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Internal Audit Activities in 2008

Annual report to the Executive Board

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 2008

Overall conclusions

1. From 2005 to 2008, the number of risk observations in country offices has decreased. This is due in part to a general strengthening of risk management in UNICEF. However, though the percentage of country offices with unsatisfactory ratings has decreased for cash transfers to implementing partners and supply assistance in 2008, the percentage has increased for programme management and financial controls. OIA follow-up on recommendations showed that country offices rated unsatisfactory had made important progress in implementing corrective measures as of 15 June 2009.

2. Furthermore, the 10 headquarters, thematic and system audits completed in 2008 identified several issues that require improvement, namely those related to governance, accountabilities, oversight, guidance, support and performance management. UNICEF has taken steps to strengthen risk management and controls in these areas through management oversight and progress in implementing several improvement initiatives.

* E/ICEF/2009/16.



I. Introduction

3. This annual report has been prepared with consideration of the comments made during the discussion on Internal Audit at the 2008 second regular session of the Executive Board. These include, in particular, the request for information — to be included in this year’s OIA annual report to the Executive Board — on the status of implementation of the organization-wide risk management framework, and the outcomes of investigations. Several other issues were addressed by UNICEF in its response to the internal audit annual report for 2008: (a) the request for information with respect to the measures taken and progress made by UNICEF in improving the performance of country offices in the areas of programme management, cash transfers to implementing partners and supply assistance; and (b) the progress made and lessons learned in implementing the harmonized approach to cash transfers (HACT).

4. Section II of this report discusses the accountabilities, quality assurance and risk-based audit planning of OIA and its capacity to fulfil its accountabilities. Section III explains the 2008 audit coverage, audit ratings, 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 audit recommendations. Section VII describes the measures taken and progress made by UNICEF management in implementing the organization-wide risk management framework. Annex 1 provides risk management ratings for field audits completed in 2007 and 2008. Annex 2 contains a table of observations that have remained unresolved for more than 18 months.

II. Accountabilities and capacity of the Office of Internal Audit

A. Accountabilities and responsibilities of OIA

5. OIA fulfils 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 its accountabilities through independent and objective assurance and advisory services. OIA assesses and analyses the effectiveness and adequacy of UNICEF risk management, controls and governance processes through systematic and disciplined reviews at all levels within UNICEF. OIA follows the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).

6. OIA is responsible for conducting investigations into allegations of fraud, corruption and mismanagement in UNICEF, as well as of harassment and abuse of authority. OIA is also responsible for investigating cases of alleged retaliation against “whistleblowers”. OIA has also adopted the United Nations Uniform Guidelines for Investigations.

7. The annual audit plan and the annual office work plan 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 plan is coordinated with the Evaluation Office and the United Nations Board of Auditors.

B. Quality assurance and maintaining professionalism

8. To assure UNICEF management on the quality of audit reports, the Director of OIA includes a “Statement of Conformity to OIA Standards” in each report that meets the OIA

standards. In 2008, all completed audits met OIA's demanding performance standards for planning, implementation and reporting.

9. OIA work was independently reviewed by the IIA in 2008. As reported last year, the IIA assessors expressed their overall opinion that the OIA generally conforms to the IIA International Standards for the Professional Practice of Internal Auditing, and the Code of Ethics. The majority of the IIA recommendations have been substantially implemented, and the remaining ones were taken into account in preparing the 2009 OIA work plan.

10. All auditors and managers of OIA are members of the IIA, and all auditors are encouraged to obtain and maintain a designation as Certified Internal Auditor (CIA), or similar professional designation such as Information Technology (IT) auditor or investigator. In 2008, OIA assisted two staff members in obtaining CIA certification and supported the participation of eight other auditors in external training events as part of their continuing professional education.

C. Risk-based audit planning

11. To focus audit resources on the most important areas, OIA uses a risk-based audit planning methodology. As a first step, OIA identifies and evaluates the potential risks to achievement of UNICEF objectives. The identification of risk is now increasingly informed by the enterprise risk management processes that management is implementing, and for which the assistance of a consulting firm was sought in 2008 (see Section VII).

12. For an objective selection of risk areas that lead to thematic audits or audits in headquarters divisions, regional or country offices, OIA considers several risk factors, including the scale of the resources; the time elapsed since the last audit; the performance of the office or division in implementing previous audit recommendations; and the level of implementation of programmes in a field office (see the 2007 OIA annual report for more details). Prior to each audit, auditors conduct a risk analysis or pre-audit to develop and refine the objectives and scope of the audit. The risk-based selection of audit areas and risk-based scoping of each individual audit ensure that OIA focuses on the areas of greatest risk, and that areas for improvement are identified with a higher degree of predictability.

13. There is an increasing disparity in the sizes of the programme budgets of UNICEF field offices, with some offices having annual budgets larger than \$100 million and others operating with less than \$1 million. The current OIA policy is that all UNICEF field offices are audited within a cycle of five years, and that the 10 offices with the largest programme allocations are subject to more frequent audits — typically every two years. However, the accumulation of other risk factors may necessitate an audit before or after the completion of the cycle. Under a risk-based audit approach, greater attention should be given to the offices with the highest risk. In view of this, and of advice from the Audit Committee, UNICEF is reviewing the five-year audit cycle policy to consider changing the minimum audit frequency, particularly for offices with budgets smaller than \$10 million, so as to ensure that audit resources are allocated to areas of highest risk.

D. Oversight-related activities and advisory services

14. There is close collaboration between the Evaluation Office and OIA. Work plans are jointly reviewed. In 2008, OIA and the Evaluation Office jointly developed and implemented a pilot project on programme performance assessments (reported separately in section III D).

15. OIA has been advising UNICEF on the introduction of an organization-wide risk management framework, and managed the contract with a consulting firm to this effect (reported separately in section VII). More frequently than in earlier years, OIA has also been requested by management to provide advice in respect of organizational improvement initiatives, or of new policies or management systems under development. These have included, for example, strategic input and advice by OIA on the revision of the accountability framework for UNICEF, and questions related to United Nations reform and to HACT.

E. OIA resources and capacities

16. The 2007 OIA report on internal activities presented to the Executive Board confirmed that the increase, to 25, in the number of Professional posts for the Office of Internal Audit was fully funded, with effect from January 2008. This allowed (a) the establishment of a full investigation section with two full-time investigator positions; of one quality-assurance position; and of one position dedicated to programme performance assessments; and (b) the conversion of two previously temporary positions to regular audit positions. Several of these posts remained vacant in the first half of 2008, as OIA was recruiting for the newly created positions. This led to postponement or delay of some audit and investigation activities (see sections III A and V, respectively). However, as of the end of 2008, all senior positions had been filled, and only one P2 position was vacant.

17. The new quality-assurance staff member, starting in the second half of 2008, is an editor. The editor is responsible for improving the clarity and logic of audit issues presented in audit reports so as to make them as easily understood and non-technical as possible.

18. OIA submitted its budget proposal for 2010-2011 and requested additional funding to cover short-term IT expertise, one P4 position to meet increased demand for advisory services, and one P3 investigator to increase investigation capacity.

F. Audit Committee

19. The Audit Committee continued to provide advice on the strengthening of the UNICEF oversight system. The Committee issued an annual report to the Executive Director on its activities during 2008 (presented as a separate document to the Executive Board). The report recommended, among other steps, that UNICEF continue to take full ownership of the organization-wide risk-management framework and attach high priority to its implementation; and monitor closely the adoption of the International Public Sector Accounting Standards and development of the Enterprise Resource Planning for smooth and timely implementation.

20. The Charter of the Audit Committee, approved on April 2006, is currently being revisited to take into account the change in membership and to align the Charter with good practices emerging in the United Nations system.

III. Results of work undertaken in 2008

A. Audit coverage

21. All but two field offices have been audited at least once over the last seven years. The 10 largest offices are typically audited every other year. Table 1 shows that OIA completed 35 audits in 2008. All of the 25 planned audits of field locations were completed in 2008. Annex 1 provides the list of country offices audited in 2008 and the ratings of the audited areas. Section III E provides a summary of main findings from headquarters, thematic and systems audits completed in 2008.

Table 1
Audit coverage, 2007-2008

	2007	2008
Number of completed field office audits	24	25
Number of completed headquarters, systems audits and summary reports	6	10
Number of joint United Nations audits (Cape Verde)	1	—
Number of completed audits	31	35

B. Country office risk observations and ratings

22. Table 2 shows the audit observations in country offices by level of risk for 2005-2008. OIA issued 327 risk observations to country offices.

Table 2
Country office audit observations by level of risk, 2005-2008

	2005		2006		2007		2008	
High risk	81	13%	66	13%	51	13%	55	7%
Medium risk	545	87%	424	87%	334	87%	272	83%
Total risk observations	626	100%	490	100%	385	100%	327	100%

23. The decrease in the number of high- and medium-risk observations in country offices from 626 to 327 in the four-year period 2005-2008 is due in part to a general strengthening of programme management (particularly in the logic and clarity of work plans negotiated with implementing partners); financial controls; and office administration (in the areas of staff recruitment, performance appraisal of staff and management of travel activities).

24. In 2008, 34 per cent of all observations to country offices were made in the area of programme management. Furthermore, the percentage of high-risk observations in programme management increased from 31 per cent in 2007 to 45 per cent in 2008, mainly because of weaker oversight by country office managers of the functioning of controls. The remaining high-risk observations were mostly related to financial controls (20 per cent), supply assistance (15 per cent) and the management of cash transfers to implementing partners (13 per cent).

25. In accordance with Executive Board decision 2006/18, the internal audit services of UNICEF, the United Nations Population Fund, the World Food Programme, the United Nations Office for Project Services and the United Nations Development Programme agreed on a common understanding of risk management ratings to be used in internal audit reports. The new ratings, which are “satisfactory”, “partially satisfactory”, and “unsatisfactory”, have been applied to UNICEF internal audits since 1 January 2007. Table 3 provides an overview of the ratings given in the audited areas in 2007 and 2008.

Table 3
Summary of ratings by audited area for field offices, 2007-2008

	<i>Per cent satisfactory</i>		<i>Per cent partially satisfactory</i>		<i>Per cent unsatisfactory</i>	
	2007	2008	2007	2008	2007	2008
Programme management	9	29	78	42	13	29
Financial controls	43	52	57	32	0	16
Cash transfers to implementing partners	15	0	62	80	23	20
Supply assistance	11	29	56	57	33	14

26. Regular desk reviews showed that country offices rated unsatisfactory had made important progress in the implementation of recommendations as of 31 March 2009. Furthermore, as noted in section 4 of this report, the launch of 10 organizational improvement initiatives will help to improve country office performance. The following section presents an analysis of observations and ratings by functional area. Given the policy of auditing each field office every five years (except for the top 10 offices in terms of budgets), the number of observations and ratings by functional area would likely vary from year to year, as different offices are generally audited every year.

Programme management

27. Twenty-four field audits reviewed programme management practices that UNICEF considers essential. These audits assessed how offices organize themselves (governance), and how they plan, support and monitor the achievement of results for children. They also examined whether the office and implementing partners analyse any lack of progress, and whether key results are validated through evaluation. While the number of observations in this area decreased from 142 in 2007 to 112 in 2008, 29 per cent of offices received an unsatisfactory rating in 2008, compared to 13 percent in 2007 (table 3). This increase was mainly due to the increase in the number of high-risk observations, from 16 in 2007 to 25 in 2008, as shown in table 4, and to updates made in the programme audit guidelines to focus more on essential programme management controls. The underlying causes for the weaknesses in programme management were largely related to weak functioning of programme management controls and inadequate planning (as explained in section III C of this report).

Table 4
Programme management: number of observations raised
 (High-risk observations in parentheses) (*)

<i>Area</i>	<i>2007</i>		<i>2008</i>	
Programme governance	25	(4)	26	(5)
Annual planning standards	40	(5)	18	(4)
Programme implementation and monitoring of performance	36	(3)	34	(8)
Measuring results achievement	20	(2)	10	(5)
Evaluation and research	11	(2)	9	(0)
Reporting on results	10	(0)	15	(3)
Total	142	(16)	112	(25)
Number of country offices audited	23		24	

(*) Based on all risk observations raised in the field offices audited.

28. The governance structures of country offices are designed to oversee, guide and support the achievement of results for children. In 2008, the country management teams of eight offices did not adequately advise Representatives on the measurement and monitoring of programme results to support the achievement of programme priorities and objectives. Furthermore, 10 country offices did not properly identify key programme priorities or establish appropriate mechanisms to measure and/or monitor results against them.

29. Audits in 14 offices noted weaknesses in the design of their country programme plans that are agreed with partners and form the basis of UNICEF assistance in the countries. In nine offices, weaknesses were found in the clarity and logic of negotiated work plans, which should describe the expected results and the specific activities of the implementing partners. Weak plans may lead to misunderstandings between the office and the implementing partners about what is to be done and achieved. Twenty-two offices had weaknesses in programme implementation and in monitoring progress of negotiated work plans. These weaknesses were due mainly to ambitious implementation plans; inadequate capacity assessment of implementing partners to use and manage UNICEF-supported inputs; weak monitoring of progress made by partners; and weak management of identified constraints to successful work plan implementation.

30. Eight country offices showed difficulties in measuring annual and multi-year results, mainly because of a lack of clarity in setting expected results. Evaluation and research activities were poorly prioritized in 8 of the 24 audited offices, leading to low implementation of evaluative work. Furthermore, 11 offices did not report sufficiently on their progress in achieving annual planned results in their annual reports to headquarters.

Financial controls

31. Financial controls were reviewed in 25 audited field locations. The audits examined how offices ensure the following: appropriate segregation of duties and application of financial controls; accurate and complete processing of financial transactions; and proper supervision of implementation of financial controls. In 2008, 84 per cent of audits of

country offices were found to be satisfactory or partially satisfactory in this area (table 3). The remainder were rated unsatisfactory, mainly because of the increase in the number of high-risk observations, from 4 in 2007 to 11 in 2008, as shown in table 5. The underlying causes for these weaknesses were mainly related to inadequate monitoring of the implementation of controls, human errors and inadequate guidance (as explained in section III C of this report).

Table 5
Financial controls: number of observations raised

(High-risk observations in parentheses) (*)

<i>Area</i>	<i>2007</i>		<i>2008</i>	
Assignment of financial control responsibilities	22	(1)	15	(0)
Transaction processing	32	(2)	38	(5)
Supervision of financial controls	19	(1)	31	(6)
Total	73	(4)	84	(11)
Number of country offices audited	23		25	

(*) Based on all risk observations raised in the field offices audited.

32. The assignment of financial control responsibilities has improved in 2008, with the number of observations decreasing from 22 to 15 in 2008. With respect to transaction processing, controls have slightly deteriorated, as shown by the increase in the number of high risks, from two in 2007 to five in 2008. The supervision of financial controls has also deteriorated, as the number of risks increased from 19 to 31 in 2008. Seventeen of the 24 offices audited in 2008 had one or more weakness in the timeliness and accuracy of closure of accounts and reporting of financial transactions to headquarters.

Management of cash transfers, supply assistance and other programme input

33. Based on a preliminary review of a field office's performance data, audits may examine how the field office plans, commits, and procures programme inputs, namely cash transfers and supply assistance to implementing partners. Since 2007, the focus of this audit area has shifted to field-office management of the risks associated with cash transfer procedures as defined by the harmonized approach to cash transfers agreed by the United Nations agencies of the Executive Committee. The management of cash transfers to implementing partners was reviewed in 18 country offices where it was a significant component of the programme of cooperation.

34. Table 6 indicates the distribution of observations made. Together with United Nations country teams, 14 offices did not adequately plan and prepare for the implementation of the harmonized approach to cash transfers. For example, the assessment of the capacities of UNICEF partners to manage and account for cash transfers was either not done or done incorrectly by 9 of the 14 offices. Partner orientation on the new modality had not started, or had remained incomplete, in 10 offices; and strategies and action plans for the offices' assurance activities over the proper use of cash transfers were not established in 9 offices. Sixteen offices had one or more weakness in the allocation and disbursement of cash transfers. Procedures for the processing of cash transfers were not yet in place in two offices. Nine offices had one or more weakness in their monitoring and

review of partners' reported utilization of cash transfers, while 7 did not assure the review of the effectiveness of the supported activities.

Table 6

Cash transfers to implementing partners: number of observations raised

(High-risk observations in parentheses) (*)

Area	2007		2008	
Planning cash requirements	18	(4)	34	(4)
Allocating and disbursing cash	24	(3)	10	(1)
Monitoring and reporting utilization	11	(1)	10	(0)
Assuring proper use of cash provided	5	(0)	8	(2)
Total	58	(8)	62	(7)
Number of country offices audited	22		18	

(*) Based on all risk observations raised in the audited field offices.

35. Supply assistance was reviewed in the 15 field offices where it was a significant component of the programme of cooperation. As shown in table 7, the overall performance in this area had improved compared to the previous years because of the decrease in the number of high risks, to 8 in 2008 from 11 in 2007. This resulted in a decrease of the number of offices rated unsatisfactory, to 14 per cent in 2008, down from 33 per cent in 2007 (see table 4).

Table 7

Supply assistance: number of observations raised

(High-risk observations in parentheses) (*)

Area	2007		2008	
Planning supply and logistics requirements	17	(3)	12	(1)
Selecting and contracting suppliers	17	(4)	11	(4)
Pre-delivery quality control and in-country logistics	10	(4)	13	(2)
Assessment of the effectiveness of supplies	4	(0)	3	(1)
Total	44	(11)	39	(8)
Number of country offices audited	18		15	

(*) Based on all risk observations raised in the field offices audited.

36. As was the case last year, the audited offices displayed one or more weaknesses in planning supply and logistics requirements with partners. The offices lacked procurement and distribution plans, set unrealistic target arrival dates, or took untimely procurement action. Six offices did not follow recommended procedures for the selection and contracting of suppliers. In all offices, there were weaknesses in monitoring the pre-delivery inspection, receipt, distribution and delivery of UNICEF-procured supplies. More positively, four offices properly assessed the effective use of UNICEF-procured supplies by implementing partners.

37. In contrast to last year, practices for contracting consultants, fundraising and donor reporting, and emergency preparedness were not audited as a separate functional area but as a part of the audit of programme management.

Office administration

38. Several office administration practices were reviewed in 12 country offices. The management of staff recruitment and travel has improved, as shown in the decrease in the number of observations on staff recruitment, from 12 in 2007 to 8 in 2008; and on travel, from 5 in 2007 to 1 in 2008. Issues related to weak human resource planning and untimely recruitment and performance appraisal were reported in 5 out of 12 offices. Four of the offices had weak controls regarding the management of physical assets, and only one had weakness in travel management.

Implementation of prior audit recommendations

39. OIA reviewed whether 9 of the 12 country offices audited in 2008 that had been previously audited in 2002-2007 were able to sustain the implementation of the previous audit recommendations. It was found that 33 per cent of the 210 recommendations that were previously closed by OIA — following an off-site desk review of supporting documentation submitted by country offices — were not sustained; that is, the actions taken by the offices to correct or control weaknesses were not maintained. Seventy-one per cent of the re-opened recommendations were in the areas of programme management, cash transfer or supply assistance.

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

40. 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. In 2007, OIA revised its classification of underlying causes to improve clarity. Five underlying causes were identified: a lack of guidance to identify and manage risks; a lack of adequate planning, leading to unforeseen and likely risks; a lack of monitoring by management of the functioning of internal controls; risk due to error on the part of staff or management, including misinterpretation of policy and guidance; and a lack of resources to identify and manage risks. This new classification was used for the second time in 2008.

41. Table 8 provides an analysis of the main underlying causes for medium- and high-risk observations based on the new classification. Notably, the proportion of the risks observed in 2008 audits due to inadequate oversight by country office managers of the functioning of internal controls increased from 36 per cent in 2007 to 53 per cent in 2008. However, the proportion of risks due to human errors and lack of resources substantially decreased.

Table 8
Reasons for weaknesses in medium- and high-risk observations

	2007	2008
Inadequate guidance to identify and manage risks	8%	7%
Inadequate planning or analysis	22%	24%
Inadequate monitoring by management of the functioning of internal controls	36%	53%
Human errors	14%	6%
Lack of resources or capacities to identify and manage risks	20%	10%
Total	100%	100%

42. Inadequate monitoring of the functioning of internal controls and planning was a particularly prominent underlying cause for weaknesses in programme management and supply assistance in 2008. Underlying causes for weaknesses in financial controls were related mainly to inadequate monitoring of the functioning of controls, human errors and inadequate guidance.

D. Findings from programme performance assessments (PPAs)

43. The PPAs aim to assess the value added of the overall contribution of UNICEF to the national development of the host country, including the contribution made through advocacy, alliance-building and sharing of relevant knowledge related to the improvement of the well-being of children. The methodology for the assessments was jointly developed by OIA and the Evaluation Office through a review of performance assessment practices of several United Nations agencies. The methodology will be revisited in 2009, taking into account lessons learned in 2008.

44. OIA and the Evaluation Office completed four PPAs in four country offices and their associated regional offices in 2008. A summary report was completed in April 2009. The key finding is that UNICEF has not established a strategy to support country offices in realizing the commitment made in the medium-term strategic plan for evidence-based advocacy and national capacity development. Though the PPAs found some positive strategic programme management practices (particularly for humanitarian action) in the four sampled country offices, the assessments also identified a need for improvements in guidance to country offices on advocacy management, capacity development and management of the knowledge function. The four regional office PPAs found a need to improve regional office management plans by including the nature and type of support to be given to country offices to help them advance their upstream influence.

E. Findings from headquarters, thematic and systems audits

Audit of treasury management

45. The audit assessed the extent to which UNICEF oversees the management of the investment portfolio and provides appropriate policies, guidance, training and IT support to treasury staff; has appropriate tools in place to forecast cash requirements and disbursements; manages fund balances in a manner to preserve capital and obtain a

competitive market rate of return; and measures, monitors and discloses accurate and complete information on performance against established benchmarks.

46. The audit found that the fund balances had been preserved well, and there were no irregular transactions; and the diversification of the portfolio had improved since 2006. Though the audit found positive practices, improvements were required in areas such as the role, responsibilities and composition of the oversight committee; cash forecasting; completeness of treasury guidelines and agreements with bank partnerships; and benchmark selection to judge performance of investments. The audit recommended more thorough analysis and disclosure of the root causes of changes in actual return of the investment portfolio over previous years and against the established benchmark.

Audit of the management of evaluations in country offices

47. The audit examined the extent to which country offices maintain awareness of the effectiveness and significance of programme interventions, strategies and policies, and use evaluations to inform decision-making and strengthen future programming. At a global level, the audit assessed the broader use of lessons learned from field evaluations throughout UNICEF to foster institutional learning and knowledge generation.

48. The audit found that the recently adopted evaluation policy provides a comprehensive outline of accountabilities for evaluation at all levels, and several sampled country offices ensured meaningful participation of implementing partners in the design, conduct and quality assurance of evaluations. However, weaknesses included a low percentage of satisfactory-quality evaluations at country level; insufficient guidance to enable strategic selection of evaluations; and lack of clear distinction between programme and institutional evaluations. Other areas for improvement included assignment of staff responsibilities and delegation of authority for evaluation activities within country offices; dissemination of lessons learned from country office evaluations; monitoring of implementation of evaluation recommendations; and oversight, support and guidance to country offices at the headquarters and regional office levels.

Audit of procurement and management of institutional contracts in headquarters divisions

49. The audit reviewed advisory-service institutional contracts exceeding \$70,000 in six headquarters divisions and assessed the adequacy of guidance to mitigate procurement and management risks; the transparency and fairness of the procurement process; management reporting; and the adequacy of performance evaluation of contractors. There were adequate segregation of responsibilities and linkage of payment terms to contract deliverables, and all eligible contracts were submitted to the contract review committee for review. However, the audit noted inadequate guidance regarding the procurement and management of institutional contracts. There were also weaknesses in developing contract terms of reference, which reduced the efficient and effective use of resources; and weaknesses in the review and oversight of single-source selections, contract amendments and cancellations by the contract review committee.

Audit of Information and Communication Technology (ICT) management in Supply Division

50. The audit determined whether Supply Division had an appropriate and functioning management framework for ICT covering governance, planning and resource management, acquisition and implementation of systems, security and support. The audit concluded that

the ICT function is well managed and users are satisfied with the support services provided. However, improvements were required in the areas of overall strategic planning and in the methodology used for selecting and implementing ICT initiatives that are not funded from the headquarters biennial budget for ICT investment. ICT governance over all ICT matters, including strategic decisions, business case investments and policies was not well defined. There were also weaknesses in procedures over the management of computer and communication equipment and in the documentation in the areas of ICT security and operations.

Audit of the management of procurement services

51. Procurement services (PS) are provided to Governments and other organizations for supplies and equipment needed for purposes that are related to UNICEF activities and consistent with the aims and policies of UNICEF. The audit assessed the extent to which PS were well managed to help procure value-for-money supplies and services for development partners. It also examined whether PS activities were aligned with UNICEF policies and strategic objectives. The audit concluded that, while controls and risk management practices were effective and working well in most aspects of procurement services, there were weaknesses concerning strategic risk management practices.

52. The audit noted a lack of clear guidance and inconsistent awareness and understanding across UNICEF on the role, strategy and purpose of PS. The PS policy had not been kept up-to-date and was not consistently implemented. The committee responsible for overseeing PS activities did not meet regularly as planned, and its terms of reference and membership were inadequate. Improvements were also required in areas such as setting performance targets, selecting and monitoring performance indicators; managing the contracting process; delivering supplies on time; and securing feedback from customers.

Audit of the management of ICT equipment in country offices

53. The audit assessed the efficiency of the management of ICT hardware by country offices in support of the conduct of UNICEF operations. The audit concluded that sampled country offices were able to obtain the necessary equipment with proper specifications, and that the equipment was properly maintained. However, there was limited assurance that all ICT equipment procured was necessary for the conduct of the office operations. There were also weaknesses with respect to the use and disposal of ICT equipment, and inventory management, including the recording and monitoring of ICT equipment.

Summary report of office administration in UNICEF field offices

54. The audit reviewed the functioning of office administration in 51 field offices audited by OIA in 2005-2007. The audit concluded that controls, risk management practices and governance had improved, as a significant number of offices (41 out of 51) were rated satisfactory in 2005-2007. However, improvements were required in the areas of recruitment and performance appraisal of staff. Both will be improved by the transition to electronic systems, which is under way; but in the case of recruitment the transition needs to be accelerated. In particular, the audit recommends standard step-by-step timeframes for recruitment, with analysis of the cause of delays; and a number of steps to strengthen the use of the staff performance appraisal process. There were also weaknesses in the monitoring of office construction and maintenance; and in the planning and monitoring of travel activities.

Audit of oversight and operations support to country offices and the management of internal operations in the Regional Office for the Americas and the Caribbean

55. The audit reviewed the regional office's governance, oversight and operations-related support (including private fundraising and partnerships) to country offices within the region. It also reviewed the management of internal operations, including financial controls, contracts for services, human resources and travel. The audit found that the oversight and support framework, guidance and tools for providing effective operation-related oversight and support to country offices were incomplete. Weaknesses were noted in the functioning of the regional office management team, the selection of oversight indicators to monitor country office performance in the region, and the assessment of the quality of donor reports submitted by country offices. The country offices surveyed revealed a need for improvement in the timeliness and consistency of support services. With respect to the management of internal operations of the regional office, weaknesses were noted in the areas of justification and documentation of single-source contracts; timeliness of issuance of contracts and of staff recruitment; and selection and use of performance indicators for monitoring internal operations.

Audit of oversight and operations support to country offices and the management of internal operations in the Regional Office for the Middle East and North Africa

56. The audit reviewed the regional office's governance, oversight and operations support to country offices within the region, and the management of its internal operations, including financial controls, contracts for services, human resources and travel. Though the audit found many positive observations, surveyed country offices were not fully satisfied with on-site support services from the regional office. Improvements were required in developing guidance and standards to ensure the right support to country offices where and when it was needed. With respect to the management of the internal operations of the regional office, there were weaknesses in the timeliness of recruitment of international staff and in the justification and documentation of single-source contracts and supply purchases.

IV. Summary of key and recurrent findings

57. As shown in table 2 of this report, the decrease in the number of risk observations since 2005 is in part due to a strengthening of risk management in UNICEF. Frequent observations that are common to a large number of country offices have been noted in section III C, and in previous annual reports to the Executive Board. Table 9 summarizes findings recurring since 2005. The findings are consistent with those reported by OIA to the Executive Board in 2007. The causes of key recurring findings in 2007 and 2008 are presented in section III C of this report.

Table 9
Summary of key recurring findings in audits of field offices, 2005-2008

<i>Audit area</i>	<i>Findings</i>
Financial controls	Weak application of controls in transaction processing Weak assignment of financial responsibilities
Programme management	Poorly defined programme results and activities 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
Office administration	Untimely recruitment of staff Weak management of physical assets
Prior audit implementation	Actions to address risks not sustained

58. In addition, the key recurrent findings related to headquarters, regional offices, systems and thematic audits presented in table 10 are generally consistent with those reported by OIA to the Executive Board in 2008. Although the recurrent findings are generally similar to those found in previous years, the number of observations giving rise to those findings within each area has decreased (see also table 3).

Table 10
Summary of key recurring findings related to headquarters and regional offices, 2005-2008

<i>Audit area</i>	<i>Findings</i>
Governance and accountabilities	Accountabilities not clearly defined, including accountabilities between headquarters and regional offices Weak functioning of governance committees
Oversight, guidance and technical support	Responsibilities related to oversight, guidance and support not clearly defined Where responsibilities are clear, regional offices indicate there are inadequate resources to fulfil those responsibilities Incomplete or outdated guidance

<i>Audit area</i>	<i>Findings</i>
Management of internal operations	Weak assignment of financial control responsibilities Untimely recruitment of staff Weak management of physical assets
Monitoring and assessment of performance	Incomplete implementation of the organizational performance information framework Insufficient monitoring of country office performance by regional offices Weak mechanism for monitoring regional performance

59. Many of the above key recurrent weaknesses are being addressed through the implementation of the 10 UNICEF organizational improvement initiatives launched in the last quarter of 2007. For instance, the development of an organization-wide risk management framework would empower managers and staff to make risk-informed decisions; the consolidation of an accountability system would clarify accountabilities and oversight at all levels in UNICEF, and the strengthening of performance management tools and indicators would improve the measurement and evaluation of programme results at all levels.

V. Investigations

60. As indicated in section II of this report, OIA is responsible for conducting investigations into allegations of fraud, abuse of authority, corruption, sexual harassment and exploitation, mismanagement in UNICEF and retaliation against whistleblowers. In 2008, approximately 100 allegations were received directly or through an email address accessible from the UNICEF intranet and the Internet.

61. The number of investigations carried out by OIA increased from 51 in 2006, to 70 in 2007, and 74 in 2008. Table 11 indicates the categories of investigations recorded by OIA during 2008, which will form a base for comparison in the years to come. The list of categories is comparable to that of other United Nations agencies, funds and programmes, and in future years will assist in formulating a pattern analysis of wrongdoing within UNICEF, as well as identifying weaknesses within the system.

62. Of the 100 allegations, 26 were closed after a preliminary assessment. The remaining 74 cases were subject to investigations, as indicated in table 11. OIA continued to provide guidance to country offices and regional offices on how to locally manage preliminary investigations, although OIA also conducted field investigations in coordination with the Division of Human Resources (DHR) and the concerned regional offices. Guidance to staff on reporting suspected fraud or wrongdoing is included in the UNICEF anti-fraud policy.

Table 11
Number of cases per category submitted by OIA to DHR and number of cases resulting in disciplinary actions by DHR in 2008

<i>Categories of investigation cases</i>	<i>No. of cases</i>	<i>No. of cases submitted to DHR</i>	<i>No. of cases actioned by DHR</i>
Burglary, robbery and theft of UNICEF funds or property	16	1	1
Entitlement fraud (pay, allowances, etc.)	12	8	5
Procurement irregularities (engagement of companies without proper process, manipulation of procurement process)	8	2	1 (1 pending)
Bribery or kickbacks	6	1	0
Unauthorized use or misuse or waste of UNICEF funds and property involving UNICEF personnel	5	2	1
Forgery	1	1	0
Fraud or theft not involving UNICEF personnel	3	0	0
Gross mismanagement or recklessness resulting in loss of UNICEF funds	4	3	3
Staff conduct (integrity issues, failure to comply with United Nations Regulations, Rules and local laws, and inappropriate acts as an international civil servant)	7	5	3
Personnel disputes (nepotism, engagement, dismissal, performance, etc.)	4	3	(1 pending)
Harassment or abuse of authority	6	1	0
Sexual harassment and exploitation	1	1	1
Conflict of interest	1	1	1
Wilfully making false allegations against United Nations staff members	0	0	0
Whistleblower retaliation	0	0	0
Total	74	29	16

63. All cases from previous years were closed. However, as of 15 June 2009, seven cases remained open from 2008. The 67 completed investigations resulted in 20 investigation reports with confirmed wrongdoing, and 9 reports in which wrongdoing was not confirmed but other issues were found. These 67 reports were submitted to the Director of DHR for review and action. As of 15 June 2009, DHR/Policy and Administrative Law Section had taken disciplinary actions on 16 investigation cases. Two more cases are open and, for the remaining two cases, disciplinary actions were not deemed appropriate by DHR: in one case the staff member resigned during the investigation, and in the other case, the staff member, who was on a temporary fixed-term contract, did not have his contract renewed. Both staff members' personnel files have been marked accordingly. The number and types of disciplinary actions taken are publicized through an information circular issued annually by the Executive Director so as to raise awareness of the type of misconduct and/or wrongdoing that has occurred and the disciplinary consequences, including any legal action.

64. As of 15 June 2009, DHR had issued six summary dismissals (for wrongdoings such as staff misconduct, entitlement fraud and theft of funds) and one of the dismissals covered two reported cases related to one staff member. In addition, there were three written censures and loss-in-grade; two written censures; three written reprimands; two oral reprimands; and one written caution.

65. The remaining 38 cases out of the 67 completed investigations were closed by OIA for the following reasons:

- (a) reported allegations were found to have no substance (seven cases);
- (b) reported allegations could not be substantiated (seven cases);
- (c) staff members related to the allegations were no longer with UNICEF (six cases);
- (d) corrective actions were already taken by DHR or country offices (eight cases);
- (e) investigation conducted by local authorities (three cases);
- (f) outside of OIA investigative jurisdiction (two cases);
- (g) miscellaneous reasons, including withdrawal of complaints (five cases).

VI. Implementation of audit recommendations by management

66. OIA regularly monitors the status of actions by audited country and regional offices and headquarter divisions in order to close audit recommendations. 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 implementation reports are overdue. In its decision 2006/18, the Executive Board requested disclosure of all recommendations not implemented within 18 months of being issued. As of 31 March 2009, there were seven outstanding recommendations older than 18 months (see annex 2).

Implementation of audit observations issued to country offices

67. All recommendations are closed for observations issued to country offices in 2007 or earlier. OIA issued 327 observations to country offices in 2008, of which 150 observations remain open. These observations pertain to 17 offices.

68. Of the 25 offices audited in 2008, 23 were due to report their corrective actions by 15 June 2009, and all had done so. OIA determined that adequate controls had been established for over 60 per cent of the risks identified in these 23 country offices, representing an increase in the rate of closure from 57 per cent reported in 2008. The increase can be attributed in part to prompt reporting by country offices of their actions to address audit recommendations, the timely release of audit reports, and the issuance of fewer but higher-level observations.

Implementation of audit recommendations issued to headquarters and regional offices

69. Of the 18 reports of headquarters and regional audits and summary reports issued in 2002-2005, all recommendations have been reported as fully addressed.

70. Of the 10 reports of headquarters and system audits completed in 2006, recommendations of seven reports were closed. From the other three reports, 57 of 74 recommendations have been closed. Three of these reports (on cooperation agreements between UNICEF and National Committees for UNICEF, on management of temporary assistance and on the administration of staff benefits and entitlements) include seven recommendations that are older than 18 months; these are included in annex 2.

71. Of 263 recommendations included in the six reports of headquarters and system audits issued in 2007, 176 have been closed and none of the remaining recommendations addressed to UNICEF were older than 18 months. With respect to the audits completed in 2008, headquarters divisions and regional offices have provided timely formal responses to issued audit reports. As of 31 May 2009, the implementation rate for all headquarters and system audits completed in the period 2006-2008 amounted to 52 per cent.

VII. The UNICEF Enterprise Risk Management Framework

72. At its second regular session in 2008, the Executive Board in decision 2008/23 requested UNICEF to report on its preparation for the development and implementation of an organization-wide risk management framework in the annual report of internal audit. In the report, "Update on the organizational review of UNICEF" (E/ICEF/2009/CRP.3), presented to the UNICEF Executive Board at its first regular session of 2009, UNICEF described the following actions and progress made in implementing the Enterprise Risk Management (ERM) Framework in 2008:

(a) The initiative obtained data through a risk culture survey in which more than 300 staff members participated. The results of the survey were further validated by the OIA team through consultations in country and regional offices;

(b) Field studies were undertaken by a consulting firm in three countries to identify key risks that field offices assert affect the achievement of programme and operational objectives. Extensive interviews were also carried out at all levels;

(c) By the end of December 2008, the ERM initiative had produced a final draft of the Risk Management Framework, consisting of a draft risk policy defining the UNICEF risk management philosophy, a common risk language and definitions, and responsibilities for risk management; a risk management guide giving broad guidance on application of risk management in UNICEF; and a risk reference guide, which describes the UNICEF risk profile and provides a risk and control library.

73. In May 2009, the UNICEF Office of the Executive Director issued the risk management policy and the risk reference guide. During 2009, UNICEF will establish a Senior Staff Risk Committee, responsible for providing corporate risk governance and direct risk-management activities in UNICEF. A Risk Management Secretariat will provide secretariat support to the Risk Committee and will serve as the focal point for the ERM initiative. Furthermore, each headquarters division and field office will establish Risk Liaisons to assist with ERM implementation.

74. As part of the UNICEF improvement initiatives, risk management training material will be developed, and during 2009 staff members will be trained to apply the risk management philosophy and principles in their work. Benefiting from lessons learned during the roll-out, the risk management guide will be issued at the end of 2009. UNICEF will also coordinate with other United Nations partners to harmonize risk management approaches.

Annex 1

Risk management ratings for field audits completed in 2008

Number and per cent of audited areas rated satisfactory, partially satisfactory or unsatisfactory

	<i>Satisfactory</i>		<i>Partially satisfactory</i>		<i>Unsatisfactory</i>	
	Number	Per cent	Number	Per cent	Number	Per cent
Afghanistan	0	0%	4	100%	0	0%
Argentina	3	100%	0	0%	0	0%
Azerbaijan	2	100%	0	0%	0	0%
Benin	0	0%	2	50%	2	50%
Bhutan	1	50%	1	50%	0	0%
Brazil	2	50%	2	50%	0	0%
Chile	1	50%	1	50%	0	0%
Republic of the Congo	0	0%	2	50%	2	50%
Costa Rica	0	0%	2	100%	0	0%
Eritrea	1	50%	1	50%	0	0%
Gambia	0	0%	0	0%	2	100%
Ghana	2	40%	3	60%	0	0%
Lebanon	1	25%	3	75%	0	0%
Lesotho	0	0%	0	0%	2	100%
Malaysia	0	0%	2	100%	0	0%
Mexico	3	100%	0	0%	0	0%
Morocco	1	33%	1	33%	1	33%
Nepal	1	33%	2	67%	0	0%
Pakistan	1	20%	2	40%	2	40%
Peru	2	100%	0	0%	0	0%
Somalia	0	0%	2	40%	3	60%
Thailand	3	100%	0	0%	0	0%
Uganda	0	0%	3	60%	2	40%
Ukraine	1	50%	1	50%	0	0%
Uruguay	2	100%	0	0%	0	0%

Annex 2

Table of observations that remain unresolved for more than 18 months, as of 31 March 2009

Administration of staff benefits and entitlements (2007)

<i>Audit observations</i>	<i>Recommendations</i>
Basis for payments of education grant and rental subsidy not provided to beneficiaries	DHR should provide beneficiaries of education grant and rental subsidy with a cost calculation sheet to explain the details of payments.
Inappropriate use and communication of key performance indicators	DHR should finalize and communicate key performance indicators and targets, and service standards; and regularly monitor performance against these.
Irregular monitoring and reporting of staff benefits and entitlements to management	Information Technology Solutions and Services (formerly Information Technology Division) Global Service Center and DHR should regularly monitor and report on staff benefits and entitlements to management.

Administration of cooperation agreements with National Committees (2006)

<i>Audit observation</i>	<i>Recommendation</i>
Limited awareness of National Committees' performance	Private Fundraising and Partnerships (PFP) should periodically review the implementation of jointly agreed strategic plan objectives and financial targets.
Weak follow up on action points from guidance and periodic performance reviews	PFP should track the implementation of action points. PFP should address issues related to the implementation of recommendations directly with each respective National Committee.

Management of temporary assistance (2007)

<i>Audit observation</i>	<i>Recommendation</i>
Inadequate processes to monitor the quality of services provided by DHR and Supply Division	DHR and Supply Division should develop processes to monitor the quality of service provided by them to divisions and offices regarding contracting temporary assistance.
UNICEF standard contracts for institutional contractors and consultants not regularly updated	DHR should develop guidance on negotiating intellectual property ownership with consultants and contractors.