

Internal Audit of the Malaysia Country Office

September 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/38



Summary

The Office of Internal Audit and Investigations (OIAI) had conducted an audit of the Malaysia Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit was conducted during the period 8-12 April 2013 and 10-14 June 2013, and covered the period from 1 January 2012 to 7 April 2013.

The current UNICEF Board-approved country programme for Malaysia covers 2011-2015, with a total approved budget of US\$ 25.75 million for the five-year period. The country programme focuses on three programmes: *Improved Data, Capacity and Resources for Children*; *Reduction of Child Poverty and Quality Social Services for All*; and Cross-sectoral costs. The current year, 2013, is the year of the Mid-Term Review.

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. Three of them are being implemented as high priority – that is, they concern issues that require immediate management attention. They relate to the following:

- The office's review of the status of implementation of the country programme and its planning process were not adequate. The rolling workplans for 2011-2012 were not discussed, updated and agreed with the Government before implementation of the second year of the plan, despite a reduction in the agreed intermediate results by 44 percent and reallocation of the approved budget to the remaining planned results.
- The office had not systematically mapped the non-governmental organizations/civil society organizations working in the country to select those that could support implementation of the country programme. Partners were selected *ad hoc* and the office faced implementation problems with respect to all three partners visited during the audit.
- The solicitation process, and contract management, needed improvement to ensure that consultants, contractors and institutions are hired through competitive selection process and there is a contract in place before allowing them to start work.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes, as defined above, 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 Malaysia country office has prepared action plans to address the issues raised. The country office, with support from the East Asia and the Pacific Regional Office (EAPRO), and OIAI will work together to monitor implementation of these measures.

Contents

Summary	2
Objectives	5
Audit Observations	4
Governance	4
Satisfactory key controls	4
Supervisory structure	5
Performance measurement	6
Risk management	7
Governance area: Conclusion	7
Programme management	8
Satisfactory key controls	8
Country programme action plan	8
Rolling workplans	9
Managing partnerships	9
HACT implementation	11
Evaluation	13
Programme management: Conclusion	13
Operations support	14
Satisfactory key controls	14
Managing contributions	14
Contracts for services	15
Operations support: Conclusion	15
Annex A: Methodology, and definition of priorities and conclusions	16

Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

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

Audit Observations

1 Governance

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

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

All the areas above were covered in this audit.

Satisfactory key controls

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

The organizational structure of the office was aligned to the approved country programme and also reflected increased opportunities for private-sector fundraising. Necessary adjustments were made in the staffing structure to address emerging needs. The office had a learning and development strategy and as part of its development, staff members had identified the skills required to produce the expected results under the current country programme. Staff also ensured that their identified learning and development needs were captured in their performance evaluation reports (PERs).

The office had adequate procedures for the delegation of financial controls, and prescribed procedures were complied with. The head of office had issued an adequate table of authority (ToA) that was accurately recorded in VISION. Staff were formally notified of the roles/authorities assigned to them, and formally acknowledged their awareness of the responsibilities and accountabilities associated with exercising these financial authorities.

The office had taken adequate action to address ethical issues within the office. The result of the 2011 Global Staff Survey¹ had been analysed and discussed extensively throughout the office, and learning activities were planned. Group training was conducted on coaching and managing performance for results for the supervisors and for all supervisees, to improve supervisor-supervisee relationships. A two-day ethics training session took place in May 2013 and all staff, including consultants, attended.

Supervisory structure

The office had supervisory structures, such as the Country Management Team (CMT), Contract Review Committee (CRC), Joint Consultative Committee (JCC) and Property Survey Board (PSB). These bodies had clear terms of reference (ToR). Their membership was regularly reviewed to ensure balanced staff representation, meetings were adequately documented, and action points and recommendations from them were followed up.

The CMT met as planned and discussed operations issues thoroughly. However, discussions on programme issues were limited. The CMT did not systematically perform one of the key functions in its ToR: periodic review of the implementation of the country programme action plan (CPAP)² and rolling workplans (RWPs), and advising on the reallocation of programme resources if appropriate. This was despite the fact that the office had not met its own target; according to its list of management indicators, at least 90 percent of the intermediate results (IRs) defined in the workplan should be on track by year end. However, the audit noted that only 10 of the 23 active IRs (43 percent) were reported as on track at the end of 2012. The remainder were reported as constrained, but the 2012 and 2013 CMT meetings had not followed up on the constraints. There were programme team meetings where programme issues were discussed; however, key points of these discussions were not brought to the attention of the CMT.

Agreed action 1 (medium priority): The office agrees to strengthen the functioning of the country management team by ensuring that it covers not only operational issues but also programme issues, as defined in its terms of reference. Specifically, it should conduct periodic reviews of the status of achievement of the planned programme results and advise on the reallocation of programme resources accordingly.

Target date for completion: July 2013

¹ UNICEF's Global Staff Survey, first launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymised.

² 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.

Responsible staff members: Deputy Representative and Planning, Monitoring and Evaluation (PME) Specialist

Performance measurement

The office identified four key office-wide management priority results in its 2012 annual management plan (AMP). They were as follows:

- Strengthened partnership with the Government's Economic Planning Unit.
- Significant new knowledge on children generated and used in policy dialogue and other forums.
- Equity-related actions implemented, reported and updated.
- The office identifies the best way forward to fully incorporate VISION into office procedures and to find out the best distribution of roles.

Performance benchmarks were defined for each priority but they were not specific enough to measure achievement of these priority results. For example, for the fourth priority, the office's benchmark was "Staff trained on major modules in late 2011 and roles assigned". This would not really indicate whether or not the office had identified the best way to fully incorporate VISION into office procedures, or whether best distribution of roles had been achieved.

Besides benchmarks for the four AMP priorities, the office had also defined management indicators to measure performance in 2012. Performance against operations-related indicators was regularly monitored and reported to the CMT. However, performance against the five programme-related indicators was not.

For 2013, the office had identified seven office-wide management priority results and defined nine indicators and targets. However, four of the nine indicators and targets identified for the 2013 management priority results were not included in the office's consolidated list of management indicators, although they were related to the key priorities, making it especially important that progress be tracked against them. In addition, there was lack of consistency between the indicators and targets for these priority results and the overall list of office management indicators for 2013, as defined in the AMP. For example, in the office-wide management priority result "Results leveraged for children through advocacy, social mobilization, fundraising and increased child/youth participation", one of the indicators identified was "Amount of funds raised" with a target of "US\$ 10 million USD by year end". However, in the consolidated list of management indicators, the target indicated was "At least 90 percent of the agreed US\$ 10 million raised locally by year-end".

Agreed action 2 (medium priority): The office agrees to:

- i. Strengthen accountability and ensure clarity in defining planned results, indicators and targets and that they are consistent with the overall list of management indicators monitored by the office.
- ii. Ensure that performance is monitored against programme indicators and reported to the Country Management Team.

Target date for completion: August 2013

Responsible staff members: Deputy Representative, Operations Manager and PME Specialist.

Risk management

UNICEF offices are expected to implement Enterprise Risk Management (ERM). This is a structured and systematic process for the assessment of risks to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. ERM includes performing a risk and control self-assessment (RCSA) to systematically identify risks and opportunities, assess those risks following a prescribed methodology and determine the most appropriate response, taking into consideration the significance of the risk and the office's risk-tolerance level. A key output of the RCSA is the risk and control library, which lists the risks identified and the measures chosen to manage them.

The office developed its initial risk profile and risk and control library in 2010 and it was updated during a 2011 risk management review. Part of the risk and control library was an action plan to manage the risks identified. However, the action plan was not followed up rigorously in 2012. Also, the results of the risk assessment were not reflected in the management priority results for 2012. In addition, as the office had not conducted a full RCSA in preparation for the 2011-2015 country programme, its risk and control library had not taken into consideration the planned results of the new country programme. Likewise, as the office had not re-assessed the risks for 2013, the management priority results for 2013 were not informed by a systematic risk assessment.

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

- i. Strengthen the implementation of Enterprise Risk Management throughout the office, ensuring that risks to the achievement of the planned results of the new country programme are adequately considered, and that an action plan to address high and medium-high risks is drawn up and its implementation systematically monitored.
- ii. Ensure that office management priority results for the year are informed by the risk assessment.

Target date for completion: November 2013

Responsible staff member: Operations Manager

Governance area: Conclusion

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

2 Programme management

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

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

All the areas above were covered in this audit.

Satisfactory key controls

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

The office had implemented a resource mobilization strategy and was successful in raising funds for the approved programme.

Country programme action plan

The CPAP signed with the Government for the current 2011-2015 programme cycle had an approved budget of US\$ 13.75 million, comprised of US\$ 3.75 million from RR and US\$ 10 million to be funded from OR. As indicated in the *Satisfactory key controls* above, private sector fundraising in Malaysia had been very successful, resulting in an increase in the OR component of the country programme by US\$ 12 million, or 120 percent.

In increasing the OR component, however, the office had not sought the agreement of the Government. (According to the provisions of the signed CPAP, it could be modified by mutual consent of the Government and UNICEF, based on the outcome of rolling workplan reviews, strategic moments of reflection and other reviews, or compelling circumstances.) Neither had the office amended the CPAP results matrix to take into consideration the increase in the budget and its impact on the expected results.

Agreed action 4 (medium priority): The office agrees to, as part of the mid-term review planned for the latter part of 2013, discuss with the Government the major change in the budget of the approved country programme for 2011-2015 and, together with the Government, update the CPAP results matrix, as appropriate.

Target date for completion: 10 October 2013

Responsible staff member: Representative, Deputy Representative

Rolling workplans

RWPs are flexible plans that a country office agrees with the host government for a given period (say, 18 months or two years), with an agreement to review progress towards IRs at a given stage and revise the RWP accordingly. The office had developed a rolling workplan for 2011-2012. This had been discussed and agreed with implementing partners, and formally endorsed by the main government partner after consultation with the ministries concerned.

Of the 41 intermediate results (IRs) in the signed rolling workplan for 2011-2012, 18 IRs (44 percent) were terminated in the beginning of 2012, decreasing the total number of active IRs from 41 to 23. The budget was reallocated accordingly. Despite the major change, the office did not formally update the rolling workplan to reflect the decrease in the number of IRs and reallocation of the budget. In effect, therefore, there was no signed/approved revised workplan for 2012; and in 2013, the office decided not to develop a rolling workplan as it was undertaking a mid-term review during the year.

There was also no structured review of the result of programme implementation at the end of 2011. There was no formal consolidated review of the implementation of the country programme at the end of 2012, and no formal joint planning process with the Government for 2013. The office informed the audit that there had been a bilateral discussion between the programme section and their Government counterparts.

Agreed action 5 (high priority): The office agrees to strengthen procedures and accountabilities to ensure that a consolidated structured review of the status of implementation of the country programme is conducted jointly with the Government at the end of each year. This should then lead to the joint work planning with the Government for the following year/s.

Target date for completion: February 2014

Responsible staff member: Deputy Representative

Managing partnerships

The audit identified several issues in connection with the office's management of partnerships.

Selection of partners: The office had not done a survey to identify potential non-governmental organisations (NGOs) or civil society organisations (CSOs) that could support the implementation of the country programme. Likewise, implementing partners were not identified as part of the development of the rolling workplans. In one case, the office had entered into a project cooperation agreement (PCA) with a body that was not registered in the country as an NGO or as a CSO but as a private company, and was therefore not qualified for a PCA.

The audit visited three NGO/CSO partners and noted they had all been selected on an *ad hoc* basis. These partners received totals of US\$ 70,717, US\$ 153,837 and US\$ 90,108.60 respectively during 2012/2013. There were issues with the delivery of the agreed output regarding all these three partners. Two had not been able to deliver the agreed output at the time of the audit in May 2013, almost six months after the agreed period for delivery of the output and termination of the PCA. This was despite the office having extended the duration of the agreement by six months in one case and three in the other. In the case of the third partner, the office had decided to terminate the agreement related to one of the two projects assigned to it, as the overall outcomes and results as reported in the progress report did not meet the office's expectations, and did not address some of the specific issues that were agreed. This resulted in the loss of the amount advanced to this partner (about US\$ 28,640) and additional payments that were agreed despite the termination of the project.

Programme support costs and chargeable expenses: All the three partners visited had limited funds of their own and UNICEF had to contribute towards programme support costs. UNICEF guidance is that these contributions should not exceed 25 percent. For one of the three partners, although the agreed ratio of programme support cost to total UNICEF funding was 20 percent, programme support costs claimed by this partner had already reached 43 percent of the reported expenditure accepted by UNICEF. The office told the audit that the partner would not be allowed to charge any additional programme support costs for the remainder of the UNICEF-provided funds, so as to keep the programme support cost to 26 percent. The audit doubted if this would be realistic, as this partner had very limited funds of its own, and lack of funds to pay the salary of the partner's staff could compromise the completion of the project.

Contract extension and reprogramming: The office did not follow the prescribed procedure for extending agreements and reprogramming of outstanding cash transfers. In the case of one of the three partners mentioned above, the PCA had been extended by six months based on a verbal agreement. In another case, the agreement had been extended and additional funds were agreed without going back to the CRC for review and approval by the head of office. In another case, although the outstanding cash transfer remained unused because of a delay in implementation, the office had reprogrammed the outstanding balance. According to the UNICEF policy on cash transfers, this should not be done if the outstanding balance was due to delays in programme implementation.

Agreed action 6 (high priority): The office agrees to strengthen selection and contracting of implementing partners by ensuring that:

- i. There is systematic selection of implementing partners, either by conducting a mapping of potential partners in the areas the office is working on, or as part of the planning process.
- ii. The office follows procedures related to vetting and contracting of non-governmental, community-based or civil society organisations.
- iii. Project cooperation agreements are concluded only with organisations that are eligible for this type of agreement.

Target date for completion: February 2014

Responsible staff members: Deputy Representative, Programme Officers

Agreed action 7 (medium priority): The office agrees to strengthen management of project cooperation agreements by ensuring that:

- i. The two partners whose contracts have expired submit the required reports as soon possible.
- ii. Programme support costs are within the approved ratio.
- iii. Prescribed procedures are followed for extension of agreements and reprogramming of outstanding cash transfers.

Target date for completion: 30 November 2013

Responsible staff member: Programme Officers

HACT implementation

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT) policy. With HACT, the office relies on implementing partners to manage and report on the use of funds provided for agreed activities. This reduces the amount of documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs. 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 also includes assurance activities, including spot checks of financial records of implementing partners, 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.

The office's expense on cash transfer during 2012 was US\$ 584,343 or 15 percent of total expenses for the year. The CPAP contained the required HACT provisions, and implementing partners and staff were trained on cash transfer procedures. A macro-assessment had been conducted jointly with other UN agencies in 2009.

Micro-assessment: Micro-assessments and simplified financial reviews were conducted to assess the financial management system of implementing partners. In Malaysia, UN agencies mostly work with different implementing partners from each other, and joint assessments were not required. UNICEF therefore engaged an external auditor to conduct the micro-assessment of one government agency and three NGO partners with large-scale funding. The administrative and finance staff undertook simplified financial reviews of the smaller partners. However, in some cases, the observations and recommendations from the micro-assessments and spot checks were not shared with the partner concerned. Weaknesses noted were therefore not addressed. Also, the office did not follow up on the implementation of the recommendations from these micro-assessments and spot checks.

Training on HACT procedure: To ensure that all programme staff, including newly recruited staff, shared a common understanding of HACT requirements, an internal orientation for programme staff was conducted in early 2012 with the support of a resource person from UNDP. According to the office, implementing partners were informed of the requirement for quarterly reporting and liquidation during an annual planning meeting and through regular individual meetings. However, audit noted that both UNICEF staff and staff of implementing partners continued to have weak understanding of the HACT process.

Funding authorisation and Certificate of Expenditure (FACE):³ FACE was used as basis for payment and liquidation of cash transfers. However, there were weaknesses in preparing the FACE form. In all the cases reviewed by the audit, the partner had ticked the box on the FACE indicating that *The funding request shown above represents estimated expenditures as per AWP and itemized cost estimates attached*, although the itemized cost estimate was not attached and in some cases the FACE did not cover request for new cash transfer.

In all FACES reviewed involving reporting on the use of the cash transfer, the partner had ticked the box, *The actual expenditures for the period stated herein have been disbursed in accordance with the AWP and request for itemized cost estimates*. However, the FACE was not supported by itemized report on expenditures against the agreed budget estimates. In some cases, this box was ticked although the FACE did not involve reporting on a previous cash transfer.

Assurance plan: There was no assurance plan for 2012, as the office had started the micro-assessment only in 2012. Some spot checks were conducted by the office but they were not adequately documented. In some cases, the only evidence that a spot check had been conducted was tick marks on the expenditure reports, which according to the office were reviewed against documentation. The office had not developed standard procedures and a reporting format for conducting and reporting on spot checks.

There were cases where major changes in the environment of a partner affected its risk rating, but the office had not updated its assessment. The results of the spot checks were not considered in reviewing the partner's risk rating. The office was also under the wrong impression that low risk partners are not subject to spot checks.

According to the office, in 2013 the possibility of preparing a joint assurance plan will be explored with UNDP and UNFPA. So far, however, there were no common partners except for the Ministry of Women, Family and Community Development.

Agreed action 8 (medium priority): The office agrees to strengthen the management of cash transfers and HACT implementation, ensuring that:

- i. The results of micro-assessments and financial reviews are systematically communicated to the partners concerned, recommendations are discussed and agreed and their implementation followed up.
- ii. Staff and partners are coached on HACT procedures and appropriate management of cash transfers.
- iii. Funding Authorization and Certificate of Expenditure forms are accurately filled in, and itemized cost estimates are attached to the requests for new cash transfers. Reporting of actual expenditures will be presented side by side with the agreed itemized cost estimates/budget, showing any variance.
- iv. An assurance plan for spot checks is developed and standard procedures for conducting and reporting on these spot checks is prepared and its implementation monitored.

³ The FACE form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplan reference that set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

- v. The risk rating of partners is regularly reviewed and updated based on changing partner environment and the results of spot checks.

Target date for completion: 30 November 2013

Responsible staff member: Deputy Representative, Operations Manager

Evaluation

The integrated monitoring and evaluation plan (IMEP) is the central tool that helps UNICEF country offices and their national partners to manage their monitoring and evaluation responsibilities, as established in the CPAP. The IMEP has two components: the five-year IMEP that is prepared and submitted with the CPAP, and the annual or multi-year rolling IMEP which is prepared together with the programme planning instrument. Both are mandatory and are described in more detail in the Toolbox section of the Programme Policy and Procedures Manual.

The CPAP signed by the office with the Government covering the programme cycle 2011-2015 provided for development and implementation of an IMEP. However, no five-year IMEP had been prepared and attached to the CPAP. The office had developed annual IMEPs for 2012 and 2013, but these were not presented as part of the workplan discussion and approval with the Government. In addition, implementation of the 2012 IMEP was low. Of the 12 activities planned, only four were completed.

The lack of a five-year IMEP as part of the CPAP signed with the Government weakened programme coordination and accountability for monitoring and evaluation of the approved country programme. This could also affect the prioritization of research, studies, surveys or evaluations in measuring progress against planned results.

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

- i. As part of the mid-term review process, develop a multi-year integrated monitoring and evaluation plan for the remainder of the current programme cycle and ensure it is discussed and agreed with the Government.
- ii. Ensure that the activities defined in the multi-year plan for the remaining life of the current programme cycle are systematically identified and prioritized.
- iii. Ensure that the annual integrated monitoring and evaluation plan is consistent with the multi-year plan and that activities are implemented as planned.

Target date for completion: 31 December 2013

Responsible staff member: PME Specialist

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 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:

There were adequate procedures for management of plant, property and equipment.

Human resources were managed well. The identification of staffing needs for the next five years was transparent and participatory. Recruitment was timely and there was only one vacant post by year-end, for which recruitment was underway. The office had developed a training plan and monitored its implementation, and 85 percent of 2011 performance evaluations (including ePAS) were completed by end of February 2012.

Overall, adequate procedures had been established in managing information and communication technology. The office developed and tested a business continuity plan. Appropriate facilities and support were provided to ensure continued availability of systems.

Managing contributions

The office had established procedures for the receipt, safekeeping and recording of contributions received from private sector fundraising. Security concerns noted in the receipt of mail donations and access to the fax machine were immediately addressed by the country office and therefore no related recommendations are included in this report. However, the audit noted that cheques and money orders received by mail were recorded in the Donor

Perfect system by the private sector fundraising (PSFR) assistant. Until she had recorded them, she kept them in her drawer, which had no lock. It was only after recording was completed (which sometimes took two days) that the cheques and money orders were handed over to the finance staff for deposit in the bank.

Agreed action 10 (medium priority): The office agrees to strengthen security in the receipt, safekeeping and recording of contributions by ensuring that cheques and money orders received are handed over immediately to finance staff for safekeeping in the office safe until they are ready for deposit. The photocopy made by the finance staff can be used by the fundraising staff to record the transaction in the donor records.

Target date for completion: 30 November 2013

Responsible staff members: Operations Manager, Chief Private Fundraising and Partnership, Administrative Officer, Finance Assistants, Information Technology Assistant

Contracts for services

During 2012, the total expenses related to professional and other services were US\$ 978,397, or 25 percent of total expenses for the year. The office had identified in its risk assessment that the solicitation process and contract management were areas that needed improvement.

The office issued 32 contracts for consultants and individual contractors and 56 local corporate contracts in 2012, with a total value of US\$ 283,027 and US\$ 3,090,423, respectively. Fourteen of the 32 contracts (44 percent) for consultants and individual contractors and 22 of the 56 (39 percent) corporate contracts were through a single-source selection process. Failure to ensure a competitive process for selecting consultants and contractors affects the transparency of the selection process and the ability of the office to get the best value for money.

Review of contracts for services also showed that eight of the 56 corporate and two of the 32 individual contracts were signed after the start date of the activity. Allowing consultants/contractors to work without valid contracts could lead to misunderstandings and/or loss of funds, and could affect UNICEF's reputation.

Agreed action 11 (high priority): The office agrees to strengthen management of contracts for services, ensuring that consultants, contractors and institutions are hired through a competitive selection process, and are not allowed to start work until a contract is signed.

Target date for completion: 30 September 2013

Responsible staff member: Operations Manager, Administrative Officer, Human Resource Assistant

Operations support: Conclusion

Based on the audit work performed, OIAI concluded 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, 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.