

Background

The Microfinance Department (MD) verification function (VF) was established in 2005 in response to the emerging need to verify compliance of the operation against relevant procedures across the currently functioning 23 MD branches in four fields. The verification missions are guided by the annual verification plans which specify objectives.

Three Verification Officers (out of four posts), under the supervision of a Senior Verification Officer¹, who reports to the Director MD, conducted 30 and 26 verification missions in 2018 and 2019, respectively.

Objective and purpose

The audit assessed whether the MD VF activities are carried out effectively and efficiently to monitor compliance with and adherence to the MD operation with established manuals and procedures.

What DIOS concluded

The framework for the functions' work does not fully reflect its mandate, authority, and objectives

The function uses its annual plan with five general objectives to guide its work but three of the objectives are not related to the verification activities but refer to other (assurance/compliance) functions. The current terms of reference do not include UNRWA's adopted risk model nor the MD VF's position vis-à-vis other compliance functions.

The required frequency for verifications were not met for all areas and there was limited system for monitoring completion of annual plan

The annual plan set out five objectives which were not all met, and for a few fields, not all branches were verified twice a year as per the plan, which is explained primarily due to capacity constraint.

There were inconsistencies in the verification procedures conducted for the selected sample and in cashier function processes verified

The annual plans for each field indicate procedures to be performed, but different information was reviewed for the selected sample in verified client account forms, and in tests performed for cashier function across branches/fields. Reviews of mission reports were done, while a systematic quality assurance methodology did not appear to be in place.

The risk rating of the verification findings did not follow the prescribed methodology

Risks were noted for findings but are not linked to objectives as per the methodology. Also one incident was noted which should have been further analyzed and reported per UNRWA rules and regulations.

Follow up of prior findings focused on individual verifications and not showing evaluation of improvement as required

¹ During the time the post was vacant, the Senior Verification Officer conducted the verifications in the field.

The verification officers follow up on prior findings upon the next visit but limited documentation was maintained on improvements made in the controls as noted in findings nor is there an analysis across the branches/fields.

What DIOS recommends

DIOS made 5 recommendations of which one is high risk (Recommendation #2):

- ① MD should enhance the terms of reference for the VF to define its authority, roles and responsibilities vis-à-vis other compliance and oversight functions in accordance with UNRWA's risk model.
- ② The VF should implement guidelines for annual planning taking into consideration specific parameters and resources, and utilize the plan to monitor completion of planned verifications. {high risk}
- ③ The VF should adopt monitoring and quality assurance measures for verification
- ④ procedures and for applying the required risk rating methodology for findings.
- ⑤ MD should develop and implement a framework for periodic monitoring of findings and meta-analysis of verification findings to provide added-value to

management and to facilitate its reporting to the Advisory Board as required.

DIOS also provided management with opportunities to improve including on consistency of operations manuals and on the need to analyze and report a specific observation finding.

What management is doing to address DIOS recommendations

Terms of reference has been developed with inclusion of the verification function authority and mandate, and is currently subject to promulgation.

The annual verification plan for fields will be amended with due consideration of DIOS recommendation including monitoring of completion.

Senior Verification Officer will develop a monitoring report on corrective actions taken for all branches across the fields.

Guidance on applying risk rating methodology will be developed and form part of the annual plan for verifications.

A verification report reflecting meta-analysis of results and findings across MD branches over four fields will be developed periodically.

Methodology, Approach and Disclosure

The audit covered MD VF management and activities (verification annual planning and implementation, verification mission approach, reporting and monitoring implementation of mission recommendations) for 2018 and 2019.

The approach included enquiries and discussion with relevant staff, review of control processes and documents, analysis and examination of selected samples and other procedures deemed necessary. The audit was conducted in accordance with DIOS standards, which are designed to conform to the International Standards for the Professional Practice of Internal Auditing. It was completed in conformity with the approved work plan and took into consideration the risk assessment exercise conducted prior to the audit.

Pursuant to OD14, this summary of internal audit findings and recommendations including management action taken to address recommendations, is made publicly available on the DIOS internet page upon issuance of the audit report (on 23 December 2020).