



Economic and Social Council

Distr.: Limited
10 July 2006

Original: English

For action

United Nations Children's Fund

Executive Board

Second regular session 2006

6-8 June 2006

Item 8 of the provisional agenda*

Internal audit activities in 2005

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 2005.

* E/ICEF/2006/18.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction	1–2	3
II. Accountability and strategy of the Office of Internal Audit	3–16	3
A. Accountabilities and oversight	3–6	3
B. Oversight-related developments in 2005	7–11	4
C. Audit strategy in 2005	12–16	5
III. Results of work undertaken in 2005	17–57	6
A. Audit coverage	17–25	6
B. Field offices	26–46	7
C. Analysis of audit findings: underlying causes from field offices	47–51	11
D. Headquarters locations and systems audits	52–55	12
E. Summary audit report on financial controls in UNICEF field offices	56	14
F. Support to investigation	57	14
IV. Implementation of audit recommendations by management	58–71	14
V. Standards of internal control in UNICEF	72–76	17
Tables		
1. Audit coverage, 2004 and 2005		6
2. Audit observations by level of risk, 2004 and 2005		7
3. Major underlying causes for field audit observations in 2005		11
4. Risk management ratings by major audited area for field offices, 2005		17
5. Summary of unsatisfactory ratings by audited area for field offices, 2004-2005		17
Annexes		
1. Risk management ratings for field audits completed in 2005		19
2. Structure and scale for audit ratings		20

I. Introduction

1. The Office of Internal Audit completed 40 audits in 2005, consisting of 33 country office audits, four headquarters audits, two regional office audits, and one global summary report. In its audit of headquarters divisions, OIA found the Supply Division's management of shipping and handling of UNICEF-procured supplies to be satisfactory but noted weaknesses in several divisions' management of internal performance information and in some aspects of headquarters and regional offices' coordinated responses to the onset of sudden emergencies. Controls in UNICEF country offices were satisfactory in the areas of office management, basic information and communication technology, and in the implementation of prior audit recommendations. Controls were generally satisfactory, although they had scope for considerable improvement in finance; and were generally satisfactory with scope for some improvement in basic programme management and provision of supply assistance. While the profile of country offices' risk management practices in 2005 improved slightly from 2004, there is room for enhancing programme and operations support from regional offices, and also for enhancing the regional and global monitoring of the status of country office practices in areas of common weaknesses.

2. Country offices continue to address audit recommendations in a timely manner. There are variations among regional offices to address audit recommendations, and recommendations related to the provision of oversight and support to country offices tend to remain open for a longer time. Headquarters divisions improved their response time; however, a few longstanding recommendations remain open. Lack of clarity on roles and accountability of headquarter divisions appears to be one of the reasons for this.

II. Accountability and strategy of the Office of Internal Audit

A. Accountabilities and oversight

3. OIA fulfilled its accountabilities in accordance with the Charter of Accountabilities and Responsibilities of the Office of Internal Audit, adopted in 2005 (CF/EXD/2005-004). A position was created for a senior internal auditor specialized in IT systems. Due to the increased audit workload associated with the tsunami relief, one additional two-year position was created for an internal auditor, funded from other resources.

4. OIA organizes its work through an annual audit plan that identifies priority locations and themes to be audited during the year, and the implementation of an annual office work plan for internal improvement measures. The plans were reviewed and endorsed by the UNICEF Audit Committee, and OIA reports to the Audit Committee on progress made. The Audit Committee met three times in 2005.

5. A revised Audit Committee Charter was developed in light of best practices in the United Nations and the public sector. It was promulgated in early 2006 (CF/EXD/MEM/2006-001). Half of the members of the reconstituted Audit Committee are external to UNICEF. The enhanced responsibilities of the Audit Committee include the review of the functioning of the UNICEF oversight system, including steps taken by management to monitor and mitigate exposure to risk; the

review of the quality and integrity of UNICEF accounting and reporting practices and systems of control; the review of compliance with applicable regulations, rules and ethical standards, and Executive Board decisions; the review of the effectiveness of the internal and external audit process; and the monitoring of compliance by management with corrective action plans.

6. The United Nations Board of Auditors conducted an audit of internal audit in UNICEF in mid-2005. The Board made several recommendations to UNICEF management and OIA, most of which were implemented by early 2006. The Board of Auditors confirmed that “OIA planned and performed its assignments with due professional care”.

B. Oversight-related developments in 2005

7. The Volcker Committee Report on the oil-for-food programme prompted a series of measures within the United Nations Secretariat to strengthen oversight systems. While the Volcker report identified weaknesses in the United Nations oversight systems, risks of mismanagement and inefficiencies, and poor implementation of audit recommendations, it did not imply that any of these specific weaknesses were present in UNICEF. However, the report led to an increased demand by external partners for additional audits, especially for multi-agency collaborative programmes, such as the Iraq Trust Fund. OIA worked with the internal audit services of other United Nations agencies to ensure the preservation of the single-audit principle, and to prevent situations where United Nations agencies become subject to audits by other United Nations agencies.

8. Collaboration with the internal audit services of the United Nations Development Programme, the United Nations Population Fund and the World Food Programme expanded further to develop guidelines for auditing of joint offices. The inter-agency audit working group is chaired by UNICEF, and contributed to the making of an agreement on audit requirements during the transition from individual agency offices to a joint office, requirements that were applied in the case of Cape Verde. The group now develops common guidelines for the auditing of a joint office, which involves a direct exchange on audit methodologies and may contribute to future harmonization of audit work across the four agencies of the Executive Committee of the United Nations Development Group (UNDG). As of January 2006, the audit group has been elevated to become a regular working group reporting to the UNDG Management Group. OIA also works with internal audit services of several United Nations agencies towards the adoption of a common audit risk rating system. The OIA validation of the self-assessment of the Office of the United Nations High Commissioner for Refugees internal audit services is another example of continued inter-agency collaboration.

9. OIA facilitated an initial discussion on risk management practices in UNICEF, with a view to encouraging the adoption of a more comprehensive risk management approach — or enterprise risk-management — in UNICEF. First indications are that many senior managers believe that UNICEF is risk-averse, and that the introduction of an organization-wide risk management approach would strengthen strategic planning and help to lighten sometimes cumbersome business processes. The Introduction of an organization-wide risk management approach, as also

recommended by the United Nations Board of Auditors, will be part of the ongoing organizational review process.

10. OIA continued to assist management in raising awareness among staff on the role of the internal audit function. The OIA web site, launched at the end of 2005, describes the role of internal audit and the types of audits conducted by OIA. It provides information on risk rating, tips on how to prepare for an audit, tools for conducting control self-assessments, and internal control concepts. OIA's summary reports on good practices and common weaknesses are also posted on the web site. The rate of closure of audit recommendations is one of the key organizational performance indicators now reported on the Intranet, and allows managers at headquarters and regional offices to receive biweekly updates.

11. Together with the Division of Financial and Administrative Management (DFAM) and the Division of Human Resources (DHR), OIA worked to consolidate policies and guidance on the prevention of fraud, and on the reporting and investigation of fraud and suspected fraud. The consolidated policy, awaiting issuance, is expected to increase awareness of the accountabilities of staff and managers in respect to the prevention of fraud, and generally contribute to the enhancement of the ethical environment in the organization.

C. Audit strategy in 2005

12. OIA continued its risk-based auditing approach by several means: (a) prioritizing audit locations on the basis of objectively verifiable indicators linked to office programme and operations management performance; (b) selecting audit areas for each audited office on the basis of individual risk assessment; and (c) reporting on practices that inadequately control risks associated with the audited office's programme and operations management. In support of this approach, OIA developed a risk model for selecting audit locations in UNICEF headquarters, which will be tested during the preparation of next year's audit programme.

13. OIA continued to develop and refine its audit guidelines to reflect changes in UNICEF guidance and performance expectations established by the relevant divisions in the major areas covered in country office audits. Minor updates were made to the guidelines for the audit of financial controls and basic programme management controls. Guidelines for audits of office management practices, developed in 2004 with assistance from DFAM and DHR, were piloted and revised on the basis of feedback obtained from audits of five country offices. The guidelines are still undergoing change, to further strengthen their focus on the most important risks occurring in the management of field offices.

14. Guidelines for auditing information and communication technology controls were developed with the Information Technology Division (ITD) of UNICEF in 2004. In all but one of 15 audits, this area was rated satisfactory, and OIA decided to discontinue auditing this area in 2006. Instead, OIA is conducting an overall IT risk assessment with assistance from PricewaterhouseCoopers. The assessment will be completed in June 2006 and will help OIA to determine the direction of future IT audits.

15. OIA audited the UNICEF response to the Indian Ocean tsunami in field offices, regional offices and headquarters. The tsunami response by the Indonesia,

Sri Lanka and Maldives country offices was audited using specifically developed guidelines testing the adequacy and timeliness of needs assessment and planning of the emergency response, management of programme inputs, monitoring and reporting, and contribution management. OIA also audited the support provided by the regional offices in Bangkok and Kathmandu.

16. Complementing these audits, OIA also examined the efficiency and effectiveness of headquarters in coordinating and monitoring the tsunami response, managing tsunami contributions and providing surge support to country offices.

III. Results of work undertaken in 2005

A. Audit coverage

17. OIA completed 33 country office audits in 2005 (See annex 1 for a list of country offices audited in 2005 and a summary of the risk ratings by audited country office). Five headquarters audits were planned for 2005, including three that were carried over from the previous year. Of these, audits of the management information system; of shipping, handling and clearing of supplies; and of the Global Staff Association were issued in 2005. An audit of the UNICEF headquarters response to the tsunami was completed in 2005 and issued in January 2006. A pre-audit of the Private Sector Division was started in 2005.

18. Three summary reports were planned, of which the Summary Report on Financial Controls was completed in 2005 and issued in early 2006. The Summary Report on Selected Findings of the UNICEF Tsunami Response was started in 2005 and completed in 2006. A summary report on supply assistance has been rescheduled to 2006.

Table 1
Audit coverage, 2004 and 2005

	2004	2005
Number of completed audits	35	40
Number of completed field office audits	29	33

19. As an assurance to UNICEF management on the quality of issued audit reports, the Director, OIA includes a "Statement of Conformity to OIA Standards" in each report when the standards are met. In 2005, all completed audits met OIA's demanding performance standards for planning, implementation, and reporting.

20. As noted in previous annual reports, each audit report includes observations. An observation comprises (a) a risk statement that describes why the finding is important and should be addressed; (b) a statement of the facts that were found in the audit; and (c) one or more recommendations to establish adequate control over the identified risk. This approach, which is consistent with current professional audit standards, emphasizes the risks to an office's performance.

21. In 2005, OIA issued 670 observations (OIA's rating scale for observations is presented in annex 2). It is important to note that a positive observation is made

when all aspects of a particular work process step in an audited area are found to function as expected. Each work process step includes several management practices — and all must function well before a positive observation is issued.

Table 2
Audit observations by level of risk, 2004 and 2005

	2004		2005	
High risk	87	(13%)	81	(12%)
Medium risk	562	(82%)	545	(81%)
Not rated (headquarters audits only)	36	(5%)	44	(7%)
Total, risk observations	685		670	
Positive practice observations	182		223	
Per cent of all observations that are positive	22		25	

22. For non-tsunami field audits, one half of high-risk observations were found in the area of financial controls, mainly in respect to the processing of transactions and payments. Most other high-risk observations were distributed within the areas of office management (recruitment and the management of non-expendable property), supply assistance (inventory management) and programme management (annual planning).

23. For the tsunami field audits, one third of the high-risk observations concerned the management of inputs (the handling of cash, contracts for construction and supplies). Remaining high-risk observations were found in the areas of assessments and programme planning, coordination, monitoring of the response, financial controls, and the management of contributions and human resources.

24. There are no universally recognized criteria for determining the risk rating that is assigned to each observation. Each rating is drafted by an audit team leader and reviewed as part of the report finalization process by a senior internal auditor and the Director, OIA. A review exercise in 2003 established that there is general agreement between OIA and UNICEF management on the level of risk that OIA assigns to its observations.

25. In 2005, OIA continued the practice of issuing draft audit reports and discussing them with management before an audit team leaves a field location. This demanding standard has contributed to an almost 100-per-cent acceptance rate for OIA's audit observations. In 2005, the average time to release final audit reports after the end of field work was 12 weeks, which is consistent with that of 2004. OIA considers that this average period is close to the maximum level of efficiency, given staff travel schedules and other assignments. However, OIA continues to seek opportunities to further reduce the average release period.

B. Field offices

26. The standard audit scope for field offices, established in 2002, was expanded in 2005 to include two new audit areas: basic information and communication

technology controls, tested in 15 offices; and office management, tested in 25 offices. Modifications were made to existing audit areas to reflect changes in UNICEF policies and guidance. A detailed assessment of the core control areas of finance and programme management was carried out in most audits of field offices. A review of the implementation of prior audit recommendations from 2000 to 2004 was carried out where applicable. Programme input management was only reviewed where audit preparation identified the likelihood of risks. Fund-raising and donor reporting was not assessed as a separate audit area, however some aspects of fund management and reporting were included in other audit areas.

27. The standard scope was applied to 26 of the 33 field office audits. Three of the seven other audits examined the emergency operations in response to the tsunami; one audit reviewed the administration of the Iraq Trust Fund; and three more audited the implementation of prior recommendations. (See annex 2 for a complete listing of country office audits.)

Programme management

28. Twenty-four field audits reviewed the existence and functioning of basic programme management practices that UNICEF considers necessary for an office to achieve the planned programme results. The audit guideline has been refined over the past years in consultation with concerned divisions. A self-assessment version of the audit guideline is included in the UNICEF Programme Policy and Procedure Manual, and can be used by country offices to self-assess their programme management practices.

29. Each audit assessed the clarity of results statements and how an office ensures the quality of Annual Work Plans (AWPs), the key programme planning instrument for country offices and the basis for all resource transfers to implementing partners. The audits reviewed office-governance arrangements to maintain attention to annual programme and office priorities, management's monitoring of office performance, the functioning of programme monitoring and evaluation systems, staff capacity and training in core programme management skills, and the accuracy of the performance reports submitted to headquarters and the regional offices. Where relevant, audits assessed how country offices participated in the development, monitoring, and evaluation of the United Nations Development Assistance Framework (UNDAF), and advanced UNICEF priorities through the UNDAF. While the existence of these management practices does not assure that planned programme results will actually be achieved or that weak practices will not imply failure, it is reasonable to expect that offices with positive practices have a higher likelihood of overall success than those that do not.

30. In 17 (70 per cent) of the 24 offices where basic programme management controls were tested, the risk management practices were found to be satisfactory, while the practices in seven offices were rated unsatisfactory. This is a positive development over 2004, when only 52 per cent of the audited offices were found to be satisfactory.

31. However, 23 offices did not meet one or more aspects of UNICEF annual planning standards. The quality of AWPs was weak in 20 offices; 12 offices had not effectively assessed the implementation and financial management capacity of their non-governmental implementing partners; 21 offices had one or more notable weakness in the management of the monitoring and evaluation functions; and 12

offices had shortcomings in the functioning of their office governance mechanisms. More positively, 17 offices ensured the accuracy and fairness of annual reports; and in the six offices where programming within the UNDAF was reviewed, all offices were involved and ensured the inclusion of UNICEF medium-term strategic plan priorities in the UNDAF outcomes.

32. Significant risks were raised in five offices due to weak practices in the preparation and review of AWP. The importance of high-quality AWP and the focus on results-based management was again stressed in the 2005 update of the UNICEF Programme Policy and Procedure Manual and separate programme directives. While the AWP are prepared jointly with implementing partners, UNICEF offices are responsible to ensure that the AWP unambiguously describe the planned results, budgets, activities and accountabilities for implementation. The harmonized approach to cash transfer, adopted by the UNDG Executive Committee in mid-2005, is dependent on high-quality AWP.

Finance and accounts

33. A core aspect of each field office audit is the systematic review of the major controls over the commitment, expenditure, and recording of UNICEF funds. The majority of UNICEF field offices has been subject to a thorough review in this area since 2001. For that reason, OIA restructured its guideline on financial controls in 2005 to better focus on key risk areas in field offices where an audit of financial controls had been performed within the last three years.

34. Financial controls were reviewed in 24 field locations, and 11 offices were found to have unsatisfactory risk-management practices. The proportion of offices with satisfactory ratings in 2005 (54 per cent) is slightly higher than in 2004 (44 per cent) and 2003 (48 per cent), but there appears to be a consistently low proportion of offices with satisfactory functioning of financial controls.

35. The profile of observations in 2005 was consistent with prior years. The audits found that 22 offices either did not adequately assign financial control responsibilities or did not monitor the fulfilment of those responsibilities. Corresponding weaknesses — including 14 high-level risks — in the authorization, certification, approval and payments of transactions were found in 21 offices. Thirteen offices were weak in the management and supervision of the reconciliation and closure of accounts. Nineteen offices also had one or more weaknesses in the functioning of contract review committees. More positively, offices generally have well-defined responsibilities for programme and support budgets and have strong internal controls over the integrity of financial data.

36. In 2005, DFAM strengthened guidance for the establishment and maintenance of financial authorities. ITD revised the relevant ProMS (Programme Manager System) access and edit controls, requiring a separation of the system administrator responsibilities from those of the applications administrator.

Management of programme inputs (cash, supplies, and consultancies)

37. Based on a preliminary review of field office's performance data, and considering any suggestion by the field, regional or headquarters offices, each audit examined one or more of the three key means through which the office plans, commits, and procures programme inputs: provision of cash assistance, supply assistance, and contracting services.

38. **Provision of cash assistance.** In 2005, cash assistance was reviewed in six country office audits. Each of these audits used an audit guideline developed with input from DFAM, the Division of Policy and Planning (DPP) and Programme Division (PD). Audits review the planning of cash assistance to implementing partners, the budgeting for specific activities, the disbursement process, reporting on the use of cash assistance by counterparts, and country offices' monitoring of the use of cash assistance by the implementing partners. Controls were found to be satisfactory in five offices. This profile is an improvement over the findings of 2004 and 2003.

39. It should be noted that the new harmonized approach to cash transfers adopted by the Executive Committee agencies will change country offices' risk-management practices. Field offices will no longer review vouchers and receipts submitted by implementing partners as proof of expenditure. Instead, emphasis will be placed on assessing the financial management capacities of implementing partners, field monitoring of programme progress, and spot checks and audits of financial controls related to the management of funds provided by United Nations agencies. OIA is adapting its own audit guidelines accordingly.

40. **Provision of supply assistance.** Supply assistance was reviewed in 11 country offices where it was a significant component of the programme of cooperation. As in prior years, the audits followed an audit guideline developed in consultation with Supply Division. Several aspects are systematically examined: the controls over supply planning; specification development; the identification of suppliers; the contracting process; pre-delivery quality assurance and the receipt of deliveries; and assessment of the effectiveness of supply assistance. Seventy-three per cent of the audited offices had a satisfactory rating for the management of supply assistance in 2005. This is an improvement over earlier years, when on average only 55 per cent achieved satisfactory ratings.

41. However, common weaknesses persist. Seven offices were weak in planning their supply requirements in line with the activities and results described in AWP (see paragraph 32). These offices lacked supply plans, did not have distribution plans, had unrealistic target arrival dates, or untimely procurement action. Eight offices did not follow recommended procedures for the identification, assessment and evaluation of suppliers, while six of the 11 offices had weak practices for defining supply specifications with counterparts and ensuring that requests for supply assistance met expected standards. Seven offices did not adequately monitor the receipt, distribution and delivery of UNICEF-procured supplies, and five had not established criteria for pre-delivery inspection of locally purchased supplies. Five offices did not adequately monitor the effective use of UNICEF-procured supplies by implementing partners.

42. **Contracting services.** Practices for contracting consultants were audited in one office in 2005 and found to be satisfactory.

Office management

43. A new audit guideline for the assessment of office management practices was developed and tested in 25 country offices. Ten offices demonstrated satisfactory internal controls in more than one of the following areas: recruitment, learning and performance appraisal; staff administration; office premises; non-expendable property; and travel. There is scope to improve several areas for various offices:

travel planning in 14 of the 25 offices; the performance appraisal system, including the timely review of staff performance against office priorities, in 11 offices; the management of non-expendable property and the functioning of the property survey board in 13 offices; the management of personnel records and the efficiency of recruitment practices in 7 offices. Four audits raised observations of significant risk in respect to the poor implementation of approved organizational structures.

Basic information and communication technology

44. Fifteen audits of baseline IT controls in country offices were completed. All but one audit was rated satisfactory. While not eliciting significant risks, the audits identified weaknesses: twelve offices had weak internal controls of IT operations and service management, that is, they did not have disaster recovery plan or did not maintain IT inventories of hardware and software; and six offices procured and installed non-standard software.

45. In mid-2005, OIA revised its decision to include the IT guideline as a standard item in the scope for audits, although some subsequent audits did review basic information and communication technology based on an initial risk assessment of the office. Instead, OIA is conducting an organization-wide IT risk assessment with assistance from PricewaterhouseCoopers, the results of which will enable OIA to determine the scope of specific IT audits and to formulate a revised IT guideline in 2006.

Implementation of prior audit recommendations

46. The implementation of prior audit recommendations was reviewed in 20 offices in 2005. Eighteen offices were found to have generally addressed the recommendations made to them in the previous audit; though there was room for strengthening the monitoring of the implementation and for sustaining action taken on audit recommendations to prevent recurrence of the same weaknesses. Prior audit implementation was found to be unsatisfactory in two offices, mainly due to incomplete or no actions in respect to OIA's recommendations.

C. Analysis of audit findings: underlying causes from field offices

47. All audit observations are classified by OIA according to an internationally recognized control framework to establish an understanding of the underlying issues associated with the audit findings. Table 3 provides an analysis of the main underlying causes for unsatisfactory performance.

Table 3
Major underlying causes for field audit observations in 2005

<i>Reason for weaknesses in risk management practices</i>	<i>Per cent of total</i>
Poor quality implementation of defined procedures	40%
Failure to follow defined procedures	22%
Weak monitoring of the functioning of established controls	25%

48. Given that poor-quality implementation or failure to follow established procedures can also be tracked to insufficient management attention, 87 per cent of the risks observed in 2005 audits can be attributed to inadequate oversight by country office managers of the internal control framework.

49. Over 70 per cent of the observations in the three categories fall in the functional areas of financial controls, basic programme management, and office management. Offices that did not adequately implement defined procedures included those with weaknesses in the functioning of their contracts review committees, offices with ineffective end-use monitoring of programme inputs, and offices that did not adequately manage non-expendable property. Offices that did not follow defined procedures included those that failed to conduct bank reconciliations or close accounts as required, and those that failed to assess the capacity of non-governmental organizations prior to establishing cooperation agreements. Where office managers did not adequately monitor established controls, offices were not aware of the functioning of internal controls over payment processing, failed to formulate AWP in line with UNICEF programme planning standards, or did not ensure a timely and adequate performance review process for staff.

50. The weaknesses in the application of management practices prescribed or recommended to country offices have been the focus of eight global summary reports undertaken by OIA since 2002, covering a wide range of functional areas. The summary reports have pointed towards specific gaps, inconsistencies and ambiguity in UNICEF policy and guidance. They identified areas where regional offices should increase oversight of country office operations and performance, clarify priorities and expectations and provide feedback. They also recommended specific skills-development activities that would assist staff in adopting positive management practices.

51. Higher awareness among all managers and staff of the risk attached to UNICEF operations may sharpen the understanding of the need for implementing recommended controls. As mentioned in paragraph 9, OIA plans to facilitate the adoption of organization-wide risk management strategies in UNICEF.

D. Headquarters locations and systems audits

Audit of management of internal performance information

52. An audit of the management of internal performance information in DFAM, ITD, PD, the Programme Funding Office (PFO) and Supply Division and the adequacy of UNICEF-wide policies and accountabilities related to performance information management by DPP was completed. The audit identified a number of areas where performance information is available and utilized well. The audit also identified aspects of the performance information-related policies and guidance, and practices related to the management of performance information that should be strengthened. The report made recommendations on strengthening UNICEF performance information and reporting framework, which should clarify responsibilities and expectations for performance-information management, including for the identification of global performance indicators and the systematic review of annual reports from divisions and regional offices. It made recommendations to enhance the utility of headquarters' office management plans, and divisional annual reports. It made specific recommendations to the audited

divisions for the setting of performance targets and for monitoring progress against those targets. The report was issued in July 2005 and included 20 recommendations to UNICEF senior management, DPP and the five headquarters divisions.

Audit of the shipping and handling of UNICEF-procured supplies: Supply Division (Copenhagen)

53. An audit of shipping and handling of UNICEF-procured supplies examined the extent to which the shipping and handling of UNICEF warehouse and non-warehouse supplies are managed with due care for economy, efficiency and effectiveness, and in compliance with relevant UNICEF policies, procedures and contractual obligations. The audit found that the roles and responsibilities for shipping and handling supplies are well defined and communicated to staff, country offices, forwarders and carriers. The supply field manual was also found to be an adequate guidance for effective and efficient management of the supply function. Eighty-four per cent of the country offices surveyed as part of the audit confirmed that the delivery of supplies was timely. The selection of suppliers by global freight forwarders was found generally to be well justified. Weaknesses were noted in regard to the completeness of instructions provided to suppliers for the establishment of freight rates and the adequacy of freight estimation tools. Weaknesses were also identified in regard to monitoring of cost-effectiveness of freight rates charged by suppliers, the table of financial authorities, certification of freight costs, and the quality and monitoring of the shipping unit's own performance indicators. The report was issued in November 2005 and included 19 recommendations to Supply Division.

Audit of the UNICEF headquarters response to the Indian Ocean tsunami

54. The audit was conducted in 2005 with the report issued in January 2006. It examined the extent to which headquarters effectively and efficiently coordinated and monitored the organizational response to the tsunami, managed contributions, and provided surge support to the affected field offices in accordance with the Core Commitments for Children (CCCs). The audit assessed whether key processes and controls worked satisfactorily, and where the controls required strengthening to better address risks in future emergencies. Country offices were positive about the communication, guidance and assistance from headquarters. PFO and the Regional Office for Europe, in Geneva, effectively encouraged donors to provide thematic contributions. The first contributions were promptly allocated to country offices to enable a quick initial response. Headquarters divisions generally provided adequate surge support to affected offices. However, the roles and accountabilities of headquarters divisions in large-scale emergencies were unclear, monitoring indicators did not cover important aspects of the response, and at the time of the audit, UNICEF had not finalized a cross-divisional work plan to guide the response. In addition, governance arrangements and criteria for allocation of funds were not precise. The audit also found a lack of delineated accountabilities and fragmented systems for the transfer of funds to country offices. Due to different approaches taken by country offices, it has been difficult to track and report on trends in tsunami-related expenditures. There was a lack of clear divisional procedures or performance indicators for supporting country offices in emergencies and managing risks related to staff deployments.

Audit of the Global Staff Association

55. An audit of the financial statements and financial management practices of the UNICEF Global Staff Association (GSA) was completed in 2005. The financial management practices were found to be adequate, although one observation noted inconsistent statements in the constitution regarding audits of the GSA's financial statements. The report was issued in June 2005.

E. Summary audit report on financial controls in UNICEF field offices

56. OIA completed a global summary report on financial controls in UNICEF country offices that profiled the common weaknesses and good practices of 54 country offices, based on the findings of audits undertaken in 2003 and 2004. The report identified 10 observations that were common to the 54 country offices. These frequently occurring observations contributed to unsatisfactory audit ratings both in prior years and subsequently in 2005. The report, with 10 recommendations, was issued in February 2006. It recommended that more attention be given to the regular consolidation and updating of guidance on the implementation of financial controls and improved ProMS functionalities in specific areas. It suggested the adoption of a more systematic programme of supervision by regional offices to identify and address country offices' weaknesses in implementing financial controls, and regular notification of country offices by DFAM of any unusual charges or balances or late bank reconciliations identified through headquarters review of accounts. The report also recommended increased monitoring and support to staff skills-development in the area of financial controls.

F. Support to investigation

57. In 2005, OIA reviewed investigation issues reported by one division, one regional office and 16 country offices. OIA provided technical advice for the implementation of locally managed investigations by the concerned division, regional office and country offices. One case was directly investigated by OIA. In cases involving UNICEF staff, OIA worked in coordination with DHR. OIA, together with DHR and DFAM, prepared an updated policy and procedures document on the prevention and reporting of fraud.

IV. Implementation of audit recommendations by management

58. Audited offices continue to strengthen the timeliness and completeness of their actions to address audit recommendations. Using its online database, OIA regularly monitors the status of actions to close audit recommendations. Updated audit closure rates are reported every two weeks to the UNICEF Regional Key Performance Indicator database and Executive Scorecard on the Intranet, which can be viewed by senior managers in headquarters and regional offices. In addition, headquarters and regional offices can access key audit statistics and printable reports directly from OIA's online database.

59. OIA reviews auditees' implementation reports to determine if adequate actions have been taken to implement the recommendations. In instances where OIA believes that an auditee's actions have not adequately addressed the reported risks, a memorandum is sent to the auditee, commenting on the gaps in the reported actions and suggesting additional activity to address the inadequately controlled risks. Reminders are sent if implementation reports are overdue.

60. In most cases, OIA relies on implementation reports from auditees to determine if adequate actions have been taken to close the audit recommendations. These written reports are supplemented by follow-up visits to offices where notably elevated risks were identified in an audit. In 2005, follow-up audits were conducted in Indonesia, Sri Lanka and Iraq. Additionally, 17 country office audits assessed the actions the offices had taken to address the recommendations made in the previous internal audits and validated the accuracy of the actions that had been reported to OIA. The reviews found that the implementation reports submitted by the country offices accurately reflected the status of the actions they had taken to address audit recommendations.

61. While these 20 offices had reported and adequately documented implementation of audit recommendations, 12 offices were subsequently unable to sustain controls over some of the identified risks. Lack of attention by two offices to sustain internal controls over risks raised in prior audits resulted in an unsatisfactory rating in the relevant functional area (see paragraph 46).

Implementation of audit recommendations issued to country offices

62. All recommendations issued to country offices in 2003 or earlier are reported by the auditees to have been addressed. Their replies have been reviewed by OIA, and the recommendations closed. As of 15 June 2006, 95 per cent of the 649 observations issued to country offices in 2004 have been closed by OIA.

63. Twenty-seven country offices audited in 2005 were due to report their corrective actions by 15 June 2006, and 20 had done so. OIA's analysis of the reports determined that adequate controls had been established over 68 per cent of the risks identified in the 27 country offices. (The Director of OIA will report orally to the Executive Board in September on the implementation status realized as of 1 July 2006, and will compare this to the 66 per-cent-closure rate achieved for the 2004 audits, as reported orally to the Executive Board at its annual session 2005).

Implementation of audit recommendations issued to headquarters and regional offices, and in audit summary reports

64. Recommendations from audits of headquarters and regional offices or summary reports may require several divisions or regional offices to work together to address the identified risks. In such cases, and where an audit recommends the development or change of policies and procedures, implementation may not be expected to be completed within three months. Attention by headquarter divisions and regional offices to the implementation of recommendations issued to them remains variable.

65. Of the 13 reports of headquarters and regional audits and summary reports issued in 2002-2004, recommendations of eight reports have been reported as fully addressed. Implementation reports have been reviewed by OIA, and the

recommendations are closed. The remaining five reports contain recommendations that still need to be addressed, as described below.

66. Almost 80 per cent of the recommendations of the 2002 summary audit report on basic programme management practices have been closed. This is an improvement over the previous year, though progress has remained variable. A major point relates to the clarification of accountabilities of headquarters and regional offices so as to reflect changes in the structure of headquarters, introduced since 1998, and the mandates of regional offices. The ongoing organizational review is meant to provide a revised accountability framework, and while the respective recommendations have been closed on the basis of the reported review activities, it will be important to ensure that the concerns raised by Audit are addressed in the final outcome. One central concern of the report has been the oversight of, support to and reporting to senior management on the quality of AWP prepared by country offices. Weaknesses in the preparation of AWPs by country offices continue to be found in recent audits. Only three regional offices reported sustained action to support country offices in ensuring the preparation of high-quality AWPs, adequate programme monitoring, and staff skills development.

67. Only one recommendation of the summary report on Cash Assistance to Government (CAG) issued in 2003 remains open. While regional offices have confirmed their oversight role in respect to CAG practices and continued to facilitate the development of necessary skills, they still have to define performance-monitoring indicators in respect to the new harmonized approach to cash transfers to implementing partners. The new procedures to be applied by country offices use a risk-management approach to cash transfers, and regional offices still need to determine how they wish to assure themselves that country offices manage these risks well.

68. All nine recommendations of the 2004 audit on procurement in headquarters remain open. The recommendations were addressed to several divisions; of these, DFAM and Supply Division had presented an initial action plan.

69. DFAM and DHR have so far addressed one quarter of the recommendations of the two 2004 audits that examined travel management for headquarters staff, and the administration of the contractual arrangement with American Express for travel.

Headquarters audits and summary reports issued in 2005

70. Of the responses to four audits conducted in headquarters locations in 2005, those regarding the audit on the headquarters tsunami effort are not yet due. Supply Division has presented plans for how to address the risks identified in the audit of shipping and handling of UNICEF-procured supplies. The audit of management of internal performance information in headquarters divisions was issued in July 2005, and five divisions have reported some action to address the identified risks; however only 30 per cent of the recommendations have been closed. The Global Staff Association has still to report on actions to close the only recommendation addressed to the Association.

71. Some recommendations of the summary audit report on the financial controls in UNICEF field offices have been addressed by DFAM, and have been closed by OIA. Several others, addressed to DFAM, DHR and regional offices, remain open as of June 2006. Two regional offices have submitted first implementation reports.

V. Standards of internal control in UNICEF

72. Based on the 33 field audits implemented in 2005 it is OIA's conclusion that, overall, UNICEF maintained satisfactory controls at the country level for cash assistance, office management and information and communication technology controls, and generally satisfactory controls, with scope for considerable improvement, in finance, and some scope for improvement in supply and basic programme management practices. Generally satisfactory controls over fund-raising and donor reporting were already confirmed in 2004 audits.

Table 4
Risk management ratings by major audited area for field offices, 2005

	<i>Offices audited</i>	<i>Unsatisfactory</i>	<i>Satisfactory</i>	<i>Exemplary</i>
Finance	24	11	13	0
Basic programme management	24	7	17	0
Programme inputs (cash, supplies, contracts)	18	4	14	0
Office management	25	5	20	0
Basic IT and communication	15	1	14	0
Follow-up of prior audit recommendations	20	2	18	0

73. The 29 country offices audited in 2004 reported that they have established adequate controls over 95 per cent of the risks identified by the audits that year. Of the 33 offices audited in 2005, 27 were due to submit an implementation report by 15 June 2006. In those 27 offices, controls have been established for over 68 per cent of the risks.

Table 5
Summary of unsatisfactory ratings by audited area for field offices, 2004-2005

	<i>2004</i>		<i>2005</i>	
	<i>No. of audits</i>	<i>Per cent unsatisfactory</i>	<i>No. of audits</i>	<i>Per cent unsatisfactory</i>
Finance	27	56	24	46
Basic programme management	25	48	24	30
Cash assistance	22	36	6	17
Supply assistance	13	46	11	27
Follow-up of prior audit recommendations	18	11	20	10
Office management	0		25	20
Basic IT and communication	0		15	7
Fund-raising and donor reporting	11	9	0	

74. The record of audit ratings from 2004 and 2005 shown in table 5 demonstrates a general improvement for all audited areas over the previous year, but also indicates that there is a significant share of country offices that do not meet the full

range of UNICEF defined management standards in the core areas, especially in finance and programme management. Furthermore, a substantial number of offices have weaknesses in input management (especially supply assistance) and office management. It is OIA's conclusion that significant additional effort is required by management to address consistently poor ratings. Consolidation and communication of guidance related to financial controls and basic programme management practices, improved performance monitoring by regional offices and headquarters, and more attention to skills development would go a long way in redressing common and repeatedly occurring weaknesses in country offices.

75. Audit recommendations to address these issues are presented in the summary audit reports of basic programme management controls (2002), Cash Assistance to Government (2003), and the summary audit report on financial controls (2005). As noted before, several recommendations from these audits remain open.

76. Based on audits of headquarters divisions and summary reports issued in 2005, OIA concludes that satisfactory controls exist over the management of shipping and handling of UNICEF-procured supplies, but that challenges need to be addressed in the management of internal performance information. There is scope for improving some aspects of the headquarters and regional office coordinated responses to the onset of sudden emergencies.

Annex 1

Risk management ratings for field audits completed in 2005

Audit	Audited areas rated unsatisfactory Per cent and number	
Afghanistan, Islamic Rep.	33	2 of 6
Angola	0	0 of 4
Barbados	0	0 of 4
Bolivia	17	1 of 6
Cambodia	29	2 of 7
Comoros	67	2 of 3
Egypt	17	1 of 6
Equatorial Guinea	100	3 of 3
Ethiopia	40	2 of 5
Guinea-Bissau	0	0 of 4
Guyana	75	3 of 4
Honduras	0	0 of 4
Indonesia	not rated	not rated
Indonesia follow-up	0	0 of 1
Iraq follow-up	0	0 of 1
Iraq Trust Fund	not rated	not rated
Jamaica	33	1 of 3
Kyrgyzstan	33	1 of 3
Madagascar	20	1 of 5
Maldives	not rated	not rated
Mali	40	2 of 5
Myanmar	0	0 of 6
Nicaragua	0	0 of 5
Niger	33	2 of 6
Russian Federation	20	1 of 5
South Africa	33	2 of 6
Sri Lanka	not rated	not rated
Sri Lanka follow-up	0	0 of 1
Sudan	40	2 of 5
Togo	0	0 of 5
Uganda	0	0 of 5
Occupied Palestinian Territory	25	1 of 4
Yemen	25	1 of 4

Average days per audit: 34 days, including audit preparation and report writing.

Annex 2

Structure and scale for audit ratings

1. Country office audit reports include **observation ratings**, which are applied to each audit observation to indicate its level of importance, and **risk management ratings**, which are applied to each audited functional area to summarize the quality of the audited office's performance in managing the risks faced.

Observation ratings

2. Each audit observation is rated to highlight the degree of the threat it poses to the achievement of the office's objectives in the audited area. The risk significance are rated high, medium, and low. Low-risk observations are generally presented in a management memo from the audit team leader to the head of the office. Medium- and high-risk observations are issued by the OIA director in audit reports. The audit reports also include positive observations, which are issued when all aspects of a particular audited area are found to function fully as expected.

Risk management ratings applied to each audited functional area

3. Each audit report includes risk management ratings that summarize OIA's view of the quality of an office's risk management practices in each of the audited areas. Unsatisfactory ratings do not indicate a supposition of fraud or loss of UNICEF resources. Rather, they indicate that the office's controls over one or more risks to the achievement of its programme and/or procedural and compliance objectives were seriously weak and should be strengthened. OIA uses a three-point scale to rate an office's risk management practices in each audited area:

Exemplary: All controls function as expected and no uncontrolled risks were identified.

Satisfactory: All aspects are generally functioning well, however, one or more medium (and in some instances high) levels of risk were identified that limit the office's potential for achieving the performance and/or compliance objectives of the audited area.

Unsatisfactory: A number of high- or medium-level risks were identified. The frequency and importance of the risks indicate weaknesses in the office's risk management practices that significantly reduce an office's potential to achieve its performance and/or compliance objectives in the audited area. Priority attention is required by management to establish effective controls.

4. Satisfactory and unsatisfactory risk management ratings are more likely to be determined not by the specific number of medium- and high-risk observations but rather by the number of observations received in an audited area.

Harmonization of ratings among United Nations agencies

5. An inter-agency working group comprising OIA and four other United Nations agencies is currently tasked to consider a harmonized audit rating system based on a common understanding of the criteria for "satisfactory" and "unsatisfactory" ratings, and to propose a revised audit rating scale. It is expected that the group will submit its final proposal by end-July 2006.