

Office of Internal Audit (OIA) - 2010 Annual Report

1. Executive Summary

Through its audit, investigation and advisory work, OIA continued to maintain strong credibility as a key component of UNICEF's internal oversight and accountability structure. This in turn assured member states, programme countries, donor agencies and other stakeholders of the continuous review of UNICEF's governance, risk management and control processes.

1.1 Key achievements

OIA successfully completed a substantial portion of its 2010 audit work plan, including the completion of 20 country office audits, seven headquarters/thematic audits, and three summary reports. Sixty-nine investigations were commenced, of which 48 have been completed. Overall, the office provided comprehensive coverage of all key audit areas and addressed those issues that were seen to pose the highest risk to the achievement of organizational objectives.

OIA also provided significant amounts of advisory work throughout 2010. The Office continued to support the implementation of the Enterprise Risk Management (ERM) policy and conducted numerous risk and control self-assessment (RCSA) workshops in country offices. OIA provided support to the Ethics Office and to the Division of Human Resources (DHR) for the induction of new Representatives and participants of the new and emerging talent (NETI) initiative.

1.2 Shortfalls

A primary shortfall in OIA throughout 2010 was on the number of staff vacancies. While the Director, OIA position was filled in a timely and effective manner, there are at the end of the year five vacancies for auditors (four P4s and one JPO), which represents one-quarter of the auditing staff. It is to be noted that the substantial completion of the 2010 OIA work plan is to be attributed to the dedication and hard work of existing staff who conducted more audits than can normally be expected. However, OIA still faced a number of challenges with meeting internal timelines for the issuance of reports as well as a delay in the conduct of certain headquarters audits.

The existing vacancies are expected to be filled in early 2011 and, through the recruitment process, OIA is taking further steps to create a 'talent pool' of auditors who could be called upon to join the Office, as required. A new organizational structure for OIA has also been established which will consolidate and improve the internal quality assurance review process.

The main change in the implementation of the 2010-2011 OMP was the decision not to proceed with the conduct of programme performance assessments (PPAs) as originally planned. As explained below, following a joint review of the PPA pilot programme by OIA and the Evaluation Office (EO), it was concluded that, while PPAs have served a useful

purpose in providing country and regional offices with analysis of country programmes, a change in strategic direction would better realize the overall goals of the programme. It was agreed that the same type of oversight and support could be provided with OIA and EO each focusing on their core areas of competence and expertise.

1.3 Collaborative Partnerships

Through continuous review of its own practices and comparison with internationally agreed standards, OIA remains professionally up-to-date and helps to advance the internal audit profession in the UN system. OIA has contributed to shaping the work of the UN Representatives of Internal Audit Services (UNRIAS) of international organizations and also actively participates in the sub-group working on specific harmonization and coordination matters among key UN organizations. OIA further conducted three joint audits with other UN agencies and offices, including two on the HACT process and one on the Sudan Common Humanitarian Fund (CHF). In coordination with the Food and Agriculture Organization (FAO), the United Nations Development Programme (UNDP), and the World Food Programme (WFP), OIA was involved in drafting a *Guidance Note on the Implementation of the Verification Clause of the Financial and Administrative Framework between the European Commission and the United Nations*.

2. Key Divisional Targets and Strategies

As detailed in Section 3 below, OIA completed a substantial portion of its 2010 audit plan, as follows:

- High-quality internal audit and investigation services were provided, with good coverage of all key issues. In accordance with its mandate, OIA provided independent audit-level assurance to the Executive Board, senior management, as well as member states, donors and programme countries, of the effectiveness of risk management, control and governance processes in UNICEF.
- A substantial portion of the OIA annual work plan was completed in accordance with the targets of the 2010-2011 Office Management Plan (OMP), including the conduct of county office audits, headquarters and thematic audits and completion of audit summary reports.
- Allegations of fraud, misconduct, harassment and abuse were investigated by a dedicated investigation unit which was established in OIA in 2008.
- Advisory services were provided on key issues including the enterprise risk management (ERM) policy, risk and control self-assessments (RCSAs), IPSAS, information communication and technology, and investigations and ethics training. A senior OIA team supported the Haiti country office through the conduct of an RCSA.
- A new Director, OIA was appointed and assumed his post in August 2010.

The primary strategies used to pursue OIA objectives include:

- application of a risk-based audit planning process which ensures that audit resources are allocated to appropriate locations and to issues that present the biggest risks to UNICEF's goals and objectives;

- continuous adjustment of audit methodology so as to adapt to changing priorities and programme environments;
- application of a robust quality assurance process for audit reports and use of an audit database for recording audit work and tracking and monitoring audit recommendations;
- networking among UN audit professionals, continuing education of staff, and incorporating client feedback where appropriate;
- use of external consultants to assist audit teams, as required and use of operations staff from country offices to assist in the review of financial transactions;
- working in close collaboration with the Audit Advisory Committee and senior management to identify and address high risk issues;
- exchanging good practices and lessons learned with UNRIAS members so as to promote the use of contemporary audit methodology and practices; and
- compliance with professional standards for internal auditing and investigations. In 2008, the Institute of Internal Auditors (IIA) certified that OIA conforms to the IIA International Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics. OIA has also adopted the United Nations Uniform Guidelines for Investigations.

3. Analysis of Strategies and Results

Critical Functions and relevant higher order Expected Results With Key Performance Indicators in the OMP 2010-2011

Expected Results	Key Performance Indicators (year of baseline, target for 2011)			Progress as at end 2010
	Indicator	Baseline	Target	
Function 1: A strong and credible internal audit function exists that supports the achievement of UNICEF mission and mandate	Positive results of quality reviews of internal audit function	General compliance (2008)	General compliance	General compliance based on self-assessment
	Positive recognition of the internal audit function by the Audit Advisory Committee (AAC)	Positive (2007 annual report of AAC)	Positive	Positive
Adequate audit coverage	Annual risk-based audit plan endorsed by the AAC	Endorsed (2007)	Endorsed	2010 global audit plan endorsed by the AAC
Provision of relevant and high-quality audit reports	CO audits	25 (2008)	25	20 CO audits completed (19 final reports and 1 draft report) and 3 in progress

	HQ and thematic audits	11 (2008)	10 (incl. IT)	7 audits completed (4 final and 3 draft reports) and 9 in progress
	Summary reports	2 (2008)	2	3
	PPAs	4 (2008)	5	0 (PPA pilot review conducted)
Function 2: Improved risk management practices are applied throughout the organization.+	Recommendations outstanding for more than 18 months, at any time	11 (at end 2008)	0	17 (all related to non-country office audits)
Function 3: Improved ethical environment	All complaints investigated and closed within 6 months	80% (2008)	100%	86%

+ The corresponding indicator for this result measures management performance, not that of OIA.

3.1 Country Office Audits

UNICEF country office audits focus on three main functional areas: (a) governance, including delegation of authority and responsibilities, management systems and ethical awareness; (b) management of programmes, with emphasis on planning, partnership management and results monitoring, and evaluation; and (c) operations management, focusing on financial and asset management, and management of information and communication technology.

There is increasing disparity in the sizes of the programme budgets of UNICEF country offices, with several offices having annual budgets in excess of \$USD 250 million and many others operating with less than \$USD 10 million. The strategy mentioned in OIA's Charter is to audit the ten offices with the largest total budget ("top ten") every two years, and to follow a risk-based approach to ensure that the other offices are audited at least once every five years. OIA has not been able to fully follow this strategy due to resource constraints. The approach is being revisited in 2011 to focus on those offices with medium and high risk ratings. This will include on-site follow up audits of country offices that receive overall "unsatisfactory" rating for their audits.

As indicated in the above table, OIA successfully completed audits of 20 country offices throughout 2010. Twenty-five country office audits were originally planned in the OIA work plan and an additional two audits were added during the course of the year in order to respond to organizational priorities (for a total of 27 planned audits). Four audits were rescheduled to 2011 for varying reasons, and there are three audits for which the field work was completed in November and December, and for which the reports will be issued in 2011.

Country office audits completed in 2010 are as follows:

1	Bosnia Herzegovina	11	Madagascar
2	Bulgaria	12	Malawi
3	Burundi	13	Occupied Palestinian Territory
4	Croatia	14	Peshawar Zone Office (in draft)
5	Democratic Republic of Congo	15	Philippines
6	Guinea	16	Sierra Leone
7	Guinea-Bissau	17	South Africa
8	Gulf Area	18	Tajikistan
9	Iran	19	Togo
10	Liberia	20	Vietnam

3.2 Headquarters, Regional Offices and Thematic Audits

The HQ and thematic audits conducted in 2010 were selected following a global risk analysis. This analysis included an assessment of the relevance of the themes or audit areas to advancing UNICEF priorities and to delivering better results for children, and the significance of the risks. Other factors considered included the time since the last audit of the audit area, and suggestions from audit staff and senior management. Criteria used for assessing the significance of the risks included the dollars at risk, the potential impacts of uncontrolled risks, and the existence of known control weaknesses. Qualitative factors such as management interest, strategic value, impact on UNICEF brand name and credibility or complexity of the audit area are difficult to assess in an objective verifiable manner. However, these qualitative risk indicators, though not quantified, were taken into account when making the final selection of thematic and HQ audits.

Headquarters and thematic audits completed in 2010 are as follows:

1. ICT in UNICEF Geneva;
2. Joint/coordinated audit of harmonized approach to cash transfers (HACT) in Vietnam;
3. Joint/coordinated audit of (HACT) in Malawi (UNDP);
4. Risk assessment report on the implementation of IPSAS;
5. Management of contracts in the Division of Communication (in draft);
6. ICT project development (in draft); and
7. Management of safety and security in country offices (in draft).

3.3 Summary Reports

OIA issued three summary analysis reports in 2010 for 26 country offices audited in 2009: Governance and Risk Management; Programme Management; and Operations Management. The objective of the summary reports is to increase senior management's awareness of the most significant and common observations and underlying causes of control weaknesses in relevant audit areas.

3.4 Programme Performance Assessments (PPAs)

Since 2008, OIA has been working with the Evaluation Office (EO) on a pilot basis to conduct programme performance assessments (PPAs) to assess the strategic positioning of UNICEF in particular countries, as well as the country offices' performance with respect to certain strategic management practices.

In the first quarter of 2010, a review was conducted jointly by OIA and EO to determine the relevance and effectiveness of the pilot programme. The review concluded that while PPAs have served a useful purpose in providing country and regional offices with analysis of country programmes, the product needs to be adapted to changing circumstances in UNICEF. It was recommended that OIA and EO continue to produce the type of analytical oversight developed in the PPA pilot phase, but that it be done separately, with each of the offices focusing on their core areas of competence and expertise. It was agreed that OIA would focus on programme performance auditing, and EO on assessing UNICEF's contribution to results at the country level.

The five programme performance assessments (PPAs) that were initially planned for 2010 were therefore not conducted.

3.5 Investigations

The investigation capacity of OIA is now fully established, with the third full-time investigator joining in February 2010 and completing the team in accordance with OIA's currently approved structure. Since this team has been in place, allegations and investigations have been dealt with on a much more systematic and consistent basis. OIA has also put a specialized secure database in place, which has been populated with all 2010 cases and is now fully functioning. The database will enable the team to analyse patterns and trends of wrongdoing and ultimately to develop predictive indicators.

In terms of time management, although harassment and abuse of authority account for only 15 percent of the allegations, they take up most of the time of the investigators. These investigations tend to be more time intensive as they generally involve interviewing many witnesses in order to get a fair, balanced and complete picture of relevant events surrounding the allegation.

The investigation unit currently conducts some of its investigations remotely, by guiding selected staff in the field to gather material and sometimes interviewing certain personnel who have been identified as having material evidence. In light of certain decisions being made by the new United Nations Dispute Tribunal (UNDT) against the UN Secretariat and the UN Funds and Programmes, it is anticipated that during 2011, OIA investigation personnel will conduct more field missions where deemed appropriate.

3.6 Implementation of Recommendations

As of 31 December 2010, 17 recommendations pertaining to headquarters, regional and thematic audits remained unaddressed after more than 18 months. These outstanding recommendations relate to the five following audits: management of evaluations in country offices (2 open recommendations); management of ICT by Supply Division (2 open

recommendations); management of procurement services (5 open recommendations); oversight and operations support to country offices in TACRO (1 open recommendation); and SAP baseline controls (6 open recommendations). There were no recommendations related to country office audits outstanding for more than 18 months.

A similar indicator, used for reporting to the Executive Board, shows that the vast majority of recommendations that were expected to be closed by 31 December 2010 were actually implemented. OIA issues reminders to management where the implementation of audit observations is overdue. In fact, this indicator does not measure the performance of OIA; rather, it is considered a proxy indicator for the application of improved practices by UNICEF management.

4. Management and Operations

4.1 Management and Structure of OIA

Overall leadership and management of OIA are provided by the Director and Deputy Director. In July 2010, the former Director of OIA retired and a new Director assumed the post in August. The staff complement of OIA includes an additional 27 posts, comprised of 19 internal auditors, one JPO, three investigators, one editor and three administrative positions.

Following review, a new organizational structure, effective January 2011, has been established in OIA comprised of four sections, and a dedicated function for strategy and professional practices. Three of the sections divide OIA's audit work by region and types of audits conducted, and the strategy and professional practices function coordinates methodology and reporting requirements. Investigation will continue to operate as a separate section under the Senior Internal Investigator.

OIA is also in the process of exploring the possibility of creating sub-offices whereby a number of auditors could be relocated to locations closer to significant numbers of the UNICEF field offices that are audited. This proposal is still in an early concept phase.

4.2 Staffing and Recruitment

As of 31 December 2010, five audit positions (four P4s and one JPO) were vacant. The P4 positions were advertised in October 2010 and it is anticipated that recruitment will be completed in the first quarter of 2011. The number of vacancies represents one-quarter of the OIA's auditing workforce and imposed a substantially increased workload on the remaining staff during 2010 and the number of audits carried over to 2011. Through the current recruitment process, OIA is taking the opportunity to create an external 'talent pool' of auditors who could be called upon to join the Office, as required.

OIA continued the established practice of using operations staff from country offices to assist audit teams in the review of financial transactions. This practice helps OIA to implement its work plan for the year and has the added advantage of providing opportunities to country-office staff to strengthen their awareness of risk-management practices in their respective offices.

4.3 Budget Management

The OIA budget for 2010 was well-managed, with no over-expenditure incurred in any budget category. Cost saving initiatives included back-to-back and/or solo (one-person) audits of country offices, and implementation of thematic audits in the same country offices where regular audits were also being conducted during the year. The use of country office operations staff to assist in the audits further resulted in cost savings.

4.4 Staff Survey

In the last global staff survey conducted in 2009, OIA staff ranked much higher than the average in important areas relating to job satisfaction and work/life balance. However, the survey did identify issues requiring attention, particularly concerning recruitment, workloads, knowledge-sharing and internal communication.

Actions were taken in OIA to further analyze the specific reasons underlying the results and to take immediate action to address identified issues. As a follow-up, OIA conducted its own 2010 follow-up survey, which indicated that staff felt that progress had been made in improving internal communication. Nevertheless, staff members still had concerns about the equitable division of work within the office, the amount of time some staff members were being asked to spend on mission in difficult environments, and the often short notice periods given to staff before being sent on mission. In response, the office has strengthened its internal staff association function and policy guidance on these issues is being discussed within the office. At the same time, underlying staffing and structural issues are being discussed in the context of the next biennial budget submission exercise.

4.5 Planning and Internal Office Management

OIA continues to maintain an annual work plan that is based on a global risk model developed by OIA in consultation with other HQ Divisions and Regional Directors. The global risk analysis provides assurance that selected audit projects are justified and sound, and that audit resources are allocated to the most important risk areas for achieving UNICEF priorities and objectives. A series of work-planning meetings was held in the latter part of 2010 to finalize the 2011 work plan.

Internal OIA workshops were held in January and June to discuss overall planning, audit methods and work processes. The workshops provide an opportunity for the sharing of professional standards and the updating of audit guidelines. These themes are also addressed at the regular monthly OIA meetings, where appropriate.

The OIA Community of Practice, launched in December 2009, assists with the retrieval of documents and encourages sharing of audit-related, administrative and organizational knowledge within OIA. This online tool can be accessed through the Internet, thereby ensuring that auditors have access regardless of their location. In addition, the interactive function of the Community provides a platform for the auditors to share and discuss key issues.

4.6 Use of an electronic database

As reported in previous years, OIA continues to use “AutoAudit”, a custom-made database that contains all completed audit reports, including work papers. The database can be searched and filtered according to types of observations and recommendations, auditees, regions, or other criteria. The database provides the backbone for preparing audit statistics reported to the Audit Advisory Committee and the Executive Board. The database is fully portable and is available to auditors while in the field.

OIA has convened a small internal project team to assess the effectiveness of the current system and to explore the possible use of alternative databases and services, taking into account commonly used audit databases in other UN offices and agencies.

4.7 Support to Emergency Preparedness and Response

When conducting audits of country offices in emergencies, the audit considers the overall risks to an effective emergency response. Several country offices dealing with emergency situations were audited in 2010. The audits balance the need for country offices to follow established good practices in the context of the particular emergency situations that are faced. In addition, as discussed below in section 5.1, OIA supported the Haiti country office with the conduct of a risk and control self-assessment.

OIA is reviewing the methodology that it uses for countries classified as emergencies, which generally are involved in managing sudden substantial increases in activities and related funding. The intention of this review is to ensure that OIA continues to provide timely assurance and advisory work on the effectiveness of governance, risk management and controls while still keeping the administration and pre-audit burden on concerned country offices to a minimum.

4.8 Audit Advisory Committee

The UNICEF Audit Advisory Committee met three times in 2010, as planned. In accordance with the new Charter of the Committee which was approved in August 2009, the Committee is now composed of external members only, with OIA providing administrative and secretarial support. The Committee serves as an independent advisory body mandated to review the functioning of the UNICEF oversight system; internal and external audit matters; and financial management, accounting and reporting practices. Throughout the year, the Committee interacted frequently with senior managers throughout the Organization, including the Executive Director, Regional Directors and the Deputy Executive Director for Operations, and kept the Executive Director informed of its deliberations through the minutes of each meeting. The annual report of the Committee was considered by the Executive Board at its second regular session in September 2010, in conjunction with the 2009 OIA Annual Report to the Executive Board.

4.9 Interaction with the Board of Auditors (BoA)

OIA has established a good professional working relationship with the external auditors from China. During 2010, several meetings were held in which OIA shared some of its experience, reports and audit tools with the BoA team. This helped avoid duplication and fostered

complementarity of the external and internal audit functions. For the first time, the Board of Auditors included a summary of OIA audit observations in their annual report to the General Assembly. In planning for 2011, OIA and the BoA were in close contact, and adjustments were made to OIA's annual work plan to accommodate the schedule of the external auditors.

5. Innovations and Lessons Learned

5.1 Initiatives

Throughout 2010, OIA continued to play a pivotal role in the launch and implementation of the Enterprise Risk Management (ERM) policy. In March 2010, a full-time staff member from OIA was seconded to the Change Management Office to serve as the global ERM focal point. In addition, OIA staff provided a number of five-day RCSA workshops in country offices as an advisory service. The workshops included sessions to guide the offices to assess and strengthen their risk management process; help develop a profile of risks to the achievement of objectives and planned results; and strengthen selected work processes. OIA also provided orientation sessions on RCSA to a number of other country offices that were audited in 2010 and provided training and briefings on investigations and ethics to regional Chiefs of Operations and security officers. OIA also participated in the training session for new representatives.

With respect to emergency situations, OIA sent a senior team to support the Haiti country office in conducting a RCSA in both Haiti and Santa Domingo (for support operations). Lessons learned from audits conducted during previous large-scale relief operations (including the 2004 tsunami in Asia and 2005 earthquake in Pakistan) were compiled and shared with relevant divisions and offices. Audit missions were conducted in 2010 in North and South Sudan, and an audit team was also dispatched to Peshawar, Pakistan to provide an assessment of the zone office's existing internal controls. As indicated above, work is also ongoing to develop a specific methodology for testing the strength of an office to rapidly respond to emergency situations.

Within the wider UN context, OIA has been conscientious about adhering to audit industry standards, and furthering improved understanding and harmonization of internal audit practices in the UN. OIA has also been influential in shaping the work of the Representatives of Internal Audit Services (RIAS) of international organizations. OIA took the leadership in crafting a UN-RIAS position on audit committee practices and has worked on – among other things – internal audit positions regarding the management of HACT; the harmonization of the classification of causes of audit observations in the UN; and a joint risk-assessment protocol for large relief efforts supported by a number of UN organizations.

OIA further conducted three joint audits with other UN agencies and offices, including two with UNDP and the UN Population Fund (UNFPA) in Vietnam and Malawi on HACT, and an audit of the Sudan Common Humanitarian Fund (CHF) with the Internal Audit Services of the UN, UNDP, the UN Office for the Coordination of Humanitarian Affairs (OCHA), Office of the United Nations High Commissioner for Refugees (UNHCR), the Food and Agriculture Organization (FAO), the World Food Programme (WFP) and the International Organization for Migration (IOM).

5.2 Lessons learned

The OIA analysis of audit observations and ratings has once again highlighted the need for a thorough and in-depth understanding of the underlying root causes of deficiencies identified. It has become increasingly clear that long-term sustainability of recommendations is directly dependent on addressing both proximate and strategic root causes of audit findings. OIA is placing increased emphasis on this aspect of its audit work and has reformatted the audit reports to include a separate section clearly identifying the underlying root cause(s) of each audit finding. It is anticipated that this will assist management in preparing concrete and sustainable action plans.

A second area to highlight in terms of lessons learned relates to the disclosure of internal audit reports. In June 2009, the Executive Board approved a policy allowing the disclosure of UNICEF internal audit reports to Member States in prescribed circumstances (Decision 2009/08). OIA assisted with the development of written procedures to standardize how such requests should be presented, processed, and subsequently reported to the Audit Advisory Committee and Executive Board. Six requests to view a total of 22 reports were made in 2010. Feedback received from States on this new level of transparency has generally been positive. One constructive change being adopted is that OIA is now incorporating corrective action plans into the final audit reports in order to provide a more complete picture of action being taken by management to address identified deficiencies.