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Internal audit activities in 2006

Summary

The Director of the Office of Internal Audit (OIA) presents an independent annual report to the Executive Board. The present report addresses OIA's activities, findings and conclusions from 2006.

I. Introduction

1. In response to Executive Board decision 2006/18 (E/ICEF/2006/5/Rev.1), the format of the 2006 annual report of the Director of the Office of Internal Audit has been modified. Section II discusses the accountabilities, strategy and capacity of the OIA. As requested by decision 2006/18, the section also describes developments related to the harmonization of audit and management reporting with other organizations. Section III explains the 2006 audit coverage, the main audit findings and underlying causes. Section IV summarizes key and recurrent findings. Section V provides an overview of investigation work. Section VI describes the status of implementation of recommendations. Section VII responds to the request of the Executive Board for an assessment of the resources required for the internal audit function. Annex 2 contains a table of observations that have remained unresolved for more than 18 months.

* E/ICEF/2007/13.



II. Accountabilities and strategy of OIA

A. Accountabilities of OIA

2. OIA fulfilled its accountabilities in accordance with the Charter of Accountabilities and Responsibilities of the Office of Internal Audit. The role of OIA is to support the achievement of the mission of UNICEF and the fulfilment of UNICEF accountabilities through independent and objective assurance and advisory services that assess and analyse the effectiveness and adequacy of UNICEF internal controls. OIA fulfils this role through systematic and disciplined reviews at all levels within UNICEF.
3. UNICEF issued a new Anti-Fraud Policy (CF/EXD/2006-009) in September 2006. The policy consolidates guidance on the prevention of fraud, and on the reporting and investigation of suspected fraud. OIA is responsible for undertaking and supervising investigations of fraud, corruption and mismanagement in UNICEF.
4. UNICEF also promulgated a policy in May 2007, "Protection against retaliation for reporting misconduct or for cooperating with duly authorized audits, investigations and other oversight activities" (CF/EXD/2007-005). OIA is also responsible for investigating cases of alleged retaliation against "whistle-blowers".
5. The annual audit plan and the annual office workplan for internal improvement measures are reviewed and endorsed by the UNICEF Audit Committee, and OIA reports to the Audit Committee on progress made. The audit plans are coordinated with the Evaluation Office and the United Nations Board of Auditors.
6. OIA works according to the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors. OIA also adopted the United Nations Uniform Guidelines for Investigations.

B. OIA resources and capacities

7. In December 2006, OIA had 21 Professional staff and three General Service staff. The posts now include one senior IT auditor. They also include two temporary Professional posts established for work related to the 2004 Indian Ocean tsunami, and one Junior Professional Officer (JPO). The JPO position is filled until January 2009, and any replacement will depend on the readiness of Member States to sponsor staff.
8. Considering the growth of overall UNICEF budgets and the recommendations of the Board of Auditors and the Audit Committee to increase the audit coverage of headquarters divisions and systems while maintaining the coverage of field audits, OIA resources are considered insufficient. OIA capacity will be reduced with the expiry of the tsunami-related posts, and the current audit coverage can therefore not be maintained.
9. In 2006, two staff assisted with investigations, which compromised their availability for audit work. UNICEF has now allocated additional resources to OIA for two full-time investigators. Once the positions are formally approved, the investigators are expected to be available in early 2008.
10. OIA continues to implement a quality assurance and improvement programme. The next external review is scheduled to take place at the end of 2007. Twice a year,

with input from all relevant headquarters divisions, all OIA staff review the adequacy of existing audit guidelines, examine performance indicators, and discuss the quality assurance process.

11. OIA employs a searchable electronic data base for all audits, work papers and observations, facilitating follow-up and identification of recurrent and systemic issues. The database has reduced time spent on follow-up and the preparation of audit statistics and summary reports.

12. All OIA auditors are encouraged to obtain and maintain professional qualifications. In 2006, OIA supported four staff in obtaining Certified Internal Auditor certification from the Institute of Internal Auditors. Four other auditors were supported in participating in external training.

C. UNICEF Audit Committee

13. A revised Audit Committee Charter was promulgated in early 2006. Half of the members of the reconstituted six-member Audit Committee are external to UNICEF, and the Committee is chaired by an external member. The enhanced responsibilities of the Committee include the review of the functioning of the UNICEF oversight system, including steps taken by management to monitor and mitigate exposure to risk; the review of the quality and integrity of UNICEF accounting and reporting practices and systems of control; the review of compliance with applicable regulations, rules and ethical standards, and Executive Board decisions; the review of the effectiveness of the internal and external audit process; and the monitoring of compliance by management with corrective action plans.

D. Oversight-related activities and the harmonization of audit reporting

14. UNICEF continued to chair the United Nations Development Group (UNDG) audit working group through 2006. The group was conceived as a meeting of the internal audit services of the agencies of the UNDG Executive Committee to discuss audit arrangements for common services and joint offices. As the group began to discuss audit arrangements for multi-donor trust funds (MDTF), membership was extended to internal audit services of all UNDG organizations.

15. The audit working group agreed that the first joint audit of the joint office in Cape Verde will take place in late 2007. The principles for auditing common services have been agreed and endorsed by the UNDG Management Group. A framework for audit arrangements of MDTF, being finalized, will facilitate the issuance of MDTF summary audit information across all participating agencies.

16. Following Executive Board decision 2006/18, the internal audit services of UNICEF, the United Nations Population Fund (UNFPA), the World Food Programme (WFP), the United Nations Office for Project Services (UNOPS), the United Nations Development Programme (UNDP) and the Office of the United Nations High Commissioner for Refugees achieved a common understanding of the audit ratings used, which will allow the comparison of audit reports. Each audit observation will continue to have (a) risk-significance ratings and (b) risk-management ratings. Risk-significance ratings have already been uniformly used by

the concerned United Nations organizations, and are expressed as high, medium or low. Risk-management ratings summarize the performance of the audited unit in managing the risks in a functional area. UNICEF, UNFPA, WFP, UNOPS and UNDP signed an agreement on the use of common risk-management ratings, which are labelled as satisfactory, partially satisfactory and unsatisfactory. The new ratings have been applied to internal audits since 1 January 2007.

17. In response to requests received from Member States, discussions are taking place at the level of the High Level Committee on Management on the sharing of internal audit reports with Member States.

18. OIA participates in discussions with other United Nations agencies on the introduction of organization-wide risk management frameworks. It is widely recognized that management must own and lead such a process. OIA prepared a proposal for an expert facilitation of such a process for UNICEF; management indicated that this should be linked to the outcomes of the organizational review. The adoption of an organization-wide risk management framework will aid the strategic planning process, signal to managers the level of risk that the organization is willing to take, and help UNICEF to manage cross-enterprise risks and opportunities.

19. Closer collaboration is being cultivated between the Evaluation Office and OIA to better coordinate work planning and the joint management of performance reviews.

E. Risk-based audit planning

20. The majority of UNICEF resources are spent on programmes in 125 field locations. Field offices to be audited are selected through an objective assessment of risks in relation to the achievement of planned results. Field offices are ranked according to the following risk areas:

(a) **Time** since last audit (a field office should go without audit for more than five years; the 10 largest offices are audited every other year);

(b) **Risk-mitigation practices** (the performance of the office in implementing previous audit recommendations);

(c) **Capacity risks** (changes in programme size that may overstretch the office capacity; this category is likely to include offices that receive emergency funding);

(d) **Environment risks** (governance and quality of public financial management systems in the host country);

(e) **Programme management risks** (programme management practices approximated by expenditure rates);

(f) **Risky transactions** (a high share of requisition levels at year-end may indicate risky transactions made to beat spending deadlines).

21. OIA now includes more audits of headquarters divisions and systems. To allow for an objective selection of divisions or functional areas, OIA uses a risk model that considers the amount of resources related to a major business system; the time lapsed since the last review; the known existence of significant uncontrolled risks or weaknesses; and reported performance against expectations described in management plans.

22. One single risk model covering headquarters and field locations and key business processes would further focus audit resources on the most important areas. Work on this continues and is expected to benefit from the establishment by management of an organizational risk management policy, risk mapping and risk mitigation practices.

23. Prior to each audit, auditors conduct a risk analysis to develop and refine the scope for field audits. This analysis is based on a pre-audit questionnaire completed by the office, a review of programme documents and annual reports, the auditors' analysis of the field office's Programme Manager System data, and information provided by regional office and headquarters divisions. For headquarters divisions or systems, a risk analysis is normally done through a pre-audit.

24. The risk-based selection of audit entities and risk-based scoping of each individual audit ensures that OIA focuses on the areas of greatest weakness, and areas for improvement are identified with a high degree of predictability.

III. Results of work undertaken in 2006

A. Audit coverage

25. OIA planned and completed 29 country office audits in 2006 (See annex 1 for a list of country offices audited in 2006 and a summary of their risk ratings). In addition, a special audit on contribution management was undertaken in Zimbabwe. An audit on the emergency response to the South Asia earthquake of 2006 was undertaken in Pakistan. Four of the scheduled audits were related to the 2004 tsunami.

26. Five headquarters audits were planned for 2006, for which field work was completed. For details see Section III D. In addition, audit reports were issued on the response by the regional offices of South Asia and of East Asia and the Pacific to the tsunami, and a summary report was made on the UNICEF response to the tsunami. With the help of pro bono work from PricewaterhouseCoopers, an IT risk assessment was conducted. For two more headquarters audits, field work was completed in 2006, with the reports issued in 2007.

Table 1
Audit coverage, 2004-2006

	2004	2005	2006
Number of completed field office audits	29	33	31
Number of HQ or systems audits, and summary reports	6	7	11
Number of completed audits	35	40	42

27. To assure UNICEF management about the quality of audit reports, the Director of OIA includes a "Statement of Conformity to OIA Standards" in each report that meets the standards. In 2006, all but one completed audits met OIA's demanding performance standards for planning, implementation and reporting (for the exception, see paragraph 52).

28. Each audit observation includes a risk statement that describes why the finding is important and should be addressed; a statement of the facts found in the audit; and one or more recommendations for establishing adequate control over the identified risk. This approach is consistent with professional audit standards and emphasizes the risks to an entity's performance.

29. In 2006, OIA issued 561 risk observations and 164 positive practice observations. A positive observation is made when all aspects of a particular work process step in an audited area are found to function as expected.

Table 2
Audit observations by level of risk, 2004-2006

	2004		2005		2006	
High risk	87	13%	81	12%	66	12%
Medium risk	562	82%	545	81%	424	76%
Not rated (headquarter and special audits only)	36	5%	44	7%	71	12%
Total risk observations	685		670		561	
Positive practice observations	182		223		164	
Per cent of all observations that are positive	22		25		23	

30. In 2006, 40 per cent of high-risk observations were found in the area of financial controls, compared to 50 per cent in 2005. The remaining high-risk observations mainly related to programme management (15 per cent), supply assistance (14 per cent) office administration (11 per cent) and the implementation of prior audit recommendations (9 per cent).

B. Field offices

31. Table 3 indicates the coverage of field offices over the last six years. The only country office not audited is Cape Verde, which has become a joint office and will be audited jointly with the audit services of other organizations in late 2007. The 10 largest offices are typically audited every other year.

Table 3
Field offices audited from 2001 to 2006

Field offices audited once	91
Field offices audited twice	26
Field offices audited three times	5
Field offices audited four times	2
Field offices not audited	1

32. OIA has a standard audit programme for field offices consisting of standard audit guidelines in 10 audit areas. The audit programme is reviewed annually. Detailed assessments of the core areas of finance control and programme

management are carried out in most audits of field offices. Implementation of prior audit recommendations was reviewed where applicable. Cash or supply assistance was reviewed only where audit preparation identified the likelihood of risks. The UNICEF emergency response to the South Asia earthquake was audited using guidelines modified from the audits of the tsunami response. The audit module on basic information and communication technology controls was discontinued, once all audited field offices but one were found to perform satisfactorily in this area in 2005. A new audit module for the testing of IT will be developed in 2007.

Programme management

33. Twenty-five field audits reviewed basic programme management practices that UNICEF considers necessary. Ten high-risk observations were made. Table 4 indicates that the distribution of observations for 2006 closely follows the pattern observed in 2005.

Table 4

Programme management: number of observations raised (high-risk observations in parenthesis)

<i>Area</i>	<i>2005</i>	<i>2006</i>
Annual planning standards	50 (5)	41 (2)
Programme implementation and performance monitoring	33 (0)	33 (6)
Office governance	20 (2)	17 (1)
Monitoring and evaluation	29 (0)	26 (1)
Accuracy of annual reports	7 (0)	9 (0)
Staff training in programme management	3 (0)	1 (0)

34. The audits focused on the major risks that threaten the achievement of planned programme results. Weak practices were found in 16 offices in the preparation and review of Annual Work Plans (AWPs), which should describe the expected results and the specific activities of implementing partners. AWP of 15 offices did not clearly describe the expected results, and AWP in 10 offices were incomplete. Unclear results statements or incomplete AWP may lead to misunderstandings between the office and the implementing partner about what is to be done and achieved. A lack of endorsement of AWP by implementing partners can indicate a lack of commitment. Eleven offices did not adequately assess the capacity of non-governmental partners before committing resources to them. Twenty offices showed often-multiple weaknesses in monitoring practices, including poor definition of indicators for monitoring programme performance, inadequate activity monitoring, and inadequate functioning of monitoring and evaluation systems. Weak monitoring may lead to the late identification of constraints that cause avoidable delays. In several cases, constraints identified in the annual review remained unaddressed in the subsequent year, with the result that the achievement of expected results was at risk. Nine offices had missing or unsupported statements in their annual reports.

35. The audits reviewed how the offices maintained the attention paid to key priorities, as well as staff capacity in core programme management skills.

Weaknesses were observed in 17 of the 25 offices. These weaknesses included lacking or incomplete management plans, poor coordination between the country office and sub-offices, and inadequate terms of reference of country management teams. While the existence of positive management practices does not assure that planned programme results will actually be achieved, and weak practices do not imply failure, it is reasonable to expect that offices with positive practices have a higher likelihood of overall success than those that do not.

Finance and accounts

36. Financial controls were reviewed in 25 field locations, and 23 high-risk observations were made.

Table 5

Finance and accounts: number of observations raised (high-risk observations in parenthesis)

<i>Area</i>	<i>2005</i>	<i>2006</i>
Assignment of financial control responsibilities	44 (5)	49 (3)
Transaction processing	55 (15)	50 (12)
Management supervision of financial controls	26 (4)	27 (8)

37. The profile of observations in 2006 is generally consistent with prior years. Only 3 of the 25 offices had adequately assigned financial control responsibilities and monitored the fulfilment of those responsibilities. Corresponding weaknesses in the authorization, certification, approval and payments of transactions were found in 22 offices. Nineteen offices had weaknesses in the functioning of contract review committees. Sixteen offices displayed one or more weakness in the management and supervision of financial controls, including the reconciliation and closure of accounts. More positively, offices generally have strong internal controls over the integrity of financial data. To address the pattern of weaknesses, OIA had prepared a financial summary report in 2005; 21 of its 28 recommendations have meanwhile been addressed.

Management of cash and supply assistance and contracts

38. Based on a preliminary review of a field office's performance data, audits may examine how the office plans, commits, and procures programme inputs: provision of cash assistance, supply assistance, and contracting services.

39. Cash assistance was reviewed in 13 country offices. Table 6 indicates the distribution of observations made. The focus of this audit area will shift to field office management of the risks associated with cash transfer procedures, as defined by the harmonized approach to cash transfers agreed by the agencies of the undg Executive Committee.

Table 6

Cash assistance: number of observations raised (high-risk observations in parenthesis)

<i>Area</i>	<i>2005</i>	<i>2006</i>
Planning cash requirements	7 (1)	10 (1)
Defining & budgeting cash-supported activities	4 (0)	13 (0)
Disbursing cash assistance	6 (0)	8 (4)
Reporting the use of cash assistance by partners	6 (0)	14 (1)
Monitoring the use of cash assistance	2 (0)	4 (0)

40. Supply assistance was reviewed in eight field offices where it was a significant component of the programme of cooperation. Table 7 indicates the distribution of observations made.

Table 7

Supply assistance: number of observations raised (high-risk observations in parenthesis)

<i>Area</i>	<i>2005</i>	<i>2006</i>
Planning supply & logistics requirements	16 (1)	14 (1)
Selecting and contracting suppliers	20 (1)	7 (0)
Pre-delivery quality control and in-country logistics	19 (4)	10 (4)
Assessment of the effectiveness of supplies	4 (0)	5 (0)

41. Seven of the eight offices displayed one or more weakness in planning supply and logistics requirements with partners. These offices lacked procurement and distribution plans, had unrealistic target arrival dates, showed untimely procurement action. Six offices did not follow recommended procedures for the identification, assessment and evaluation of suppliers. Six offices did not adequately monitor the receipt, distribution and delivery of UNICEF-procured supplies, or did not follow established criteria for pre-delivery inspection of locally purchased supplies. Five offices did not adequately monitor the effective use of UNICEF-procured supplies by implementing partners.

42. Practices for contracting consultants were audited in one office and found to be satisfactory.

Office administration

43. Office management practices were tested in 21 country offices. The timeliness of recruitment and performance appraisals was weak in 14 of the offices. Staff learning and general administration was positively assessed in 13 of the 21 offices, but observations were raised in the planning of learning activities in the other 8 offices. Travel management in 14 offices had weaknesses.

Table 8

Office administration: number of observations raised (high-risk observations in parenthesis)

<i>Area</i>	<i>2005</i>	<i>2006</i>
Staff recruitment and performance management	34 (5)	24 (3)
Staff learning and administration	18 (0)	8 (0)
Office premises and non-expendable property	28 (5)	16 (3)
Travel	24 (0)	15 (0)

Implementation of prior audit recommendations

44. The implementation of prior audit recommendations was reviewed in 15 field offices. Nine offices were found to have generally addressed the recommendations made to them in the previous audit, though there was scope for strengthening the monitoring of implementation and to prevent recurrence of the same weaknesses. Implementation of prior audit recommendations was unsatisfactory in six offices.

C. Analysis of underlying causes for findings from audits of field offices

45. To understand the underlying issues associated with the audit findings, all audit observations are classified by OIA according to the internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission. Table 9 provides an analysis of the main underlying causes for unsatisfactory performance. A large proportion of the risks observed in 2006 audits can be attributed to inadequate oversight by country office managers of the internal control framework.

Table 9

Reason for weaknesses in risk-management practices in 2006

	<i>Percent of total</i>
Weak monitoring and adherence to/implementation of established controls	74%
Management and staff unaware of/do not understand the purpose of controls	8%
Internal controls not established	7%
Objectives not established/risks not identified	6%
Unclear assignment/improper segregation of responsibilities	5%

46. The weaknesses in the application of management practices prescribed or recommended to country offices have been the focus of nine summary reports undertaken by OIA since 2002, covering a wide range of functional areas. The summary reports have pointed towards specific gaps, inconsistencies and ambiguities in UNICEF policy and guidance. They identified areas where regional offices should increase oversight of country office operations and performance, clarify priorities and expectations, and provide feedback. They also recommended

specific skills-development activities that would assist staff in adopting positive management practices.

47. Many of the gaps and weaknesses in policy and guidance have been addressed, though other gaps have emerged, since programming procedures have changed due to harmonization among agencies of the Executive Committee. As new procedures are being rolled out, skills-training may not always have kept pace. Higher awareness among managers and staff of the risk attached to UNICEF operations may sharpen the understanding of the need for implementing recommended controls. The adoption by management of an organization-wide risk management framework would assist in this regard.

D. Headquarters locations, systems audits and summary reports

Audit of the South Asia regional office response to the tsunami

48. The audit reviewed the regional office's support to country offices' emergency operations and the management of its own tsunami-related activities. Adequate support was provided in the development of fund-raising appeals and media coordination. However, there was inadequate support for the recruitment of staff in important sectors, the development of monitoring frameworks for tsunami activities and for the management of significant construction projects. There were weaknesses in the office's own planning for tsunami activities, which did not define priorities and sector workplans. The office inappropriately requisitioned funds against undetermined activities prior to expiry to avoid returning funds to donors.

Audit of the East Asia and Pacific regional office response to the tsunami

49. The audit reviewed the regional office's support to country office emergency operations and management of its own tsunami-related activities. Adequate support was provided to country offices in the recruitment of staff and in finance management and IT. However, there was inadequate support for planning the tsunami response, for the procurement and in-country logistics of emergency supplies, and for the management of agreements related to significant construction projects. The regional office's internal planning of tsunami-related work did not function well and the office did not monitor its own performance.

Cards and gifts operations and support functions of the Private Sector Division (PSD)

50. The audit reviewed controls over the planning, product development, procurement, inventory management, and distribution and sale of cards and gifts. The audit identified 17 risks, including delays in forecasting demand, weaknesses in estimating the profitability of products and product costing, and incomplete market surveys. While the timeliness of product delivery was monitored, controls over some logistic elements were weak. There was a lack of clarity in the accountabilities of National Committees for UNICEF for goods received on consignment from UNICEF, and in accounting for the disposal of products and inventory variances.

Administration of cooperation agreements with National Committees by the Private Sector Division and the Geneva Regional Office (GRO)

51. The audit reviewed the effectiveness of PSD and GRO in administering cooperation agreements and joint strategic plans with the 37 National Committees. PSD and GRO had identified and shared good practices and supported continuous improvement across the Committees. However, the responsibilities of PSD and GRO for the financial oversight of net proceeds and expenditures and support to Committees were not clearly defined. Tools for guiding PSD and GRO staff in discharging their responsibilities were insufficient. Needs of Committees and risks related to their operations were not adequately assessed. PSD's and GRO's oversight of the establishment of reserves and foundations by Committees was found to be weak, as was PSD's oversight of potential fraud and irregularities in Committees. Practices related to the periodic review of Committees' progress in achieving financial targets were not working well. There were frequent delays in obtaining financial performance information and reports from Committees. The report made 42 recommendations to three headquarters divisions.

The Global Alliance for Vaccines and Immunization (GAVI) secretariat

52. The audit examined the extent to which there were functioning oversight mechanisms and to which the GAVI secretariat was managed in accordance with UNICEF rules, regulations, and partnership arrangements. Because of restricted access to information, OIA was unable to fully conduct its work in conformity to standards of the Institute of Internal Auditors, and the audit was unable to provide reasonable assurance to UNICEF that all significant uncontrolled risks with respect to areas covered in the scope of the audit were identified. The audit found payments that were made without evidence that goods or services were received or that the accuracy of the billed amounts was checked; single source contracts were awarded without written justification; and the secretariat did not periodically prepare a complete set of financial statements, thus weakening the oversight by the secretariat, the GAVI Board and UNICEF as the host organization. The report made 26 recommendations to the GAVI secretariat, including on the resolution of the disagreements on the exercise of UNICEF oversight.

Oversight of GAVI secretariat and administration of GAVI operating account

53. The audit found that divisional accountabilities, reporting mechanisms and guidance for the oversight of the GAVI secretariat and the administration of the Secretariat Operating Account were generally lacking in UNICEF. The contractual arrangement with the GAVI secretariat did not establish the reporting mechanisms to enable UNICEF to fulfil its oversight responsibilities. While the audit found that the funds were used for planned activities and funds disbursed were properly recorded, there were weaknesses in calculating GAVI secretariat contributions to UNICEF common services costs, leading to incorrect payments to UNICEF. The purpose, content and basis for the calculations in the certified annual financial report of the GAVI secretariat were not established in the hosting arrangement. The audit made nine recommendations to three headquarters divisions.

Organizational governance arrangements for major IT projects

54. The audit reviewed the governance arrangements for identifying, prioritizing and managing major IT projects. It found that UNICEF had elements of a

governance structure for major projects, but gaps existed, and several high-level governance arrangements were no longer functioning. Project selection was not evidently prioritized. Moreover, the IT strategy was outdated. Specific projects reviewed by the audit were managed effectively, within budgets and deadlines. However, there were gaps in procedures related to project costing and monitoring.

Management of temporary assistance

55. The audit, issued in 2007, examined the management of contractors, consultants and temporary fixed-term staff in headquarters divisions, and the overall policy and guidance for managing this assistance. The audit found that practices and compliance varied substantially between divisions. There were weaknesses in the contracting and approval processes and assessment of results. More positively, other important aspects of temporary assistance management were working well, such as the divisions' planning for the use of temporary assistance.

Administration of staff benefits and entitlements

56. The report was issued in 2007. The audit reviewed the clarity of roles and responsibilities for processing entitlements, the accuracy of calculations and the recovery of incorrect payments. The audit found that roles and responsibilities for processing of staff benefits and entitlements were generally not well defined and communicated to staff. Guidance for processing education grants was weak, leading to bottlenecks. There were also weaknesses in data entry and claims verification. There was no established procedure for the systematic detection of incorrect payments and for tracking of recoveries made.

IT risk-assessment and audit strategy

57. With pro bono assistance from PricewaterhouseCoopers, OIA conducted a study on risk related to the information and communication technology infrastructure. The assessment identified critical IT assets and identified and categorized risks. The assessment concluded that UNICEF has an effective IT infrastructure that supports its global operations. However, a number of significant risk areas were identified, resulting from gaps in IT control activities and security policies. The conclusions from the risk assessment informed the 2007 IT audit strategy and workplan.

Summary audit report on the UNICEF response to the tsunami

58. The report analysed findings from audits of the tsunami response by the Sri Lanka, Maldives and Indonesia country offices, to identify systemic weaknesses that require a response from headquarters divisions or regional offices. The report found that the emergency preparedness and response plans were generally consistent with guidance but made a limited contribution to the response. UNICEF did not have standard tools and guidance to support a consistent approach to needs-assessments. Some countries lacked plans to support the longer-term transition to recovery and rehabilitation. There were weaknesses in the support to counterparts for managing cash assistance and in the management of construction programmes. Major lessons from the tsunami response should be identified and systematically followed up. Twenty-four recommendations were made to six headquarters divisions and two regional offices.

IV. Summary of key and recurrent findings

59. Table 10 compares the proportion of unsatisfactory ratings over time. In the areas of programme management and cash assistance, improvements made in 2005 were maintained in 2006. The generally good ratings for office management were further improved in 2006. There is, however, still a significant share of country offices that do not meet the full range of UNICEF defined management standards in core areas such as finance, programme management, supply assistance and the implementation of prior audit recommendations. Eight of 25 field offices received an unsatisfactory rating for programme management, and 11 offices were rated unsatisfactory in finance. Significant additional effort is required by management to address consistently poor ratings, including in terms of consolidation and communication of guidance related to financial controls and basic programme management practices; increased global awareness about country office performance through improved monitoring by regional offices and headquarters; and more attention paid to skills development.

Table 10

Summary of unsatisfactory ratings by audited area for field offices, 2004-2006

	2004		2005		2006	
	<i>No. of audits</i>	<i>Per cent unsatisfactory</i>	<i>No. of audits</i>	<i>Per cent unsatisfactory</i>	<i>No. of audits</i>	<i>Per cent unsatisfactory</i>
Finance	27	56%	24	46%	25	44%
Basic programme management	25	48%	24	30%	25	32%
Cash assistance	22	36%	6	17%	13	23%
Supply assistance	13	46%	11	27%	8	50%
Implementation of audit recommendations	18	11%	20	10%	15	40%
Office management	—	—	25	20%	21	9%

60. Frequent observations that are common to a large number of offices have been noted in paragraphs 33 to 45, and in previous annual reports to the Executive Board. Table 11 summarizes findings recurring since 2004.

Table 11

Summary of key recurring findings in field offices 2004-2006

<i>Audit area</i>	<i>Findings</i>
Finance	Weaknesses in the assignment of financial responsibilities Weak awareness and application of financial responsibilities Inadequate functioning of contract review committees

<i>Audit area</i>	<i>Findings</i>
Programme	Poorly defined programme results and activities Delayed endorsement of annual workplans Inadequate assessment of implementing partners' capacities Inadequate monitoring of programme implementation and outcomes Inadequate prioritization of evaluation and research activities
Programme inputs	Limited awareness of end-use and effectiveness of UNICEF-supported supply, cash and service inputs Weaknesses in warehouse and inventory management
Office administration	Untimely recruitment and performance assessment Travel planning — untimely and not clearly linked to priorities
Prior audit implementation	Actions to address risks not sustained

61. Table 12 summarizes key and recurring findings related to the roles and responsibilities of headquarters divisions and regional offices. These observations resulted from an analysis of past field office audits, or were the direct results of audits of headquarters and regional offices.

Table 12

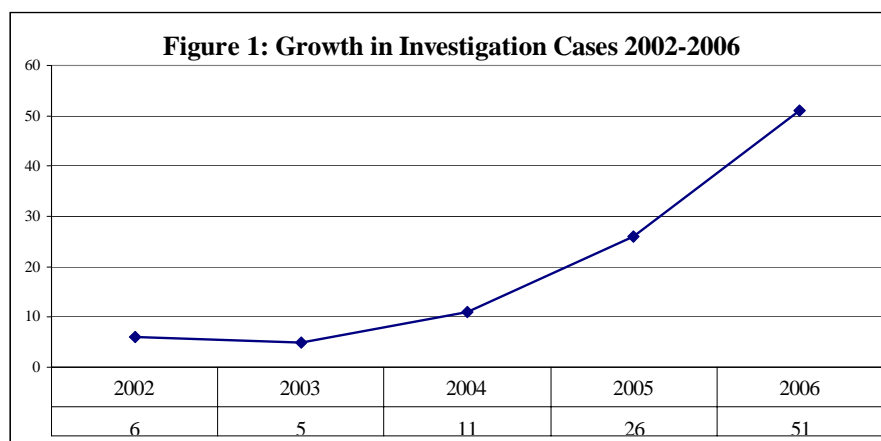
Summary of key recurring recommendations related to headquarters and regional offices

<i>Audit area</i>	<i>Findings</i>
Governance and accountabilities	Accountabilities not defined; accountabilities between or within divisions not clearly defined; accountabilities between headquarters and regional offices not clearly defined
Oversight, guidance and technical support to country offices	Lack of clarity on the specific nature of responsibilities related to oversight, guidance and support; where responsibilities are clear, regional offices claim inadequate resources to fulfill those responsibilities

<i>Audit area</i>	<i>Findings</i>
Monitoring and assessment of the performance	The organizational performance information framework is weak; global and regional profiles do not exist or are inadequate; regional offices use different criteria to monitor country office performance; there is no mechanism for monitoring regional performance

V. Support to investigation

62. Figure 1 illustrates the number of allegations received by OIA over the past five years. Of the 51 allegations received in 2006, 11 were received in October, following the release of the new anti-fraud policy. This might indicate a general increase of awareness among staff of the potential of fraud and the need to report suspected fraud.



63. OIA established a hotline for reporting allegations in September 2006. The hotline has been used in a few instances. All cases reported on the hotline were also reported directly to senior managers in UNICEF and forwarded to OIA, or reported directly to OIA through regular e-mail.

64. OIA provided guidance to country offices and regional offices on how to manage local investigations. While this has generated the expected results in most cases, delays occurred. OIA will strengthen its capacity to carry out investigation missions with the anticipated recruitment of two full-time investigators.

65. Table 13 indicates the categories of cases reported to OIA in 2006.

Table 13
Investigation cases by category, 2006

Allegations of fraud involving staff members	17
Allegations of fraud not involving staff members	14
Theft	8
Mismanagement and abuse of authority by staff members	8
Others (e.g. scams)	4
Total number of cases	51

66. OIA continued to deal with a backlog of cases from 2005. Table 14 indicates the number of open cases, as of May 2007.

Table 14
Status of investigation cases, 2002-2007 (as of May 2007)

<i>Year</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total number of cases	6	5	11	26	51	26
Number of open cases	0	0	0	5 (19%)	28 (55%)	20 (77%)

VI. Implementation of audit recommendations by management

67. OIA regularly monitors the status of actions by audited offices to close audit recommendations. Updated closure rates are reported every two months to the UNICEF key performance indicator database on the Intranet. Headquarters and regional offices can access key audit statistics directly from OIA's online database.

68. OIA reviews auditees' implementation reports. In cases where reported actions have not adequately addressed the identified risks, OIA points out gaps and suggests additional actions to address the inadequately controlled risks. Reminders are sent if implementations reports are overdue.

69. Follow-up audits may be made to offices for which notably elevated risks were identified in an audit. In 2006, follow-up audits were conducted in Indonesia and Maldives, and OIA followed up on specific cases in Iraq and Zimbabwe. Other audits found that the implementation reports submitted by the country offices accurately reflected the actions they had taken.

70. As requested by the Executive Board in decision 2006/18, annex 2 includes a table listing recommendations not implemented within 18 months of being issued.

Implementation of audit observations issued to country offices

71. All recommendations for observations issued to country offices in 2003 or earlier are closed. OIA issued 649 observations to country offices in 2004, of which 3 remain open. Ninety-eight per cent of 626 observations issued to country offices in 2005 have been addressed, 11 observations remain open. In May 2004, OIA issued recommendations related to the verification of cash transfers to Government

partners in Northern Iraq. Despite making every effort, the office was unable to fully carry out the verification work due to the prevailing insecurity and major changes in Government partners. Based on the substantive work by the office, the recommendation has been closed. However, OIA is still reviewing details of the case to determine the propriety of the decisions related to the cash transfers.

72. Twenty-five field offices audited in 2006 were due to report their corrective actions by 15 June 2007, and 20 had done so. OIA determined that adequate controls had been established over 56 per cent of the risks identified in these 20 country offices. (The Director of OIA will report orally to the Executive Board at its second regular session in September 2007 on the implementation status realized as of 1 July 2006, and will compare this to the 68-per-cent closure rate achieved for the 2005 audits, as reported orally to the Executive Board at its second regular session in September 2006).

Implementation of audit recommendations issued to headquarters and regional offices

73. Of the 18 reports of headquarters and regional audits and summary reports issued in 2002-2005, recommendations of 12 reports have been reported as fully addressed. The remaining six reports contain recommendations that still need to be addressed.

74. About 82 per cent of the recommendations of the 2002 summary audit report on basic programme management practices have been closed; the remaining recommendations have remained open for more than 18 months. Ten recommendations each were not addressed by the Eastern and Southern Africa Regional Office (ESARO), the West and Central Africa Regional Office (WCARO) and The Americas and Caribbean Regional Office (TACRO), though the recommendations were addressed completely by the remaining four regional offices. OIA shared the actions taken by the four regional offices with the three defaulting regional offices to indicate how the recommendations could be implemented. The outstanding recommendations address weak regional office oversight and support to country teams. One open recommendation was made to the Evaluation Office, and addresses major variations in the quality of country-level monitoring and evaluation plans and variations between planned and actually conducted evaluations.

75. Sixty-four per cent of the recommendations on the 2004 audit of headquarters procurement have been implemented. The remaining eight recommendations have remained open for more than 18 months. The Division of Financial and Administrative Management (DFAM), Supply Division and the Division of Human Resources (DHR) have still to address the risks associated, inter alia, with inadequate procurement guidance for headquarters divisions; design weakness in the budget system; and inconsistencies in assigning financial control responsibilities.

76. Eight recommendations of the 2005 audit of the management of internal performance information in headquarters divisions have remained open for more than 18 months. They relate to the development and implementation of the performance information and reporting framework together with relevant training materials and tools.

77. DFAM and DHR still have to implement two recommendations related to the revision and consolidation of financial guidance, recommended in the 2005

Summary Report of Financial Controls in UNICEF Field Offices. WCARO has not yet addressed the recommendations addressed to the regional offices for the systematic supervision and support of country offices in assigning and executing financial responsibilities. Addressing the recommendations contained in the Summary Report would help to contain some of the risks that continue to be noted in field audits.

78. With respect to the 2005 audit of shipping and handling of UNICEF-procured supplies in Supply Division, one recommendation, related to the assignment of authorities, remains open.

79. Seven out of 18 recommendations of the audit of UNICEF headquarters' response to the tsunami have been closed. Outstanding findings include incomplete mechanisms for monitoring emergency response activities; unclear accountabilities for headquarters divisions in responding to emergencies and lack of contingency planning by divisions; an unclear basis for the allocation of funds to an emergencies afflicting several countries; weak monitoring of the use of emergency funds; and weaknesses in the identification, clearance and performance appraisal of staff deployed to emergency locations.

80. Formal responses to all audits and summary reports issued in headquarters locations in 2006 have been received, and one has already been closed.

81. A follow-up audit to the Maldives, conducted in 2006, noted continued weaknesses in that office's financial controls and management of programme inputs, for which regional guidance and support is required.

VII. Analysis of resource requirements for the internal audit function

82. This section has been added in response to Executive Board decision 2006/18, which urges the Executive Director to assess the resources required for the internal audit function.

83. OIA's present resources are deemed inadequate to provide sufficient assurance as to the effectiveness and functioning of UNICEF risk management, control and governance processes. The external auditors noted in 2005 that the OIA audit plan does "not cover totally the defined country office coverage". The external auditors also noted that an indicator of possible OIA understaffing was the evolution of OIA resources compared to that of UNICEF as a whole; while the overall OIA headcount was reduced, the organization's resources increased significantly and new offices were opened in countries of the former Soviet Union or in countries dealing with complex emergencies. The external auditors calculated that when applying the same ratio of organizational resources per auditor as that of UNDP, OIA would require 36 auditors. The UNICEF Audit Committee also noted that OIA should consider undertaking more headquarters and systems audits while maintaining the level of country office coverage.

84. OIA's own risk analyses in recent years confirmed that more headquarters and systems audits need to be conducted, and OIA tried to refocus its work accordingly. Since headquarters and especially systems audits require a higher level of effort than a typical country office audit, the shift towards more headquarters and systems

audits implied a larger reduction in the number of country office audits, and the average time for the quality assurance review by peer auditors and report finalization was negatively affected. In an attempt to compensate for this, OIA has increased its audit capacity through enhanced use of IT, a more focused audit approach, and a reduction of the scope of offices in country offices with an annual budget of less than \$5 million. Despite these efforts, OIA's overall audit capacity is insufficient.

85. The current and future need for assurance services is influenced by new complexities arising from adjusting UNICEF operations to the inter-agency context, joint programming arrangements, MDTF, joint offices and One United Nations pilots, and from changing procedures. The organizational review is causing significant changes in the organizational structure and accountabilities, and the organization may not be able to rely on the systems and controls adapted to the old structure. In order to be able to provide an adequate risk analysis and provide satisfactory assurance to UNICEF management, audit coverage must rapidly include affected divisions, offices and systems. Moreover, senior OIA managers are increasingly expected to participate in inter-divisional committees, such as those related to the organizational review or other reviews, or inter-agency working groups related to United Nations reform and coherence. OIA expertise and involvement is also increasingly requested for assessments of risks related to strategic decisions or critical oversight issues.

86. In summary, audit resources and coverage have not been adjusted commensurately with the expansion of UNICEF operations and the requirements for oversight in United Nations organizations. To provide sufficient assurance over the effectiveness and functioning of UNICEF risk management, control and governance processes, extra audit capacity is needed to maintain field office audit coverage and enhance headquarters and systems audit coverage and the number of performance reviews. This will be possible only through the provision of additional resources to OIA. Respective budget proposals are being prepared for the 2008-2009 biennium.

Annex 1

Risk management ratings for field audits completed in 2006

Audit	Percent	and number of audited areas rated satisfactory
Armenia	100%	(5 of 5)
Bangladesh	67%	(2 of 3)
Belize	50%	(2 of 4)
Burundi	83%	(5 of 6)
Chad	40%	(2 of 5)
Colombia	75%	(3 of 4)
Djibouti	83%	(5 of 6)
Dem. People's Rep. of Korea	100%	(3 of 3)
Gabon	40%	(2 of 5)
Georgia	80%	(4 of 5)
Haiti	50%	(2 of 4)
India – Country Office	83%	(5 of 6)
India – Calcutta State Office	33%	(2 of 3)
India – Chennai State Office	50%	(2 of 5)
India – Patna State Office	67%	(2 of 3)
Indonesia – Banda Aceh	50%	(1 of 2)
Indonesia Follow-up	100%	(2 of 2)
Iraq	83%	(5 of 6 – incl. 2 exemplary)
Macedonia, FYR	75%	(3 of 4)
Maldives Follow-up	50%	(1 of 2)
Mauritania	60%	(3 of 5)
Nigeria	71%	(5 of 7)
Pakistan – South Asia earthquake		No rating
Pakistan Follow-up	100%	(1 of 1)
Sao Tome & Principe	100%	(4 of 4)
Southern Sudan	25%	(1 of 4)
Tunisia	100%	(5 of 5 – incl. 2 exemplary)
Venezuela, Bolivarian Rep. of	100%	(3 of 3)
Zambia	60%	(3 of 5)
Zimbabwe	33%	(2 of 3)
Zimbabwe (Special Audit)		No rating

Annex 2: Table of observations that remain unresolved for more than 18 months, as of June 2007

Summary report on programme management controls, 2002

<i>Audit observations</i>	<i>Recommendations</i>
There were weak quality assurance practices in country offices, related to AWP.	(The five following observations were addressed by four regional offices, but not by ESARO, WCARO and TACRO). Regional offices should develop a mechanism to assess the general quality of AWP developed by field offices, support offices that do not meet quality standards, and inform appropriate divisions of the general quality of workplans.
There was weak review of field office priorities by governance committees.	Regional offices should provide technical assistance to country offices to operate governance committees that meet UNICEF standards.
There was poor prioritization of evaluations and weak use of evaluation and research plans by country offices.	Regional offices should provide technical support to country offices on evaluation and research plans; strengthen staff skills to meet quality standards for such plans; provide quality review on the content of these plans; and monitor the existence, use and quality of evaluation and research plans.
Many field offices had weak first-hand knowledge of the effectiveness of UNICEF-supported activities.	Regional offices should provide technical support to country offices to establish and achieve standards for monitoring UNICEF-supported activities in the field.
Training events were poorly aligned with programme priorities and skills requirements.	Regional offices should ensure that regional training committees focus on programme management and technical programme skills-training, review country office training plans to identify priorities, and monitor the existence and implementation of training plans.
There was poor prioritization of evaluations and weak use of evaluation and research plans.	The Evaluation Office should monitor the use of evaluation and research planning tools, and activities by regional offices to support country offices in this area.

Procurement processes and controls in Programme Division, the Division of Communication and Information Technology Division for supplies and consultants, 2004

<i>Audit observations</i>	<i>Recommendations</i>
Adequate guidance on procurement was not available for headquarters divisions.	Supply Division should issue or clarify procurement guidance for headquarter divisions.
The procurement-related guidance for the use of FLS (financial and logistics system) was inadequate.	Supply Division should revise guidance to headquarters divisions for the processing of procurement actions in FLS.

<i>Audit observations</i>	<i>Recommendations</i>
Because of the lack of in-system controls, a low-value procurement facility was used to procure high-value goods and services.	Supply Division should establish relevant in-system controls and inform headquarters divisions. DFAM should review past use of the low-value procurement facility to identify incidences of significant misuse, if any, and take corrective actions.
A duplicate contract document has to go through manual preparation, which may lead to errors.	DHR should establish a facility to create and print contracts for services in FLS.
The financial control responsibilities assigned to staff and the system-based authorities were not in agreement.	DFAM should revise guidance on assigning financial control authorities and replicating those authorities in the system, and support divisions in applying it.

Management of internal performance information in headquarters divisions, 2005

<i>Audit observations</i>	<i>Recommendations</i>
The performance information and reporting framework for headquarters divisions was incomplete.	UNICEF should establish and use a performance- information reporting framework, and promulgate a policy on performance- information management.
No division was accountable for reviewing overall UNICEF performance.	The Office of the Executive Director (OED) should assign responsibility for performance management in UNICEF, and define accountabilities for the review of headquarters and regional office annual performance reports.
There were weaknesses in performance-related policies, guidance and terminology.	The Division of Policy and Planning (DPP) should resolve differences in terminology in current guidance.
There were insufficient training materials on setting priorities and results, performance targets and indicators related to headquarters work.	DPP and DHR should develop training materials for headquarters divisions on the preparation of biennium office management plans, annual plans and performance indicators.
Performance indicators were insufficient and poorly defined.	OED should assign responsibilities to identify standard indicators for administration, finance and training functions.
Good practices were insufficiently shared.	OED should assign responsibilities for establishing a mechanism to identify and share good practices.
There was incomplete reporting on achievement of objectives.	OED should require headquarter divisions to indicate progress and constraints in achievement of OMP objectives.

Field Offices

Senegal: 3 risks, 3 recommendations (2004)

- Failure to develop a comprehensive office training plan
- Lack of adequate procedures for requesting cash assistance and lack of common rates for cash assistance expenditures
- Weaknesses in processing cash assistance liquidations

Yemen: 8 risks, 14 recommendations (2005)

- Failure to review the status of pending accounting transactions
 - Failure to develop an annual management plan
 - Unclear supply specifications
 - Weak procedures for the assessment of potential suppliers and for the evaluation of performance
 - Lack of pre-delivery inspection of supplies and confirmation of condition and quantity of supplies received
 - Inadequate monitoring of status of supply
 - Job descriptions not consistent with current assignments
 - Untimely implementation of the performance appraisal system and the lack of a training plan
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