's ongoing reform process that strengthen social inclusion and cohesion, with a view to reducing inequities among children and increasing the potential for development of their human and social capital. The country programme has two main components, *Integrated and Inclusive Systems for Children*, and *Social Policy, Child Rights Monitoring and Communication*.

Actions agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has decided to implement a number of measures. One of these is being implemented by the country office as a high priority – that is, it relates to matters requiring immediate management attention. It concerns the following issue:

- The Harmonized Approach to Cash Transfers had not been fully implemented. There had been no update of the macro-assessment for the current programme cycle, and the office had not established an assurance plan informed by a risk assessment of the implementing partners.

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.

The measures to address the issues raised are presented with each observation in the body of this report. The Georgia country office has prepared action plans to address the issues raised. The office, with support from Regional Office for Central and Eastern Europe and Commonwealth of Independent States (CEE/CIS), 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 for 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:

Supervisory structures had been established and functioned effectively and efficiently. Programme performance indicators were regularly reviewed during core management meetings.

A risk management exercise had taken place with staff participation in April 2013 to update the risk assessment and action plan.

Risk management

The audit team reviewed whether the office had systematically managed the risks and opportunities that could affect the achievement of its objectives, in accordance with UNICEF's Enterprise Risk Management (ERM) policy.

The policy Includes performance of a Risk and Control Self-Assessment (RCSA), in which an office or unit reviews risks and identifies the measures to mitigate them. During the RCSA completed by the office in 2011 and updated in 2012, the office had identified six risks that were rated high. Four high risks and one medium risk were identified by the country office and included in the 2013 ERM/Risk and Control Library document.

However, the annual management plan (AMP) for 2012 reflected only one of these risks as a management priority (it was direct cash transfer, which could be linked to the high risk in the RCSA related to partner relations). As for the 2013 AMP, it also reflected only one of the risks identified for 2013 as a management priority (it was referred to as "Overall management issues", which can be linked to the RCSA high risk "Complex, confusing and un-user-friendly VISION[1] work processes delay programme implementation and lead to significant material errors or misuse of funds"). In fact, the office seemed to see no connection between the RCSA and the AMP, treating these as two completely independent exercises.

The lack of alignment between the risks identified in the RCSA and the priorities defined in the AMP could lead to the definition of inappropriate priorities or to non-mitigation of high risks identified through the RCSA.

Agreed action 1 (medium priority): The country office agrees to ensure that priorities defined in the annual management plan are aligned with the medium to high risks identified through the Risk and Control Self-Assessments, so that the management plan focuses on the most appropriate priorities.

Action expected to be completed by February 2014
Responsible staff member: Representative and Operations Manager

Governance: Conclusion

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

[1] VISION is UNICEF's management system, introduced in January 2012.

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.

Satisfactory key controls

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

Achievements and use of resources were adequately reported in the country office annual report. Also, donor reports were prepared on time and were of adequate quality.

Resource mobilization

The office had developed a resource mobilization[2] strategy and action plan for the period 2011 to 2013 and had updated it annually. In addition, a Resource Mobilization Matrix (linking contribution amount by year and by donor) was drawn up in October 2012 and a Donor Mapping (a list of donors by type with their areas of interest, local partners and UNICEF focus) was also undertaken in 2012. There was also a resource mobilization committee; this met monthly and closely monitored what the office was doing in relation to each donor or potential donor.

[2] 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.

These tools and meetings were used with a clear focus on donors, but without making the link to the programme areas where the most important funding gaps existed. As of June 2013, the country office had already mobilized over US $16.6 million, which represented 176 percent of the planned Other Resources (OR)[3] for the first three years of the programme cycle (which had been budgeted at US$ 9.4 million), and 70 percent of the planned OR for the entire five-year country programme. However, while the first Programme Component Result (PCR),[4] *Integrated and Inclusive Systems for Children*, was 64 percent funded, the other PCR, *Social Policy, Child Rights Monitoring and Communication*, remained only 17 percent funded more than two years after the start of the programme cycle.

Not focusing resource mobilization on the most under-funded programme areas could lead to non-achievement of planned results.

Agreed action 2 (medium priority): The office agrees to document, in the resource mobilization strategy, the specific activities that will be implemented to mobilize funds for the most under-funded programme result areas.

Action expected to be completed by: December 2013
Responsible staff member: Deputy Representative and Communications Officer

Harmonized Approach to Cash Transfers (HACT)

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).

Assurance activities are a further element of the HACT framework. These include spot checks of partner implementation, programmatic monitoring, 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.

In 2012, the office paid cash transfers totalling just under US$ 2.7 million to 32 different implementing partners (government and NGOs). The audit noted the following.

Macro-assessment: No macro-assessment had been undertaken for the period covering the new programme cycle. The UN agencies commissioned an assessment during the previous programme cycle and it was done by a consultant in 2006. However, the quality of the report

[3] Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. They include income from voluntary annual contributions from governments, un-earmarked funds contributed by National Committees and the public, and net income from greeting-card sales. Other Resources are contributions that have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not 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.
[4] A PCR is an output of the country programme, against which resources will be allocated.

was not satisfactory and the report was never cleared by the government. The UN agencies had, thereafter, not made it a priority for the current programme period.

However, an updated macro-assessment was needed, since the public finance management structure has evolved with the change of government. In the previous macro-assessment, it was concluded that the Supreme Audit Institution could be relied on to perform micro-assessments and/or audits. However, this had never happened so far.

Micro-assessments: Micro-assessments were planned annually for 2012 and 2013. The selection of partners to be micro-assessed was done as a participatory exercise during the Annual Management Plan (AMP) preparation, based on the threshold of funds to be received by partners annually and on other criteria derived from the programme officers' knowledge of the partners' profile. However, these selection criteria were not documented. Contrary to the recommendation in the HACT framework developed by the UN Development Group, micro-assessments were not planned based on a list of common partners among UN agencies, as this list had never been finalized. Moreover, the plan for micro-assessments was not for the whole programme period but for a year at a time, which prevented the country office from having a longer-term view on the capacity needed to undertake them.

Due to the workload linked to VISION deployment, none of the four micro-assessments planned for 2012 were completed. However, for 2013, all eight were, using a combination of staff from Operations section and a private audit company selected by the UN Operations Management Team (UNOMT[5]) in May 2013.

Assurance activities: Like the micro-assessments, the audits and spot checks were planned for 2012 and 2013 during the preparation of the AMP. The list of partners to be micro-assessed, audited or submitted to spot checks was set out in an annex to the AMP. However, the audit noted that partners were not selected for audit or spot check on the basis of their risk profile from the micro-assessment, as is specified in the HACT framework. Specifically, the findings of the micro-assessment should form the basis for determining the appropriate procedures for the provision of cash transfers, and the scale of assurance activities, for a given partner.

The level of implementation of audits and spot checks for 2012 was also very low (17 percent and 40 percent respectively). In 2013, no assurance activity had taken place by the end of July. This was mainly due to the limited staff capacity of the country office and the fact that with VISION's deployment, this was not considered as a priority. To address the backlog, it was planned to use the services of a private audit firm. All pending activities had now been scheduled and were expected to be completed by end of September 2013.

Programme monitoring is seen as an important assurance activity under HACT. In the case of Georgia, programmatic reviews were performed by programme managers as part of their monitoring activities, but independently from the HACT assurance plan. Monitoring activities were implemented on an *ad hoc* basis; there was no monitoring plan. This may lead to a situation where these activities do not always occur at the best time in the project life for corrective action to be possible. Thus the audit found that for one project, *Increased Professional Specialization for Juvenile Offenders in Georgia,* which took place from December 2011 to December 2012, all monitoring activities had been grouped at the very end of the

[5] The main objective of the United Nations Operations Management Team, which consists of most senior operations managers of all UN agencies existing in the country, is to ensure a more efficient, streamlined and coordinated administrative management system amongst UN agencies.

project, from September to December 2012. Such monitoring activities could have been planned to enable the country office to integrate them into the HACT assurance plan as an additional control tool. Indeed, the HACT framework sees programmatic reviews as part of the assurance control tools as well as audits, spot checks and capacity building activities.

Agreed action 3 (high priority)*:* The office agrees to adhere to the requirements of the Harmonized Approach to Cash Transfers to implementing partners, acting jointly with other UN Agencies where possible. In particular, it agrees to:

i. Undertake a macro-assessment for the current country programme.
ii. Update its plan for the micro-assessments to be performed over the programme cycle, based on a documented criteria, and wherever possible (depending on the readiness of other UN agencies) integrating data on common UN implementing partners. The country office should consider continuing implementation of this plan through the contracted Audit Service provider.
iii. Strengthen the integrated assurance plan by combining audits, spot checks, programmatic reviews and capacity-building missions, taking into account the risk profile of partners micro-assessed and other documented criteria.

Action expected to be completed by: December 2013
Responsible staff members: Representative, Operations Manager and Deputy Representative

Integrated Monitoring and Evaluation Plan (IMEP)

The audit found several discrepancies between the annual IMEPs for 2012 and 2013 and the five-year IMEP that was a constituent part of the Country Programme Action Plan (CPAP)[6] for 2011-2015. The annual IMEP included evaluations that were decided on later on at a later stage but the reasons for changes from the 5-year plans were not clearly documented.

Agreed action 4 (medium priority)*:* The country office agrees to ensure a process for documenting the reasons for and changes in the Integrated Monitoring and Evaluation Plans.

Action expected to be completed by: February 2014
Responsible staff members: Deputy Representative and Monitoring & Evaluation focal point

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 the area of programme management were generally established and functioning during the period under audit.

[6] 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.

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.

Satisfactory key controls

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

Closure reports for year-end 2012 were prepared on time and complied with the instructions of the Division of Financial and Administrative Management (DFAM). Bank reconciliations were also prepared on time and there were no long-outstanding reconciling items.

The audit reviewed a sample of direct cash transfers (DCTs) and found that the payments were made based on the partner requests, in a timely manner, and were adequately recorded. The audit also reviewed a sample of contribution-in-kind transactions and found that they were adequately recorded regarding receipt from the donor, release, distribution and receipt by the implementing partner, based on adequate supporting documentation.

Operations of the Abkhazia office

The audit made the following observations with regard to the Abkhazia office.

Controls over cash management: UNICEF Financial and Administrative Policy 3 on Cash Management stipulates that the Head of Office must verify the balance with periodic unannounced cash counts. The audit selected four sample months for review, and found this had not been done. This was due to the fact that the obligation to perform unannounced cash counts was not known. Indeed, controls on cash on hand were limited to preparation and approval of month-end count sheet. Without adequate monitoring of the COHA, the office may risk undetected misuse of resources.

Deployment of VISION: A former UNICEF Representative had decided that VISION system should not be deployed in the Sokhumi field office. This was partly to reduce the number of user licenses needed, as for Sokhumi all VISION functions could be covered from Tbilisi. The low quality of data connectivity in Sokhumi was also a concern. There is, therefore, a lot of manual processing done by local staff in Sokhumi for such matters as processing of petty cash requests, which reduces their efficiency. Moreover, since programme operations have been growing constantly in this region, this operating structure may not be suitable any more. Indeed, total expenditure for the field office of Sokhumi now represents around 50 percent of the total expenses for the country.

Agreed action 5 (medium priority): The office agrees to conduct periodic unannounced cash counts for COHA. They will be undertaken by a staff member independent from the custodian (the identity of this staff member may change so that the nature of this control remains "unannounced").

Action expected to be completed by: November 2013
Responsible staff member: Operations Manager

Agreed action 6 (medium priority): The country office, with the support of the Regional Office, agrees to explore the possibilities for minimizing manual processing of transactions so as to improve efficiency. Deployment of VISION in the office could be considered.

Action expected to be completed by: April 2014
Responsible staff member: Representative, Deputy Representative and Operations Manager

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. 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.