Internal Audit of the Honduras Country Office

April 2013

Office of Internal Audit
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Honduras Country Office. The audit covered governance, programme management, and operations support. The audit team visited the Honduras Country Office from 8 to 19 October 2012, and the audit covered the period from January 2011 to September 2012.

Honduras has a population of 7.4 million. Economic growth in the last five years has averaged 2.8 percent per year (World Bank). After a massive loss of life and assets from Hurricane Mitch in 1998, Honduras embarked on a very ambitious Poverty Reduction Strategy in consultation with civil society and donors, aiming to reduce the incidence of extreme poverty by half by 2015. However, according to a 2011 study by the country's National Statistical Institute, over 60 percent of the population, or about 4.4 million people, are still living in poverty. A 2010 joint study by UNICEF and United Nations Economic Commission for Latin America and the Caribbean found that 76 percent of children in Honduras are poor, with over 50 percent of them in extreme poverty.

The country has also made very significant progress in reducing mother-to-child transmission of HIV/AIDS. It has increased its antiretroviral treatment coverage for both adult and paediatric patients, and major efforts are being made to institutionalize the national response to HIV, with the support of UNICEF, the United Nations system, the Global Fund, the United States Agency for International Development and the United States Centers for Disease Control and Prevention.

Honduras has significantly reduced its under-five mortality rate, which is now on track to meet the Millennium Development Goal target of 18 per 1,000 live births by 2015. At the same time, young people between 15 to 18 years are now losing their lives to violence. According to a study carried out by the UN Office on Drugs and Crime in 2011, Honduras has the highest homicide rate in the world, 82.1 per 100,000 inhabitants (against a global rate of 6.9). For adolescents, the rate is over 100 per 100,000, according to the Observatory of Violence of the National Autonomous University.

The 2012-2016 UNICEF-supported country programme consists of three programmes: young child survival and development, access to quality education and protection of children's and adolescents' rights, and monitoring of children's rights and social policies. The main UNICEF office in Honduras is in Tegucigalpa. For the current country programme, there is a total staff complement of 28 established posts – three international professionals, nine national officers, 14 general service staff, an intern, and a UN volunteer.

The budget for 2012-2016 is US$ 13.7 million. This includes US$ 10 million to be raised by the country office. As at the time of the audit, only US$ 1.5 million had been identified.

Action agreed following the 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 three agreed actions. One is considered a high priority; it relates to the issue summarized below.

- The country office did not have a fundraising strategy and relied on a few donors to meet its fundraising requirements. The office lacked funds to support key programme activities and to fill vacant posts that were necessary to support programme implementation. A donor that had supported the office with an average of US$ 1.4 million per year from 2008 had informed the office that its priorities had changed, which exacerbated the funding shortfall situation.

Conclusion

The audit concluded that control processes were established and functioning well in the areas of governance and operations support, but there were opportunities for improvement in the programme management area. The Honduras country office, with support from The Americas and Caribbean Regional Office, will work together with OIAI to monitor implementation of the measures that have been agreed.

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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 normally 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.

The Honduras audit concentrated on supervisory and staffing structures, risk management and ethics.

Satisfactory key controls

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

- Management bodies such as the country management team, the contracts review committee, property survey board, and the joint consultative committee functioned effectively. Staff members had a good understanding of UNICEF's ethics-related policies and documentation.

- The office assessed risks to the achievement of its objectives in 21 areas and had updated its Risk and Control Library. The areas were in line with UNICEF's Enterprise Risk Management (ERM) policy.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the control processes over governance, as defined above, were generally established and functioning during the period under audit.

2 Programme management

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

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and 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.

The Honduras audit concentrated on resource mobilization and management, and monitoring of programme implementation.

Resources for programme implementation

Country offices prepare a country programme management plan (CPMP) that defines the resources (human and financial) and management arrangements needed. The audit reviewed whether the office had ensured it had the resources necessary to implement the country programme, and noted gaps in funding and in staffing resources.

Programme funding: The approved total funding ceiling for the 2012-2016 country programme amounted to US$ 13.75 million, of which other resources (OR)[1] were US$ 10 million. The office is expected to have a fundraising strategy for OR funding. However, as of the time of the audit, the office did not have a fundraising strategy and only US$ 1.48 million of OR funds had been identified.

In the previous country programme (2008-2011), the office had raised about 83 percent of

[1] Funds available to country offices are in two basic categories, Regular Resources and Other Resources. The first 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. The office will normally be expected to raise Other Resources itself, up to a ceiling that is indicated in the country-programme budget.

OR from nine donors, with US$ 10.2 million (about 53 percent) coming from four main donors. The office expected to obtain the same support during the 2012-2016 country programme, but a donor that had supported the office with an average of US$ 1.4 million per year from 2008 informed the office that it would not be able to continue supporting the programme due to a change in its funding priorities. Consequently, the office indicated that it did not have adequate resources to support the implementation of key programmes including health and nutrition and the Water, Sanitation and Health (WASH), and had started to scale down field-based project activities.

Monitoring of programme implementation: The approved office structure for the 2012-2016 country programme included a total staff complement of 28 established posts – three international professionals, nine national officers, 14 general service staff, an intern, and a UN volunteer. As of October 2012 the CO had seven vacant posts (25 percent of the approved posts). This situation was created by lack of funding.

The office had redistributed some of the technical tasks to continue supporting programme activities. For example, the Deputy Representative had taken over the management of the monitoring and evaluation functions. However, this had resulted in significant overload of the staff in the office, risking their effectiveness in planning, monitoring and reporting. As noted above, some planned activities had not been implemented, including monitoring of UNICEF-supported activities for the municipalities which were key activities under the health and nutrition programme.

Agreed action 1 (high priority): The country office has agreed to prepare and implement a fundraising strategy that includes a broadening of the donor base, and to review its staffing strategy accordingly with a view to ensuring adequate programme implementation.

Responsible staff members: Representative, Deputy Representative and Operations Manager. Action to be completed: 31 May 2013.

Programme management: Conclusion

Based on the audit work performed, OIA concluded 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.

The Honduras audit concentrated on financial management, the contractor-selection process, asset management, and information and communication technology.

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's 2011 year-end accounts closure reports were processed and submitted to the Division of Financial and Administrative Management on time.
- The office had established adequate asset management processes.

Business continuity and disaster recovery

The audit checked whether the office maintained a disaster recovery plan (DRP) for information and communications technology (ICT) and an up-to-date business continuity plan (BCP). The audit also checked whether the office had tested these plans and trained staff on them so as to ensure that the office could continue critical operational support in the event of an emergency or disaster.

The BCP was issued in June 2009. It had been reviewed twice, in August 2011 and in August 2012, but had not been approved (the latest version was pending review by the country management team). The latest review of the DRP had been performed in 2012 and in this case too, the latest version had not yet been approved. The office had not conducted training for, or simulation testing of, the BCP, including the DRP.

Agreed action 2 (medium priority): The country office agrees to update the disaster-recovery plan and the business continuity plan, ensure they are approved, and organize staff training on these areas.

Responsible staff members: Operations Manager, ICT Assistant, Finance Assistant. Action to be completed by 30 June 2013.

Property, plant and equipment (PPE) management

The audit reviewed the office's management of PPE and noted the following:

- A photocopier machine with a value of US $13,490 was not included in the latest PPE inventory report. This happened because the last physical inventory, taken in August 2012, had not been reconciled with the information included in VISION.
- There was inadequate segregation of duties in that the Operations Assistant who conducted the physical inventory count also had access to VISION and updated the information in the system.

Agreed action 3 (medium priority): The country office agrees to:

i. perform a full physical inventory count of property, plant and equipment, reconcile it to VISION and investigate any differences; and,
ii. ensure adequate segregation of duties in the physical inventory of property, plant and equipment and entry of the data in VISION.

Responsible staff: Operations Manager and Administrative Assistant, and ICT Assistant. Actions reported as completed by the office in November 2012.

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.