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Office of Internal Audit and Investigations 2012 Annual report to the Executive Board

Summary

The present report provides information on the activities of the Office of Internal Audit and Investigations (OIAI) during the year ended 31 December 2012. It provides an overview of OIAI, describes the key issues highlighted by its internal audit and investigations work, and gives information on the disclosure of internal audit reports during 2012. The management response to the present report is presented separately, as requested by the Executive Board in its decision 2006/18. The annual report of the UNICEF Audit Advisory Committee may be found on the Executive Board website.

A draft decision is contained in chapter VI.

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I. Introduction

1. The present report was prepared by OIAI and describes the key internal audit and investigations activities of UNICEF during 2012. It provides an overview of OIAI, describes the key issues highlighted by its internal audit, investigations and advisory work, and provides information on the disclosure of internal audit reports during 2012.

2. The annual report of the UNICEF Audit Advisory Committee is available on the Executive Board website. The Committee consists of five independent external experts. It reviews the OIAI annual workplan, quarterly activity reports, and resources, and reviews selected audit as well as investigations reports. The Committee also gives advice on improving the effectiveness of internal audit and investigations activities in UNICEF.

II. Overview of the Office of Internal Audit and Investigations

A. Mandate

3. OIAI provides independent and objective assurance and advisory services designed to add value to and improve UNICEF operations. It helps UNICEF systematically to assess and improve the effectiveness of its governance, risk management and control processes. OIAI assesses whether these processes provide reasonable assurance that:

(a) resources are acquired economically and are used efficiently;

(b) assets are safeguarded;

(c) activities comply with regulations, rules, policies, procedures, administrative instructions and contracts;

(d) financial, managerial and operating information is accurate, reliable and timely;

(e) programmes, plans and business objectives are achieved.

4. The nature and scope of OIAI advisory services are agreed with UNICEF management. OIAI ensures that its independence and objectivity are not compromised through the provision of advisory services.

5. OIAI also conducts investigations to examine and determine the veracity of allegations of corrupt or fraudulent practices and allegations of misconduct involving UNICEF staff, consultants, non-staff personnel and institutional contractors. OIAI investigations cover various forms of misconduct, including but not limited to: fraud, corruption, workplace harassment, sexual harassment and abuse of authority, or failure to observe prescribed regulations, rules, relevant administrative instructions and standards of conduct.

6. The authority and operational independence of OIAI are established in the UNICEF Financial Regulations and Rules. The purpose, authority and responsibility of OIAI are defined in its Charter, the most recent version of which was approved by the Executive Director in May 2012, in consultation with the Audit Advisory Committee.

7. OIAI maintains a quality-assurance and quality-improvement programme that covers all aspects of its activities. This programme includes internal quality assessments that involve ongoing performance monitoring and periodic reviews, and independent external quality assessments at least once every five years.

8. OIAI adheres to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors (IIA). The previous external quality assessment of OIAI audit activities, conducted in 2008, confirmed that the office was in general conformity with the international auditing standards that it follows. The next such assessment, which will cover internal audit and investigations activities, is planned for 2013.

9. The office also adheres to the Uniform Principles and Guidelines for Investigations, which are periodically endorsed by the Conference of International Investigators.

10. As required by IIA Standards, OIAI hereby confirms to the Executive Board that it enjoyed organizational independence during 2012. The office was free from interference in determining its audit scope, performing its work and communicating its results.

B. Risk-based audit planning

11. OIAI bases its workplans on risk assessments. The 2011 risk assessment and workplan preparation (for the 2012 work year) used input obtained from various data sources, different levels of management, OIAI staff, discussions with the Audit Advisory Committee and a review of the status of the then-current 2011 workplan. The 2012 workplan included audit and advisory engagements related to headquarters, regional offices and thematic areas as well as country offices.

12. The selection of country offices for audit was based on the risk profile of each office. It was also based on the charter of OIAI, which requires that the 10 largest country offices (in terms of annual programme expenditure) be audited every two years, and all other country offices every five years, subject to audit resources. The charter also states that a number of other offices rated as high risk may be audited each year.

13. OIAI also took account of the planned audits of the United Nations Board of Auditors and the work done by the Evaluation Office so as to minimize duplication of work and optimize audit coverage for UNICEF. The final 2012 workplan was reviewed by the Audit Advisory Committee prior to its approval by the Executive Director.

14. From September to December 2012, OIAI conducted a similar process for the 2013 annual workplan. This process refined the audit universe, especially for thematic areas, and introduced new risk factors. The 2013 workplan was designed to better meet the five-year coverage of country offices required by the OIAI charter. The 2013 workplan was reviewed and endorsed by the Audit Advisory Committee in November 2012 and approved by the Executive Director in January 2013.

C. Staffing

15. OIAI had 30 staff positions in 2012: a director, a deputy director, two chiefs of audit, a chief of investigations, 18 auditors, three investigators, one editor and three administrative assistants. The Director left in June 2012, and the Deputy Director in September. An Interim Director was in place between September and December 2012. OIAI also recruited one P-5 senior internal auditor in June and two P-2 internal auditors in May. One of the 18 auditors was on loan to the Change Management Office from March to December.

16. Despite best efforts to fill all vacancies during 2012, three of the positions were vacant at the end of the year (those of the Director, Deputy Director and one internal auditor at P-5 level). As of 31 December 2012, the new Director had been contracted to start in the first week of 2013. The new P-5 senior auditor was due to take up her post in February 2013. Recruitment was under way for the Deputy Director position.

17. OIAI continued to maintain its auditor talent group in 2012. The use of these rosters of qualified candidates will help to ensure that OIAI is able to fill future vacancies promptly.

18. In addition to the staff in OIAI noted above, the office benefited from the knowledge and time (46 person-weeks) of operational staff from UNICEF country offices, who provided administrative and operational support in audits of other country offices, under the supervision of the audit team. The total cost to OIAI was approximately $84,000. OIAI also used third-party consultants in various audits, incurring expenditure of approximately $224,000.

III. Internal Audit work

D. Completed engagements and related recommendations

19. OIAI completed 29 audit and advisory engagements during 2012 (see the full list in annex 1). It made 236 recommendations, of which 71 were rated as high priority and 165 as medium priority (table 1). Low-priority recommendations were dealt with directly with the managers concerned, and were not included in audit reports. Of the high- and medium-priority recommendations, 151 were related to country office engagements and 85 were related to headquarters, regional offices and thematic area engagements.

20. The present report reflects as completed those audit reports issued between 1 January and 31 December 2012. In contrast to previous years, audits with reports in draft format are not included as completed. This means that seven audits (zone, country office and thematic) that were recorded in the 2011 annual report as completed are also reflected as completed in this 2012 OIAI annual report. This is a non-recurring adjustment for the 2012 annual report only. Reporting based on reports actually issued will provide consistency with the classification of internal audit reports publicly disclosed. Public disclosure started on October 2012.

Table 1
Number of recommendations in audit reports issued in 2012

Rating	Definition of rating	UNICEF country, area and zone offices	Headquarters, regional offices and thematic areas	Total
High priority	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.	33	38	71
Medium priority	Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.	118	47	165
Totals		**151**	**85**	**236**

E. Results from country office engagements

21. OIAI completed 15 country office engagements during 2012, including two zone offices (see the full list in annex 1), and made 151 recommendations, of which 33 were rated as high priority and 118 as medium priority. Of the total recommendations, 32 were related to governance, 68 to programme management and 51 to administrative and operational support. As of 31 December 2012, management had implemented 11 of the 33 high-priority recommendations.

Table 2
Number of 2012 country office recommendations, by area

Area	High priority	Medium priority	Total
Governance	5	27	32
Programme management	18	50	68
Administrative and operational support	10	41	51
Total	**33**	**118**	**151**

22. Country office audits conducted in 2012 focused on three main functional areas: (a) **governance**, including priority-setting, staffing and supervisory structures, delegation of authority and responsibilities, performance and risk-management systems, and ethical awareness; (b) **management of programmes**, with emphasis on planning, resource mobilization, partnership management, results monitoring and evaluation; and (c) **administrative and operational support**, focusing on financial management, human resources management, asset and inventory management, procurement, and management of information and communication technology. The results for the three areas are discussed in the following paragraphs.

Governance

23. The audits completed in 2012 made 32 recommendations in the area of governance, of which five were rated as high priority and 27 as medium priority (see table 2).

24. The five high-priority recommendations in the governance area were related to the following issues:

(a) **Vacant posts**. One country office (Iraq) had a high vacancy rate: 52 per cent of the total posts in the country office, support centre, three zone offices and three sub-offices. This high vacancy rate contributed to a significant workload for the staff that were available, and posed a potentially high risk to the achievement of planned programme objectives. The audit noted two main causes for the high vacancy levels. One was the difficulty in attracting both national and international staff to the country, and the other was insufficient funding;

(b) **Hub offices**. One zone office (Karachi) had not undertaken a planned approach to ensure that all programme work managed through the hub office, due to be closed at year-end, was appropriately handed over to the zone office. Inadequate integration of ongoing work flows and activities (regular and emergency) from the hub office to the zone office may have an impact on the achievement of planned objectives. Continued emergency work contributed to a low priority being accorded to planning for the closure. There may also have been a supposition that the office might be extended;

(c) **Sustainability of UNICEF presence**. In one country office (Papua New Guinea) there was a delay in finding a long-term solution to the issue of the sustainability of UNICEF presence in the country in light of the extremely high cost of doing business there. Though cost-cutting measures had been introduced, a solution had not been found to address the challenges of the fast-changing context, rapid inflation and currency appreciation;

(d) **Delivering as One implementation**. In two country offices (Albania, Rwanda), the audits made high-priority recommendations related to the United Nations Delivering as One (DaO) approach, to reform and strengthen the United Nations assistance to programme countries for achieving the Millennium Development Goals. One office had found that there was a conflict with the working principles developed by the Resident Coordinator of the United Nations system for DaO in that country. These were found to focus more on processes and funds-allocation issues than on content. DaO discussions were also polarized between the two largest partners. In another office, inadequate participation of implementing partners in programme planning and annual reviews under the DaO increased the risk of limited ownership.

Programme management

25. The audits completed in 2012 made 68 recommendations in the programme management area, of which 18 were rated as high priority and 50 as medium priority (see table 2).

26. The 18 high-priority recommendations were related to the following issues:

(a) **Harmonized approach to cash transfers (HACT)**. Eight high-priority recommendations in seven offices (Colombia, Guinea, India, Papua New Guinea, Rwanda, Swaziland and Uzbekistan) were related to implementation of HACT and funds use. Country offices are required to follow HACT for cash transfers to implementing partners. HACT exchanges a system of rigid controls for a risk-management approach, simplifying rules and procedures, strengthening partners' capacities and helping to manage risk. HACT includes risk assessments: a macro-assessment of the country's financial management system and micro-assessments of the individual implementing partners, namely, the Government and non-governmental organizations (NGOs). Also required are assurance activities regarding appropriate use of cash transfers. The risk assessments and assurance activities should be carried out in cooperation with the three other United Nations agencies that have adopted HACT. The audits reported shortcomings in implementing HACT, including the lack of a country-level macro-assessment and micro-assessments, poor training of partners, and weak implementation of assurance activities. These shortcomings were caused by assignment of insufficient priority and resources to HACT, unclear assignment of responsibilities, and poor United Nations inter-agency coordination;

(b) **Cash-transfer management**. In three (Colombia, Papua New Guinea, Uzbekistan) of the seven offices listed above, there were issues concerning cash-transfer management, including weak processing of direct cash transfers and errors in accepting and recording liquidations. These had arisen because reliable processes for monitoring the liquidation of cash transfers were lacking or were accorded insufficient priority. In one of the offices, the release of funds to implementing partners was delayed by up to six months because of government restrictions;

(c) **Construction projects**. Two recommendations in two offices (Guinea, Rwanda) were related to problems with the management of construction projects. In one office, the governmental implementing partners had weak capacity to manage the procurement and contracting for the water and sanitation construction project, and the country office lacked robust mechanisms for oversight, monitoring and technical support. Significant delays in the implementation of the project and failure to complete it within the agreed budget could affect the reputation of UNICEF. In the other office, failure to complete construction projects in the education sector on time had led to discontent on the part of some government partners. Delays in these construction projects were due to the absence of a qualified technician to lead the UNICEF construction unit. The audit team met partners in the education sector and heard complaints about UNICEF management of construction projects; in contrast, it was pointed out, the schools that were sub-contracted to an NGO were on schedule;

(d) **Programme supply planning and procurement**. Two recommendations in two offices (Pakistan, Rwanda) were related to programme procurement issues. In one office, supply planning, which was not sufficiently accurate or comprehensive, led to delays in supply inputs that adversely affected programme activity. In the second, the office had delegated responsibility for procuring supplies and hiring contractors for construction projects to implementing partners, but had not adequately assessed the partners' capacity for these functions, with the result that there were delays in the project;

(e) **Payments to partners**. One recommendation was related to an office (Pakistan) having made direct salary payments to persons working with partners whose status as partner or UNICEF staff member was unclear. The arrangement demonstrated a potential lack of awareness of the risks that could arise from such an arrangement. One such risk is that UNICEF could be viewed as being responsible for these parties as employees;

(f) **Capacity for programme implementation and monitoring**. Two recommendations in one office (Swaziland) were related to weak human resources capacity for programme implementation. This weakness related to the following: there was no plan for field-monitoring visits, poor tracking of progress towards results, inadequate periodic reviews with partners, and general weak capacity of partners for monitoring programme implementation. There was also a mismatch between the planned results of the country programme and the skills and profile of the country office staff, especially given the transition of the programme from service delivery to policy advice, capacity-building and technical assistance;

(g) **Resource mobilization and donor contributions**. Two recommendations in two offices (Democratic People's Republic of Korea, Swaziland) related to funding issues. One office had experienced a decline in funding, with an overall funding gap of 40 per cent, and had not adequately analysed the situation in order to develop an appropriate way to reverse the trend. In the other office, weaknesses were found in the following areas: donor reporting and the funds-requesting process; the timeliness of receipt of donor funds; and the fact that verifications were made by the donor that amounted to audits, which should be the responsibility of UNICEF.

Administrative and operational support

27. The completed audits examined administration and operations support practices. The audits made 51 recommendations, of which 10 were rated as high priority and 41 as medium priority (see table 2).

28. The 10 high-priority recommendations in the area of administrative and operational support were related to the following issues:

(a) **Financial controls**. Two of the ten high-risk recommendations related to financial-transaction processing. In one office (India), following the implementation of VISION, there were weaknesses in the correct application of the receiving, certification and approving and paying functions, and inappropriate segregation of duties. In the other (Karachi zone office), there were weaknesses in the processing of advance payments, cash contingency, receipts and deposits, petty cash and other payment issues. Training and monitoring were needed concerning UNICEF financial and transaction processing policies, in order to ensure that financial transactions were appropriately processed, were complete and accurate, and were processed in a timely manner;

(b) **Supply logistics and warehouse management**. There were two recommendations in two offices (Pakistan, Rwanda) related to internal-control weaknesses in supply logistics and warehouse management. In one case, there were errors in the stock records due to the deficiencies in record keeping, and inadequate stock management and supervision over warehouses that were contracted out. In the second, the procurement of supplies was not adequately planned, implemented and monitored. This led to delays to procurement and delivery of supplies, and in turn to planned activities;

(c) **Maintenance of master records on vendors**. One office (India) had a high risk related to inadequate review of vendor master records as they were migrated into the new SAP system VISION, which was implemented from 1 January 2012. Having a significant number of vendors with duplicate master records increased the risk of overpayments (though none were identified during the audit);

(d) **Management of assets**. One office (Papua New Guinea) had a high risk concerning the inadequate management of property, plant and equipment. Inaccurate and unreliable inventory records meant that a large number of items could not be found, there was a lack of documentation of the 2011 physical count, and the required reconciliation process had not been completed;

(e) **Vehicle and travel management**. One office (Karachi zone office) had a high risk related to vehicle and travel management, which affected the ability of the office to meet travel objectives. The office had inadequate administrative resources for transport to meet programme, operational and security requirements, and there was insufficient segregation of duties in the management of fuel and rented cars;

(f) **Contracts for services**. One office (India) had a high risk regarding significant shortcomings in the management of contracts for services, which weakened the office's capacity to obtain value for money on contracting. These shortcomings included a lack of approved terms of reference, deliverables not clearly defined, and service agreements signed after the start date of the contracts;

(g) **Budget management**. One office (Pakistan) had in some cases failed to correctly apply the UNICEF budget policy concerning outstanding budgetary obligations, which require spending either by the expiry dates of the donor agreement or within a default two-year period. In the instances reviewed, the office did have the agreement of the donor concerned to have the funds reprogrammed or refunded (all transactions involved construction activities on schools affected by the earthquake). However, this risked incorrect reporting of programme expenditures;

(h) **Minimum operating security standards**. One recommendation in one office (Guinea) was related to lack of compliance with minimum operating security standards, and this had jeopardized the physical security of the country office personnel. Though some actions had been taken by the office since completion of the Assessment of the United Nations Department of Safety and Security, the office had not reached agreement on defined recommendations and actions to be taken.

F. Results from headquarters, regional offices and thematic and/or joint area engagements

29. OIAI issued internal audit reports for 13 engagements concerning headquarters, regional offices, and thematic and/or joint areas; and one advisory engagement report. The completed engagements resulted in 85 recommendations, of which 38 were rated as high priority and 47 as medium priority. Three of these were included in the 2011 OIA annual report as completed, with a report in draft at year end. However, these reports were actually issued in 2012 and are therefore included again here (see paragraph 20). The results of the completed engagements are summarized below.

Audit on the implementation of Enterprise Risk Management (ERM) in UNICEF

30. The audit made three high-priority recommendations. These were related to: non-adoption by UNICEF of a recognized internal control framework; slowness in

adoption of an ERM policy and discussion of enterprise risks; and the perception by some managers of risk management as a stand-alone compliance exercise, not fully embedded into processes and procedures. The draft report was recorded as completed in the 2011 OIA annual report, with the final report issued in February 2012.

Joint audit of the Harmonized Approach to Cash Transfers in Indonesia

31. This audit, conducted jointly with the United Nations Development Programme (UNDP), made three high-priority recommendations. These were related to: weak HACT governance and inadequate monitoring of HACT compliance; weak coordination among participating agencies on HACT implementation; and incomplete and inaccurate consolidated assurance plans. The draft report was recorded as completed in the 2011 OIA annual report, with the final report issued in March 2012.

Audit on the management of the travel services agreement with American Express in New York headquarters

32. The audit made one high-priority recommendation, related to the audit's inability to verify that sampled airline tickets were procured at the lowest fare for the most direct and economical route available at the time of ticketing.

Audit of private sector fundraising activities in the Private Fundraising and Partnerships division

33. The audit made four high-priority recommendations. These were related to: ambiguities in the provisions of recently signed cooperation agreements; lack of oversight over the establishment of foundations and other bodies by National Committees for UNICEF; the fact that not all the National Committees had had their performance reviewed through the annual joint strategic plan review process; and the fact that a number of National Committees had no strategic plans, or had developed them late.

Audit of information-security governance in UNICEF

34. The audit made four high-priority recommendations. These were related to: the lack of a dedicated framework to deal with information-security governance; fragmented and unclear accountability for information-security activities; the lack of a portfolio of information policies, procedures, and standards; and information-security policy gaps and an absence of useful performance and risk indicators. The draft report was recorded as completed in the 2011 OIA annual report, with the final report issued in June 2012.

Audit of the Harmonized Approach to Cash Transfers in Pakistan

35. This audit, conducted jointly with UNDP and the United Nations Population Fund (UNFPA), made two high-priority recommendations. These were related to the need for: formal delegation of responsibility for HACT coordination to a participating agency when the Resident Coordinator does not have the resources to perform that role; review of the implementation road map for HACT to ensure that it is realistic; the Resident Coordinator to assign responsibilities for preparing a

comprehensive assurance plan; and a plan for scheduled audits of partners, to identify resource requirements.

Audit of the framework for managing policies, procedures and guidance

36. The audit made two high-priority recommendations. These were related to: the lack of a defined, organization-wide process for coordinating the development and management of policies, procedures and guidance, or monitoring their effectiveness; and the lack of uniform minimum standards to guide policymakers in the development and communication of policies, procedures and guidance.

Audit of the Eastern and Southern Africa Regional Office (ESARO)

37. The audit made six high-priority recommendations. These were related to: (a) the fact that the responsibilities and accountabilities of regional offices had not been clearly defined, and ESARO had not systematically identified the responsibilities assigned to it; (b) the delay by headquarters in releasing the tool to manage delegation of roles in VISION, making it hard for ESARO to identify non-compliance with segregation of duties, or discrepancies between roles authorized and those recorded; (c) inconsistent reflection of agreed performance indicators in the workplans, and lack of regular monitoring of the indicators; and (d) undefined accountabilities and procedures for managing emergency thematic funds. This audit raises broader organization-wide issues for further analysis.

Audit of administration of separation benefits and entitlements

38. The audit made six high-priority recommendations. These were related to: the responsibilities of, and coordination among, different units in the Division of Human Resources (DHR); the security and confidentiality of staff personnel files; discrepancies in management of special leave with full pay payments, and a lack of guidance on terminations deferred for retirement purposes; lack of consideration of the cumulative cost of termination indemnities; and insufficient justification and documentation of indemnities in cases of mutually agreed termination.

Joint audit of Delivering as One in [the United Republic of] Tanzania

39. OIAI participated in this audit, which was led by UNDP. Other agencies providing inputs included the United Nations Educational, Scientific and Cultural Organization (UNESCO), UNFPA, the United Nations Industrial Development Organization (UNIDO), the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP). The audit made five high-priority recommendations. These were related to the need for: harmonization of agency systems and processes for programme and project management and reporting; guidelines for Delivering as One programme and project documents; timely disbursement of funds; methodologies for monitoring transaction costs for United Nations agencies and comparing them with cost savings under Delivering as One; and an assurance and audit plan under HACT.

Joint audit of the governance arrangements for HACT

40. This was a joint audit by UNDP and UNFPA. OIAI participated in the audit but did not sign the report. The audit made one high-priority recommendation, related to the need to revisit HACT and redesign or replace it. The recommendation

was not addressed to UNICEF. UNICEF has participated in further efforts to assess the state of HACT implementation.

Audit of the budgeting process

41. The audit made two high-priority recommendations. These were related to the need for: (a) more clearly defined and communicated roles in, and responsibilities for, the budgeting process; and (b) an implementation strategy for results-based budgeting, with a set of policy, guidance and tools covering both the institutional and programme budgets.

Audit of Programme Division

42. The audit made one high-priority recommendation, related to mechanisms and standards for prioritization and timely provision of technical support and guidance to regional and country offices.

Advisory Services engagement related to Risk and Control Self-Assessment of the Polio Programme

43. OIAI also provided resources to the Change Management Office regarding a risk and control self-assessment of the Polio Programme. The advisory services report was issued by the Office.

G. Monitoring the implementation of audit recommendations

44. OIAI continued to undertake quarterly desk reviews to follow up on the progress of the implementation of all audit recommendations.

45. As of 31 December 2012, there were 10 outstanding recommendations older than 18 months. Three were related to country offices and seven were related to headquarters, regional offices and thematic areas (see annex 2).

Status of recommendations made in final audit reports of country offices

46. As of 31 December 2012, the implementation status of audit recommendations for previous audits of country offices was as follows:

(a) Of the recommendations made in 2012, 42 per cent (63 out of 151) were closed;

(b) Of the recommendations made in 2011, 96 per cent (186 out of 194) were closed;

(c) Of the recommendations made in 2010 or earlier, 100 per cent were closed.

Status of recommendations made in final audit reports of headquarters, regional offices and thematic areas

47. As of 31 December 2012, the implementation status of recommendations for previous audits of headquarters, regional offices and thematic areas was as follows:

(a) Of the recommendations made in 2012, 12 per cent (10 out of 85) were closed;

(b) Of the recommendations made in 2011, 97 per cent (120 out of 124) were closed;

(c) Of the recommendations made in 2010, 95 per cent (73 out of 77) were closed;

(d) Of the recommendations made in 2009 or earlier, 100 per cent were closed.

IV. Disclosure of internal audit reports (limited and public)

48. Executive Board decisions 2009/8 and 2011/21 provided for the disclosure of internal audit reports to Member States and approved non-Member State donors (donor intergovernmental organizations, National Committees for UNICEF, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GAVI Alliance, the International Drug Purchase Facility (UNITAID), and Rotary International). Disclosure was through either read-only access on UNICEF premises or read-only remote access through a controlled mechanism, following notification to all Executive Board members and concerned host Member States. In 2012, 13 Member States and approved non-Member States made requests to view 24 internal audit reports (see table 3) using this 'limited' disclosure process.

Table 3
Audit reports requested for 'limited' disclosure during 2012

Disclosed audit reports	Member States and donors
1. Democratic People's Republic of Korea Country Office, 2011/16	Democratic People's Republic of Korea, Sweden, United States, the Global Fund
2. Haiti Country Office, 2011/26	Haiti, United States
3. Follow-up of the 2010 audit of the Peshawar Zone Office, Pakistan, 2011/24	Australia, Canada, Japan, Netherlands, Norway, United States
4. Afghanistan Country Office, 2011/23	Canada, Sweden, United States
5. Common Humanitarian Fund (CHF) for Sudan, 2011/09	United States
6. Staff Rotation, 2011/13	United States
7. Efficiency and Effectiveness of Recruitment in UNICEF, 2011/18	United States
8. Pakistan Country Office, 2012/03	Australia, Canada, Japan, Netherlands, Norway, Pakistan
9. Karachi Zone Office, 2012/01	Australia, Canada, Japan, Norway, Pakistan
10. Lahore Zone Office, 2012/02	Australia, Canada, Japan, Norway, Pakistan
11. Peshawar Zone Office, 2010/27	Canada, Pakistan
12. Somalia Country Office, 2009/34	The Global Fund
13. Safety and Security of UNICEF Staff, Premises and Assets in the Field Offices, 2011/01	Estonia
14. Bangladesh Country Office, 2009/02	Bangladesh
15. Bangladesh Country Office, 2011/15	Sweden
16. Democratic Republic of Congo Country Office, 2010/13	Sweden
17. Bolivia Country Office, 2011/05	Sweden
18. Sudan Country Office, 2011/07	Sweden
19. South Sudan Area Programme Office, 2011/08	Sweden
20. West and Central Africa Regional Office, 2011/12	Sweden
21. Niger Country Office, 2011/14	Sweden
22. Zimbabwe Country Office, 2011/17	Sweden
23. Mali Country Office, 2011/19	Sweden
24. Cambodia Country Office, 2011/30	Sweden

49. Expressing its support for greater accountability and transparency, the UNICEF Executive Board in its decision 2012/13 of June 2013 decided that the Director of the Office of Internal Audit and Investigations should make publicly available all internal audit reports issued after 30 September 2012.

50. Executive Board decision 2012/13 requires that, before disclosure of an internal audit report that contains findings related to a Member State, UNICEF will provide a copy of the report to the concerned Member State and provide that State with adequate time to review and comment on the report. In this context, the Executive Board noted in the decision that a UNICEF internal audit report may be redacted or withheld in its entirety at the discretion of the Office of Internal Audit and Investigations in a case where information contained in the report is deemed by the Executive Director or the concerned Member State to be: particularly sensitive (relating, inter alia, to third parties or a country, government or administration); compromising to a pending action; or likely to endanger the safety or security of any individual, violate his or her rights or invade his or her privacy.

51. OIAI responded to the decision in July 2012 by developing a standard operating procedure (SOP) for the public disclosure of internal audit reports. OIAI also developed internal guidelines for uploading reports to the OIAI web pages in the public domain and for redaction (where required). The SOP was shared with UNICEF executive management and the Audit Advisory Committee, and implemented from 1 October 2012. It allows for a 30-calendar day window for the request and processing of any comments from the Executive Director and concerned Member State(s) prior to public disclosure. Confirmation is required from the Executive Director as to whether s/he has any comments prior to OIAI making any report publicly available.

52. All publicly disclosed reports may be viewed on the OIAI pages of the UNICEF website: internal audit reports. Table 4 below provides an overview of the status of all internal audit reports issued by OIAI beginning 1 October 2012 and their status regarding public disclosure. The Audit Advisory Committee’s role in public disclosure is to provide a quarterly review of the reasonableness of the determinations made on the disclosure of internal audit reports and give advice to the Director of OIAI and the Executive Director annually, as appropriate.

Table 4
Public disclosure of internal audit reports issued by OIAI after 30 September 2012

Audit reports	**Status of public disclosure**
Joint audit: Delivering as One (issued 8 November 2012)	The audit was led by UNDP with inputs from UNESCO, UNFPA, UNICEF, UNIDO, FAO and WFP. The Director, OIAI, determined that the report was not subject to UNICEF public disclosure, as the report had been issued to the United Nations Development Group (UNDG), the fieldwork was completed before any Executive Board decision had been made on public disclosure, and there was a variety of disclosure policies among the United Nations entities involved.

Joint Audit: Governance Arrangements for the Harmonized Approach to Cash Transfers (issued 14 November 2012)	The joint audit was made by UNFPA, UNDP and UNICEF. The Director of OIAI determined that the report was not subject to UNICEF public disclosure, as OIAI had not signed the report, the audit work was completed before any Executive Board decision had been made on public disclosure, and the report was issued to UNDG.
Audit of the Budgeting Process (reissued 19 November 2012)	Publicly disclosed in full from 19 November 2012.
Audit of the Uzbekistan Country Office (issued 12 December 2012)	Publicly disclosed in full from 16 January 2013.
Audit of the Sri Lanka Country Office (issued 12 December 2012)	Publicly disclosed in full from 16 January 2013.
Audit of the Democratic People's Republic of Korea Country Office (issued 21 December 2012)	Publicly disclosed in full from 18 January 2013.
Audit of Programme Division (issued 28 December 2012)	Publicly disclosed in full from 29 January 2013.

V. Investigations

53. OIAI is responsible for investigating all allegations of all forms of misconduct, including fraud, theft, corruption, sexual and all other forms of harassment and exploitation, abuse of authority and retaliation against whistle-blowers. In coordination with DHR and concerned regional offices, OIAI continued to provide guidance to country and regional offices on how to manage preliminary assessments locally.

54. In 2012, numerous issues were brought to the attention of OIAI, including through a dedicated anonymous email address, known as the Integrity 1 hotline. Most of the large number of messages on this hotline initially assessed were referred back to the originators for further information or clarification. Subsequently, six of them were determined to constitute possible allegations of wrongdoing by a UNICEF staff member or consultant. In addition to these 6 issues, another 56 issues from other sources were found to constitute allegations of wrongdoing. All 62 allegations were investigated. In addition, 25 cases were carried over from 2011, for a total of 87 cases managed in 2012, as set out in table 5.

Table 5
Processing of investigations cases in 2012

Case load	Number of cases
Carryover as of 1 January 2012	25
Intake during the year	62
Total cases during 2012	**87**
Closed (from cases carried over)	(25)
Closed (from intake)	(41)
Cases carried forward as of 31 December 2012	**21**

Analysis of cases closed during 2012	
Closed (reprimand given by the country office)	2
Closed (following preliminary assessment, where the allegation was not substantiated)	20
Closed (staff member left the organization during investigation)	11
Closed (allegation in which no offender was identified)	10
Investigation report submitted to DHR	21
Referral to regional or country office	1
Referral to another United Nations agency	1
Total	**66**

55. The 21 investigation reports submitted to the Policy and Administrative Law section of DHR related to 21 staff members who were subject to disciplinary action. By the end of 2012, the cases had resulted in the following actions:

(a) four dismissals;

(b) three written reprimands;

(c) two written censures with loss of steps in grade;

(d) three demotions;

(e) one demotion with deferment of eligibility of promotion for three years;

(f) one demotion with deferment of eligibility of promotion for two years;

(g) four reports resulting in no further action.

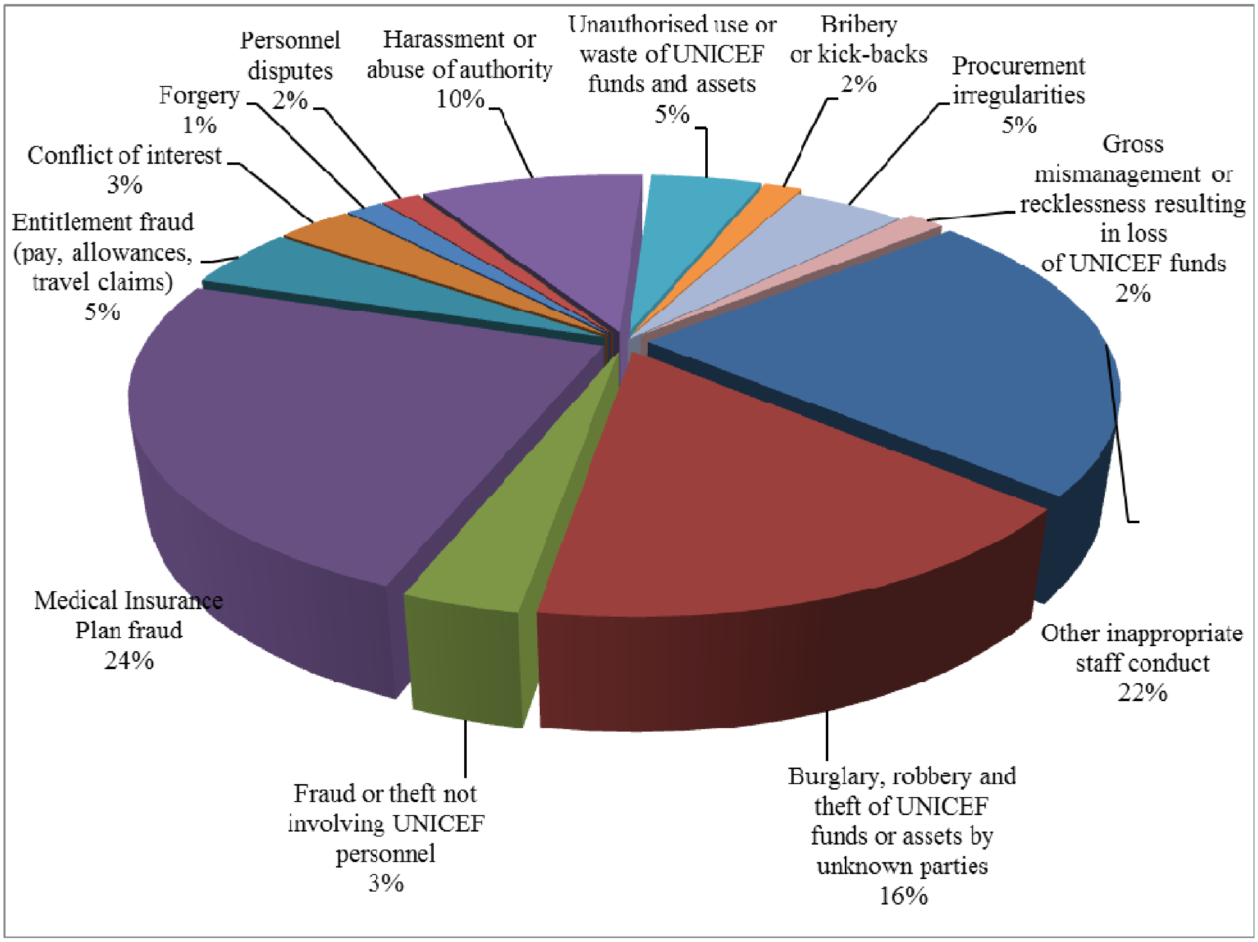
56. The remaining three reports referred to DHR were still in process as of 31 December 2012.

57. Of the cases closed in 2012, 74 per cent were closed within six months of receipt of the allegation.

58. The overall caseload intake decreased from 73 cases in 2011 to 62 cases in 2012. The majority of cases in 2012 (24 per cent) involved medical insurance fraud, followed closely (22 per cent) by inappropriate staff conduct.

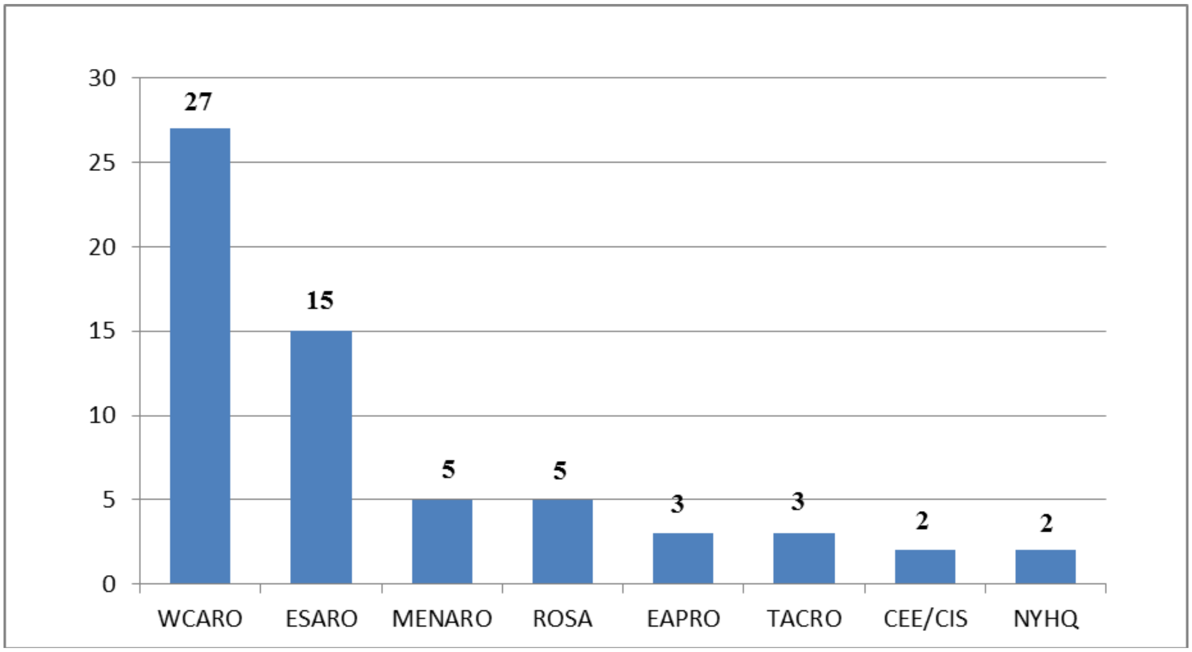
59. The quantified loss from the investigated cases in 2012 amounted to $56,444. Almost half of that amount resulted from one case of medical insurance fraud. Theft cases by unidentified offenders resulted in the loss of $13,800. The total amount recovered was $6,776. Figure I below provides a full breakdown of the types of allegations received by OIAI.

Figure I
Types of allegations received in 2012



60. The majority of allegations originated from the West and Central Africa region (44 per cent) and the Eastern and Southern Africa region (24 per cent), as shown in Figure II. This reflects the concentration of staff numbers in these regions.

Figure II
Allegations received in 2012 by number, per region



Key: WCARO = West and Central Africa regional office; ROSA = Regional office for South Asia; TACRO = The Americas and Caribbean regional office; MENARO = Middle East and North Africa regional office; CEE/CIS = Central and Eastern Europe and the Commonwealth of Independent States regional office; EAPRO = East Asia and the Pacific regional office; ESARO = Eastern and Southern Africa regional office.

VI. Draft decision

61. UNICEF recommends that the Executive Board approve the following draft decision:

The Executive Board

Takes note of the Office of Internal Audit and Investigations 2012 annual report to the Executive Board (E/ICEF/2013/AB/L.2), the UNICEF Audit Advisory Committee 2012 annual report to the Executive Director, and the UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2012 (E/ICEF/2013/AB/L.3).

Annex 1

Audit reports issued in 2012[1,2]

	Name	Recommendations		
		High priority	Medium priority	Total
	UNICEF country, area and zone offices			
1.	*Karachi Zone Office*	3	5	8
2.	*Lahore Zone Office*	0	5	5
3.	*Pakistan Country Office*	4	8	12
4.	*Iraq Country Office*[3]	1	11	12
5.	Rwanda Country Office	5	8	13
6.	Mauritania Country Office	0	11	11
7.	Colombia Country Office	1	4	5
8.	Albania Country Office	1	11	12
9.	Guinea Country Office	3	9	12
10.	Papua New Guinea Country Office	3	9	12
11.	India Country Office	4	12	16
12.	Swaziland Country Office	5	7	12
13.	Uzbekistan Country Office	2	7	9
14.	Sri Lanka Country Office	0	5	5
15.	Democratic People’s Republic of Korea Country Office	1	6	7
	Totals	**33**	**118**	**151**
	Headquarters, regional offices and thematic areas			
16.	*Implementation of Enterprise Risk Management in UNICEF*[4]	4	5	9
17.	*Joint Audit: Harmonized Approach to Cash Transfers (HACT) Audit of Indonesia*[5]	4	2	6
18.	Management of the Travel Services Agreement with AMEX	1	4	5
19.	Private Sector Fund Raising (PSFR) Activities	3	5	8
20.	*Information Security Governance in UNICEF*	4	2	6

[1] The country office and non-country office audit reports, respectively, are listed in order of report issue date.

[2] The reports in italics were included as completed in the 2011OIA annual report, though they were in draft form as of 31 December 2011.

[3] In the draft audit report of the Iraq country office, which was included as completed in the 2011 OIA annual report, the numbers of recommendations differed from those in the final, issued report: 2 high and 11 medium, totalling 13.

[4] In the draft Enterprise Risk Management audit report included as completed in the 2011OIA annual report, the numbers of recommendations differed from those in the final, issued report: 3 high and 5 medium, totalling 8.

[5] In the draft audit report of HACT in Indonesia included as completed in the 2011 OIA annual report, the numbers of recommendations differed from those of the final, issued report: 3 high and 5 medium, totalling 8.

	Name	Recommendations		
		High priority	Medium priority	Total
21.	Joint Audit: Harmonized Approach to Cash Transfers (HACT) in Pakistan	2	2	4
22.	Framework for managing policies procedures and guidance	2	1	3
23.	Administration of Separation Benefits and Entitlements	6	5	11
24.	Eastern and Southern Africa Regional Office	6	9	15
25.	Budgeting Process in UNICEF	5	4	9
26.	Joint Audit: Delivering as One[6]	-	-	-
27.	Joint Audit: Governance Arrangements for the Harmonized Approach to Cash Transfers	-	-	-
28.	Programme Division	1	8	9
29.	Advisory Services engagement related to Risk and Control Self-Assessment of the Polio Programme (with the Change Management Office)	-	-	-
	Totals	**38**	**47**	**85**
	Totals: all recommendations	**71**	**165**	**236**

[6] The reports of the two joint audits (Delivering as One, and Governance Arrangements for the Harmonized Approach to Cash Transfers) did not include any audit recommendations specific to UNICEF. The recommendations were addressed to UNDG, the United Nations country team and the Resident Coordinator.

Annex 2

Recommendations unresolved for more than 18 months

I. Country office audits

Bolivia country office (report issued March 2011)

1. The office should commission a special audit of funds transferred to the Bangladesh Demographic and Health Survey as per the HACT framework guidelines, with guidance and if necessary support from the Regional Office and OIAI.

Sudan country office (report issued May 2011)

2. The office should:

(a) Introduce the HACT Funding Authorization and Certificate of Expenditure form to serve as a basis for requesting and reporting on the use of cash transfers;

(b) Develop and introduce HACT assurance activity control processes such as spot checks and special audits.

3. The office should:

Undertake a thorough capacity assessment of programmatic and financial capacities and submit a project risk mitigation strategy to the Programme Cooperation Agreement Review Committee.

II. Non-country office audits

Vehicles in support of operational and programme objectives (report issued July 2010)

4. The Division of Financial and Administrative Management (DFAM) should:

(a) Provide guidance on how to develop vehicle management performance measures in country offices, including inputs, expected results, indicators and targets for inclusion in operations workplans, against which to assess performance in the annual management review. In so doing, DFAM should refer to Annex 2 of the audit report for potential vehicle management performance indicators, the OIAI audit report, and UNICEF's guidance and support for efficient operation functions in country offices (2009/36); and consider the OIAI report *Management of internal performance information* (2005/07), which provides guidance on developing performance indicators and on setting performance targets;

(b) Provide guidance for conducting an assessment of the risks and constraints to the efficient and effective use of vehicle resources, including an assessment of vehicle workflows.

5. The Division of Policy and Practice (DPP) [currently known as the Division of Policy and Strategy] should, referring to the vehicle management performance guidance to be developed above:

(a) Add to the Programme Policy and Procedure Manual (PPPM) a requirement that country offices include in their annual management review an assessment of vehicle management performance against the planned results, indicators and targets included in Annual Management Plans and operations workplans;

(b) Develop guidance for country offices on measurement of use and performance of vehicles provided as programme inputs to implementing partners.

6. DPP should revise the PPPM to include:

(a) Development of a vehicle plan as part of the Country Programme Management Plan development;

(b) Vehicle objectives, indicators, targets, resources and assignment of responsibilities for measuring and monitoring vehicle use in country office Annual Management Plans;

(c) Inputs, expected results, indicators and assigned responsibilities and timelines for vehicle-resource management in operations section annual workplans.

7. The Office of the Executive Director should:

(a) Provide guidance to country offices to include all pertinent issues such as taxes and duties in the new Basic Cooperation Agreement (BCA), as and when BCAs come up for renewal or are otherwise being renegotiated in country offices;

(b) Revise existing loan agreements and transfer of title guidance for: (i) clarity of UNICEF and partner roles and responsibilities; and (ii) consistency with the move to the International Public Sector Accounting Standards.

Audit of staff rotation (report issued June 2011)

8. DHR should:

(a) Revisit the objectives of staff rotation in UNICEF (including those for the rotation of senior staff), update the related policy and procedures and develop a strategy for its implementation;

(b) Establish a process for periodic management evaluations of rotation policies and procedures in the organization with a view of establishing whether rotation objectives are being realized, assessing the cost/benefits of rotation and, as appropriate, making necessary adjustments based on lessons learned.

West and Central Africa Regional Office (report issued June 2011)

9. In consultation with the Change Management Office, regional offices and HQ Divisions, DPP should:

Establish policies and procedures on how a regional office will discharge its responsibilities concerning oversight and quality assurance of, and assistance to, country programmes of country offices in a region. They can be included in a separate section of the PPPM or issued as a separate guidance document used for regional offices.

Annex 3

Summary Table of Programme Component Results (PCR) and Intermediate Results (IRs)

PCR	Start and End Dates
Corporate oversight and assurance: Effective oversight is ensured through internal audits and investigations Rating: On-Track	1 January 2012 to 31 December 2012

Statement of Progress
The office provided effective oversight to UNICEF though the internal audit and investigation functions. The office maintained strong internal audit and investigations infrastructure and operations. It also undertook improvements that included streamlining methodologies, adoption of new tools and technologies, enhanced knowledge management and operational management, and quality-assurance mechanisms. The office maintained a high complement of highly skilled internal audit and investigations staff, and had a clear governance arrangement to guide OIAI’s internal audit and investigations work.

IR	Indicators	Baseline	Targets	Start and End Dates
IR1: Sufficient high-quality assurance and advisory services are provided in accordance with the OIAI Charter Rating: On-Track	Percentage completion of approved annual audit workplan	81%	90%	1 January 2012 to 31 December 2012
	General compliance with Institute of Internal Auditors (IIA) standards, based on periodic independent quality reviews of OIAI	IIA general compliance (2008)	IIA general compliance	1 January 2008 to 31 December 2012
	Number of offices/divisions that have audit recommendations outstanding for over 18 months	7	<10 each year	1 January 2008 to 31 December 2012

Statement of Progress
The office made good progress towards achieving the overall planned results for the year ended 31 December 2012. The office continued to be classified as generally compliant with the Institute of Internal Auditors standards for the professional practice of internal auditing, as the last external quality assessment (in 2008) remains valid for five years. The next external quality assessment is scheduled for 2013. As an indicator of performance, at 31 December 2012, only six offices/divisions had audit recommendations that had been outstanding for over 18 months. This more than met the target of less than 10. The 2012 annual workplan included issue of 33 audit reports, completion of 5 draft reports, and 7 audits in progress, for a total of 45 audits. The office issued 20 final reports, completed 12 draft reports, and had 3 audits in progress, for a total of 35 audits. In addition to these 35, the office issued 7 carry-over audit reports in the first half of 2012 that had been in draft stage at the end of 2011. Ten audits had to be cancelled, or postponed to the following year, mainly due to security issues or at the request of management. The office also faced shortages of senior staff with the vacancy of two senior positions (Director and Deputy Director) for much of the second half of 2012. As mitigating measures, the Deputy Director was acting Director for three months, an interim Director was recruited for three months on a part-time basis, and the Chief of Investigations took on the extra role of acting Deputy Director (Administration). Not reflected in the performance indicators were the design and implementation of a standard operating procedure and workflow for public disclosure of internal audit reports. This was in response to Executive Board decision 2012/13 and to provide greater accountability and transparency. The reports may be viewed on http://www.unicef.org/auditandinvestigation.

IR	Indicators	Baseline	Targets	Start and End Dates
IR2: Sufficient high-quality investigation services are provided in accordance with the OIAI Charter Rating: On-Track	Percentage of complaints investigated and closed within 6 months	86%	85%	1 January 2012 to 31 December 2012
	General compliance with Conference of International Investigators (CII) standards, based on periodic independent quality reviews of OIAI	N/A	CII general compliance (first review 2012-2013)	1 January 2008 to 31 December 2013
Statement of Progress				
The investigation function achieved 74 per cent of complaints investigated and closed within six months against the 85 per cent target. The total number of investigations cases managed in 2012 was 87, including some carried forward from the previous year. In 2013, the investigations section will, for the first time, undergo an external quality review by the Conference of International Investigators, with the aim of establishing general compliance with CII standards.				