

Internal Audit of the Paraguay Country Office

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Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Paraguay Country Office. The audit covered governance, programme management, and operations support. The audit was performed from 9 May to 14 June 2013, and covered the period from January 2012 to April 2013.

The Paraguay country office is based in Asunción, and has no zone offices. The current country programme initially covered the period 2007-2011. However, in June 2011 the UNICEF Executive Board approved a two-year extension up to the end of 2013 and in June 2013 the Board approved an additional one-year extension to the end of 2014. The objective of the extension was to provide time for the United Nations and the Government to conduct joint and complementary country analyses, in preparation for the next UN Development Framework (UNDAF) and national development strategy for the period 2014-2018. It was also intended to give time to harmonize the UNDAF strategies and duration with national priorities and the five-year national development planning cycle.

The total budget for the 2007-2011 country programme was approximately US\$ 9.9 million, of which US\$ 3.7 million was expected to be from Regular Resources (RR), while the Other Resources (OR) component was US\$ 6.2 million. The extension to 2014 has been budgeted at an additional US\$ 2.2 million, of which US\$ 1.4 million is expected to come from 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. An office is expected to raise the bulk of the resources it needs for the country programme itself, as Other Resources.

In general, UNICEF's priority in Paraguay is to support national efforts in the areas of early child survival and development, quality basic education, HIV/AIDS, child protection and public policies.

The office has 17 posts, of which one was vacant as of March 2013.

Actions agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures to improve the controls, risk-management and governance processes over a number of key areas in the office. Two of them are being implemented as a high priority – that is to say, they concern matters that require immediate management attention. Specifically, the country office agrees to:

- Ensure that its management structure is clearly aligned with the strategic priorities outlined in the new country programme, and that these are based on a thorough analysis of prior country programme support. For the new 2015-2019 country programme, the office will review the classification of posts to ensure they are

- commensurate with key duties and aligned with standard job descriptions, where relevant.
- Review its mechanisms related to the planning and implementation of evaluation activities, and, depending on availability of funding, include broader evaluation activities related to children's issues. This will include planning evaluation activities that evaluate achievement of supported programmes over time, and ensure the impact and effectiveness of the country programme. The office will also ensure that programme staff are familiar with the organization's evaluation standards.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Paraguay country office has prepared action plans to address these issues.

The country office, with support from the Latin America and Caribbean Regional Office, and OIAI will work together 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.

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:

Management bodies such as the country management team, the contracts review committee, property survey board, and the joint consultative committee functioned effectively.

The country office's priorities for the period under review were in line with the United Nations Development Assistance Framework (UNDAF).

Office structure

In 2012, the programme budget and review committee (PBR)¹ approved the 2014-2017 office structure, which consists of two programme components and one cross-sectoral component.

When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed. The audit noted that the CPMP, including the office structure, was drawn up before the next country programme was finalized. Devising a structure prior to drafting the programme it is to support poses the risk of insufficient alignment in terms of strategy and structure.

Further, not undertaking evaluation activities meant that the planned office structure did not properly reflect lessons learned during the current country programme (see observation below on *Programme evaluations*). Because the design of the office structure had not been integrated with development of the new country programme, there was a risk it would not address these areas. (The audit also noted that insufficiencies in data availability meant that there were inadequate mechanisms to accurately determine progress against planned results; see observation below on *Data and information collection and analysis*).

The office stated that the major reasons for developing a new CPMP before the country programme was finalized included the reduction of financial resources to cover country programme commitments in 2014; the need to improve the sectoral technical capacity of the country office; and the need to align job descriptions with the actual functions of staff members. Moreover, the regional office informed the audit that the new CPMP had to be drawn up so that an integrated four-year budget could be prepared. The audit did find that the CPMP revisions were informed by recommendations from the 2009 mid-term review, and by discussions from the draft common country assessments and United Nations Development Assistance Framework (UNDAF).

Within the 2015-2019 structure, the functions of mainstreaming gender and inserting the equity approach in programme design were allocated to a GS7 field assistant. The audit noted that these functions are technical in nature, and are included under professional level categories within the DHR classification of posts. The office told the audit that the technical nature and aspects of these roles would be assured through supervision by the programme specialist. (The revised job descriptions were not reviewed during the audit.)

Agreed action 1 (high priority): The office agrees to, with support from the Regional Office:

- i. Ensure that the country office management structure is clearly aligned with the strategic priorities outlined in the new country programme of cooperation, which should be based on a thorough analysis of prior country programme support, supported by evidence from relevant surveys and research.
- ii. For the next country programme, review the classification of posts to ensure they are commensurate with key duties and aligned with standard job descriptions, where relevant.

¹ The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

Staff responsible for taking action: Representative, Deputy Representative and Programme team

Date by which action will be taken: November 2014

Resource mobilization

The 2007-2011 country programme had a planned ceiling of US\$ 9.9 million, of which US\$ 6.2 million, or 63 percent, was expected to be raised from Other Resources (OR). As stated above, the country-programme cycle was subsequently extended to 2014, budgeted at an additional US\$ 2.2 million, of which US\$ 1.4 million is OR. The office was able to raise 87 percent of its 2007-2011 OR ceiling. However, it is expected that funding for the joint programme on social investment will not be available next year, in which case the available OR funding will have represented 62 percent of the planned ceiling for 2012-2014.

The office was in the process of finalizing a resource-mobilization strategy. Meanwhile, to mitigate the lack of funds, it had implemented some cost-cutting measures (such as reduction of expenses, sharing offices with UN Women, and local fundraising, mostly within the private sector). The office also developed proposals for traditional donors, and arranged visits for National Committees for UNICEF (these are the bodies that fundraise publicly for UNICEF in donor countries). The office was also participating in UN joint fundraising activities.

Agreed action 2 (medium priority): The country office should request support from the regional office to finalize and implement its resource-mobilization strategy, and ensure it includes dynamic strategies for leveraging resources based on programme priorities.

Staff responsible for taking action: Representative, Deputy Representative

Date by which action will be taken: March 2015

Business processes

At the time of the audit in May 2013, in addition to supporting programme implementation, the office was undertaking preparations for the development of a new country programme. It was also finalizing a comprehensive assessment of the situation for children and their families in Paraguay, and participating (and in some areas leading) the development of a new UNDAF.

In 2012, the office had prepared and submitted a revised CPMP and an integrated budget, and had undertaken annual reviews. It had also taken part in preparations for establishment of a regional hub in Buenos Aires for transactions processing (see observation on *Operations Hub*, below).

The office is currently composed of the Representative, a programme specialist, six programme officers and nine support staff. Participation in the above processes is primarily undertaken by the Representative and the Programme Specialist.

The audit noted that all the above processes put a strain on the existing staff resources in the office. As a result, the work-life balance of staff in the country office was compromised. The office also informed the audit that the large workload affected the quality of some of its programme work.

Agreed action 3 (medium priority): The country office agrees to seek the assistance of the Regional Office in implementing mechanisms aimed at ensuring a work-life balance for staff, and in ensuring that the quality of the country programme work is not compromised by the large workload of staff members.

Staff responsible for taking action: Representative, President of Staff Association

Date by which action will be taken: April 2014

Governance area: 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 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 programmes – that is, the activities and interventions on behalf of children and women. The programmes are owned primarily by the host Government. The scope of the audit in this area includes the following:

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

All the areas above were covered under the 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 was evidence that the office had played an effective advocacy role in 2012, especially in the period prior the country's presidential elections, during which the office actively supported activities leading to pledges to implement 20 commitments to ensure progressive realization of children's rights in Paraguay.

The office's controls related to donor reporting were generally adequate; sampled donor reports met required reporting standards. All donor reports were generally submitted on time in 2012. Sampled results statements in the annual report were well supported.

Data and information collection and analysis

The generation, availability, and analysis of data and information on children, and adequate monitoring systems, are of critical importance to the Paraguay country programme. This is emphasized in all key programme documentation. Generation of evidence, analysis and monitoring were among the priorities agreed with the implementing partners for the 2012-2013 workplans—and they underpin all the other strategies on public policies, forming alliances, and initiating demonstrative initiatives.

The office had supported some publications, and was in the process of completing a situation analysis at the time of audit in June 2013. The office had also assisted some studies on systematic measurement of investments in education in two provinces, and was

supporting the General Directorate for Statistics and Censuses in implementation of the National Household Survey on Income and Expenditures and the 2012 National Census on Population and Households. The office also planned to support a multiple indicator cluster survey (MICS) in 2013/2014.

However, the audit noted that there was scope to improve the office's controls over its support for the systematic strengthening of national systems, for generating disaggregated data, and undertaking analysis and use of such data. The 2012 integrated monitoring and evaluation plan (IMEP) showed that most monitoring and evaluation (M&E) activities were on helping partners monitor UNICEF-supported programmes. Although these activities are important, the scope of such activities alone would generally be too small to generate evidence that was sufficiently representative. The Regional Office informed the audit that activities were underway aimed at supporting country offices to adopt a more systematic approach.

Agreed action 4 (medium priority): The country office, with the support of the Regional Office, should develop a strategic plan to strengthen national systems for data and information generation, analysis and use.

Staff responsible for taking action: Deputy Representative, Monitoring and Evaluation Officer

Date by which action will be taken: July 2014

Planning of activities and programme inputs

The planning and sequencing of activities did not always allow sufficient time for efficient implementation. A review of the 2012-2013 workplans noted that the office had a total of 26 active intermediate results (IRs), a significant number when compared to the size (three programmes) and value (funded amount of US\$ 5.5 million) of the country programme. There was also an inadequate logical relationship between activities and IRs, and between different indicators of completion. For example, Activity 1 was *Communication and advocacy to obtain support and budget for the continuity in the expansion plan of the Family Health units from the Ministry of Public Health*. The compliance indicator was *Appropriate budget for 2013 to provide continuity in the expansion plan of the Family Health units, especially in vulnerable areas*. The audit did not view this as sufficiently specific.

The audit also noted that the office had defined indicators at the micro-activity level, as well as at IR level, which were overly complex, especially where there was only one activity per IR. The office stated that in some cases, the need to realign results definitions to the new programme structure in VISION² had resulted in some fragmentation. There were also several on-going activities that could not be closed in view of previous commitments with the Government. Nonetheless, the office had an opportunity to redefine more specific IRs within its 2012-2013 workplans, especially given the redefined priorities – but had not done so.

The audit also noted that workplans lacked details on implementing partners and implementation timeframes. While the office undertook some internal mid-year reviews on progress in activity implementation, there were no corresponding adjustments of planned annual results within the approved workplans.

² VISION is UNICEF's management system. It was introduced in January 2012, at the start of the period under audit.

The office reported an overall funds utilization rate of 78 percent as of November 2012. However, initial assessment of funds utilization data from VISION for the IRs for 2012-2013, shows that the percentage of unutilized funds ranged from 2-35 percent for six of the 10 IRs. The office stated that several activities would be implemented starting in August, with the new Government. However, it seemed to the audit that this would not leave sufficient time for complete implementation of outstanding funds.

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

- i. Establish a process for the technical review of workplans and ensure appropriate results definition commensurate with the programme size.
- ii. Ensure that appropriate indicators are defined for each result and are used to assess progress (see guidance in Chapter 5 of UNICEF's *Programme Policy and Procedures Manual*).

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: May 2014

Partnerships

The office had devised several strategies for working with civil society. These included building alliances for collaborative child rights advocacy. However, the office had not undertaken a mapping of implementing partners, their geographical areas and their capacities. The audit was informed that the partnership base in Paraguay was very small, and all implementing partners were well known to the office.

According to Paraguayan legislation, all external financial assistance must be submitted to the National Congress for approval, before it is entered in the accounts of Government institutions. This normally takes from six to 12 months. For this reason, UNICEF and other UN agencies do not transfer funds to Government institutions. Instead, NGOs are identified to act as administrative fund managers for activities implemented by the Government. The audit reviewed 12 PCAs raised in 2012 and 2013, and noted the following.

Funds administration agreement: First, the arrangement whereby the office used several NGOs to administer funding provided to Government was not adequately formalized within the programme cooperation agreement (PCA). Only one PCA made any specific reference to specific workplan activities between the Government and UNICEF as the framework. This omission implied that the partnership was solely between UNICEF and the NGO partner. This was especially important since, in its risk and control self-assessment,³ the office had rated the area of partner relations (specifically, institutional capacities of both Government and civil society organizations) as a high risk. The nature of the relationships was further blurred because the workplans were developed for each programme cooperation agreement (PCA). Out of the 12 PCAs reviewed, 10 (total value US\$ 1,316,945) included activities by NGOs as implementing partners, besides as administrative funds managers.

There was also no specific information on fees or the overhead and/or operational costs

³ Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes.

incurred, making it difficult to determine the efficiency of the arrangement. It was also not clearly evident that the office had pre-assessed the capacity of the NGOs to adequately manage the task of administering funds.

Agreement type: The audit noted that two small-scale funding agreements (SSFAs) were signed with NGOs to implement programme activities, as well as manage funds for Government. One of these NGOs already had a PCA within the same period. The main purpose of an SSFA is to provide limited support to a local/grassroots organization or other CSOs with limited funding (not to exceed US\$ 20,000). Its features include flexibility with highly simplified planning format and reporting requirements. Combining different contractual arrangements suggests that the original capacity assessment of the implementing partner was not adequate. It also indicates insufficient planning of annual activities.

Use of annexes to PCAs: The office's practice was to develop a detailed Annex 1 to the PCA outlining activities, expected results, timeframe and schedule of disbursements. This was then sent to implementing partners to review and agree, and then endorse. This practice was time-saving, but in two PCAs the implementation schedule in the PCA was different from the detailed PCA workplan in the annex, and the monitoring mechanisms were not always specified.

Agreed action 6 (medium priority): The office agrees to undertake an assessment of the operational capacities of existing and potential non-governmental organization partners. The areas assessed will include planning, implementation, monitoring, financial and administrative capacities. The assessment should be based on the requirements within UNICEF's policy on the *Global Strategy for Collaborative Relationships and Partnerships* ICEF/2008/12, and use the tools recommended within the Harmonized Approach to Cash Transfers (HACT) framework. This should result in a proper profiling of implementing partners with whom the office collaborates and should inform the office's strategy for partnerships with non-governmental organizations.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: October 2014

Agreed action 7 (medium priority): The office agrees to, as part of its country programme development, develop a strategy for working with non-governmental organizations as an initial step in pursuing more effective partnerships. The strategy will include the roles of non-governmental organizations in the administration of funds for government-supported interventions.

Staff responsible for taking action: Representative, Deputy Representative

Date by which action will be taken: December 2014

Agreed action 8 (medium priority): The office should sign appropriate partnership agreements; this should include ensuring preparation of appropriate workplans.

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: February 2014

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 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, instead of insisting on large amounts of documentation from every partner. 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 the third element of the HACT framework, promoting accountability and strengthening the financial management and internal control mechanisms of the implementing partners. The activities include spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits. Where possible, the risk assessments and assurance activities should be carried out in cooperation with other UN agencies (UNDP, UNFPA and WFP) that have also adopted HACT.

The UN country team in Paraguay had sought and received approval from the UNDG to postpone the formal implementation of HACT to the end of 2014 in view of the political context. Prior to this postponement, however, the UN had commissioned a macro-assessment of the country's public financial management mechanisms. Meanwhile, on the recommendation of the Regional Office, the UNICEF office had developed an assurance plan that included assurance activities such as micro-assessments and spot checks for mostly NGO partners. An assessment of the various assurance activities noted the following.

Micro-assessments and spot checks: The office had 21 implementing partners in 2012-2013. Nine micro-assessments were undertaken during the audit period, three of them for IPs that received less than US\$ 20,000. However, three NGOs that had received funding of over US\$ 100,000 in a year were not micro-assessed.⁴ The office explained that they did not envisage future cooperation with these NGOs. However, the office did micro-assess some community-based organisations on SSFAs. The formal process of carrying out micro-assessments was constrained by limited resources, especially since UNICEF carried these out alone.

Spot-checks were also carried out, mostly of the same implementing partners. The audit noted that the spot checks had identified some issues related to segregation of financial duties and competitive tendering (for partners implementing water construction activities); however, no recommendations had been made in this regard. It was therefore not clear to what extent such spot checks served to strengthen implementing partners' capacities.

Overall, the office's assurance activities were not sufficiently guided by risk assessment and management. However, the audit did recognize the office's efforts to implement assurance activities. It also noted that the office had plans to carry out programme monitoring activities within its assurance plan.

Agreed action 9 (medium priority): The office agrees to revisit its assurance plan, taking into consideration information from the micro-assessments; and will conduct spot checks in

⁴ Under HACT any partner can be micro-assessed if appropriate, but it should normally be done as a matter of course for those expected to receive over US\$ 500,000 during the current programme cycle (which is normally five years).

conjunction with programme-monitoring activities (assuming a high risk for partners not yet micro-assessed).

Staff responsible for taking action: Deputy Representative, Programme Assistant

Date by which action will be taken: May 2014, spot checks throughout 2014

Programme evaluations

The audit reviewed the management of programme evaluations. In 2011 the office had commissioned one evaluation, as part of a joint social investment project undertaken with other UN agencies. Other than this, the office had not commissioned any evaluations of UNICEF-supported programmes during the period 2007-2013, in which US\$ 13.8 million had been spent in implementing the country programme.

The office attributed this gap primarily to lack of funding, but also to the fact that the overarching strategy in the region was on conducting multi-country or regional evaluations on common issues. However, the audit did not find any inter-country evaluations incorporating Paraguay, nor were there any evaluations on Paraguay in the global databases. Although a comprehensive mid-term review was undertaken in 2009, no evaluations had been commissioned to provide objective analysis of progress towards country programme results.

There was inadequate differentiation between evaluations, assessments, documentation and reviews in the annual IMEPs. For example, the office listed two activities as evaluations that, on review and discussion, the audit judged to be pre-test and review activities and not evaluations.⁵ The differentiation is especially important for this particular country programme, for which one of the implicit planned outcomes is the ability to transform objective information and knowledge into effective policy action and improvement of relevant delivery mechanisms.

A strong evaluation function within the office is critical, especially in view of both the current weaknesses in internal programme monitoring, and the planned future strategic focus of the programme of cooperation on evidence-based policy analysis and advocacy, which is expected to strengthen national capacities for analysis, storage and dissemination of data on the situation of children and their families in Paraguay. (See also observation on *Data and information collection and analysis*, above).

Agreed action 10 (high priority): The office agrees to review its mechanisms related to the planning and implementation of evaluation activities. It will, depending on funding, include broader evaluation activities related to children's issues, and plan evaluation activities that:

- i. Evaluate achievement of supported programmes over time and assure the impact and effectiveness of the country programme.
- ii. Ensure that programme staff are familiar with the Organization's evaluation standards. (See UNICEF's evaluation criteria in chapter 5 of the current Programme Policy and Procedure manual.)

Staff responsible for taking action: Deputy Representative

Date by which action will be taken: December 2013

⁵ The activities were *Pre-test de materiales de la campaña de comunicación masiva e incidencia política "Una agenda para la infancia"*, and *"Revisión de la pertinencia del Sistema Nacional de protección"*.

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

Satisfactory key controls

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

Financial management, covering budgeting, accounting, bank reconciliations and financial reporting, was effectively and efficiently managed. The information and communication technology (ICT) function was adequately managed. An office business continuity plan (BCP) had been developed and approved.

Contracts

According to data in VISION, six out of 16 of consultancy contracts placed during the audit period were selected without competition while the selection basis for another was not disclosed.

The audit noted that contracts exceeding US\$ 50,000 were subject to review by the contracts review committee (CRC). This threshold was high, and in fact only two contracts were subject to the review by the CRC.

Agreed action 11 (medium priority): The office agrees to review the threshold for submission of contracts to the Contracts Review Committee.

Staff responsible for taking action: Representative

Date by which action will be taken: July 2013

Property, plant and equipment (PPE)

The office had a formal standard operating procedure (SoP) for asset management. However, a review of the office's management of PPE found that seven items lacked an inventory number, eight had duplicated serial numbers and 337 did not have their physical location listed. A further four items had been donated but were still included in VISION.

The office carried out a physical count in January 2013 as part of the year-end closure. The reconciliation of this document with the PPE records in VISION showed the following:

- The reports provided by the office in support of the information uploaded to VISION as part of the 2012 year-end closing did not include all PP&E, since the physical count report contained only 157 items; however, the VISION report showed 355 items. Apparently, many "low value" items were posted in VISION due to a lack of knowledge of the new system.
- The physical count report did not include information concerning the physical location, floor, room or the asset tag number, hampering identification and verification of the physical existence of the asset.
- No inventory number was assigned to the counted items.

Agreed action 12 (medium priority): The office agrees to ensure that once a physical count is completed, it is reconciled with VISION to accurately reflect location, identification and number of PP&E items. Noted errors will be corrected in the system.

Staff responsible for taking action: Operations Assistant

Date by which action will be taken: December 2013

Operations Hub

The Paraguay CO had signed a Service Level Agreement (SLA) to join, starting January 2013, the Operations Hub based in Buenos Aires, Argentina, that is currently providing operations support to Argentina, Chile, Uruguay, and Paraguay. However, there are still some roles and responsibilities documented in the SLA that are not clear for either the office or the Hub. For example, the SLA states in its section G that the Head of the Hub is part of advisory committees such as the CRC, Property Survey Board, and Contract Review Body. However, the extent of their attendance at the meetings of such bodies was not clear.

The audit also noted that one of the key responsibilities of the Head of the Hub was to post payments in VISION for the Paraguay office. In fact, based on a sample of 34 payments made during 2013, all of them were posted by the assistants of the Hub, and not by the Head. It was not clear whether these staff had the same accountabilities as those of the Head of the Hub.

The Regional Office was in the process of assessing the implementation of the SLA and work processes to identify areas for improvement based on the experiences of the Argentina Hub and the Paraguay country office.

Agreed action 13 (medium priority): The CO should work with the Regional Office to clarify

the roles, responsibilities and accountabilities of the country office staff and the staff based in the Hub processing transactions. These roles and accountabilities should be included in Service Level Agreement signed by the office.

Staff responsible for taking action: Operations Assistant, Programme Assistant

Date by which action will be taken: October 2013

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.