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For action

Internal Audit Activities in 2007**

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 2007.

I. Introduction

1. This annual report has been prepared with consideration of the comments made at the 2006 Executive Board session on Internal Audit, especially the request for information on key and recurrent management issues.

2. Section II of the report discusses the accountabilities, strategy and capacity of the OIA and describes developments related to the harmonization of audit and management reporting with other organizations. Section III explains the 2007 audit coverage, the main audit findings and underlying causes. Section IV summarizes key and recurrent findings. Section V provides an overview of investigation work. Section VI describes the status of implementation of recommendations. Annex 2 contains a table of observations that remained unresolved for more than 18 months.

II. Accountability and strategy of the Office of Internal Audit

A. Accountabilities of OIA

* E/ICEF/2008/16.

** Submission of this document was delayed because of the need for internal consultations.

3. OIA fulfilled its accountabilities in accordance with the Charter of Accountabilities and Responsibilities of the Office of Internal Audit. The role of OIA is to support the achievement of the mission of UNICEF and the fulfilment of UNICEF accountabilities through independent and objective assurance and advisory services that assess and analyse the effectiveness and adequacy of UNICEF risk management, controls and governance processes. OIA fulfils this role through systematic and disciplined reviews at all levels within UNICEF.

4. OIA is responsible for conducting investigations into allegations of fraud, corruption and mismanagement in UNICEF, as well as of harassment, sexual harassment, and abuse of authority. OIA is also responsible for investigating cases of alleged retaliation against "whistle blowers".

5. 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.

6. OIA performs its work according to the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors. OIA also adopted the United Nations Uniform Guidelines for Investigations.

B. Quality assurance

7. OIA continues to implement a quality assurance and improvement programme. In 2007, OIA scheduled and began preparation for a quality assurance review by the Institute of Internal Auditors (IIA). The review took place in May 2008. Based on their independent assessment, 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 IIA Code of Ethics. This is the highest possible rating for compliance by an internal audit service with international internal auditing standards and practices.

8. All OIA auditors are encouraged to obtain and maintain professional qualifications. In 2007, OIA supported three staff to obtain Certified Internal Auditor certification. Six other auditors were supported to participate in external training events as part of their continuing professional education (CPE).

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

C. Risk-based audit planning

10. To focus audit resources on the most important areas, OIA has refined its risk-based audit planning methodology. The unified risk model covering headquarters and field locations was applied for the identification of audit areas and locations in 2008.

11. The majority of UNICEF resources are spent on programmes in 126 field locations. Field offices to be audited are selected through an objective assessment of risks to the achievement of planned results. Field offices are ranked according to the following risk areas:

(a) **Time** since last audit (a field office should not go without an audit for more than five years; the 10 largest offices are audited every other year)

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

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

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

(e) **Programme management risks** (implementation of programmes as estimated by expenditure rates)

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

12. There is an increasing disparity in the size of UNICEF field offices, with some offices having annual programme budgets larger than $100 million and others operating with $0.6 million. Under a risk-based approach to auditing, relatively greater attention should be given to larger offices. Given the same audit resources, this would lead to less frequent audits of the smallest offices. OIA therefore considers expanding the maximum time without an audit from five to seven years for offices with budgets smaller than $10 million.

13. Audits of headquarters divisions and systems make up an increasing share of audit engagements. For an objective selection of divisions or functional areas, OIA considers the amount of resources related to a major business system; the time lapsed since the last review; the known existence of significant uncontrolled risks or weaknesses; and reported performance against expectations described in management plans.

14. Prior to each country office audit, auditors conduct a risk analysis to develop and refine the scope of audit. This analysis is based on a pre-audit questionnaire completed by the office, review of programme documents and annual reports, the auditors' analysis of performance data, and information provided by regional offices and headquarters. For headquarters divisions or systems, a risk analysis is normally conducted through a pre-audit.

15. The risk-based selection of audit entities and risk-based scoping of each individual audit ensure that OIA focuses on the areas of greatest risk and identifies areas for improvement with a high degree of predictability. The adoption by UNICEF of an organization–wide risk management framework is expected to further focus audit and advisory services on the most critical areas.

D. Oversight-related activities and advisory services

16. On behalf of the affiliation of United Nations Representatives of Internal Audit Services (UN-RIAS), OIA advised the High Level Committee on Management on issues related to oversight, governance and internal audit, including on the issue of disclosure of internal audit reports on which

UN-RIAS expressed an opinion. UN-RIAS members meet once a year, and between meetings maintain a professional network to discuss policies related to internal audit.

17. OIA continued to chair the United Nations Development Group (UNDG) working group on audit in 2007 and 2008. The audit working group was tasked by the UNDG Management Group to report to the Group on issues requiring inter-agency consultation and harmonization. Among other areas, the group agreed on a framework for audit arrangements of multi-donor trust funds, and arranged for the joint audit of the joint office in Cape Verde. With the rearrangement of the UNDG structure within the Chief Executives Board, the UNDG audit working group is not formally required but members of internal audit services continue to meet to coordinate audit-related services and activities.

18. Close collaboration is maintained between the Evaluation Office and OIA. Work plans have been jointly reviewed. The two offices developed a methodology for assessing programme performance in country offices. In 2008, the offices scheduled programme performance assessments at five country offices, the results of which will be provided in next year’s annual report.

19. OIA is advising UNICEF on the introduction of an organization-wide risk management framework. OIA prepared a proposal for an expert facilitation of the process for UNICEF, for which PricewaterhouseCoopers was contracted after a competitive selection process. A project board representing most headquarters divisions and two field offices oversees the project. The company began work in February 2008, delivered its inception report and is preparing for the submission of a UNICEF risk profile and organizational risk map. The latter are expected to provide the basis for a draft UNICEF risk management policy. The adoption of an organization-wide risk management framework will aid the strategic planning process, signal to managers the level of risk that the organization is willing to take, and help UNICEF to manage cross-enterprise risks and opportunities.

E. OIA resources and capacities

20. A high number of vacancies in OIA in 2007, mainly due to retirement of staff and the difficulty of identifying suitable candidates for senior audit positions, reduced OIA’s overall capacity and led to delays or postponement of some scheduled audit engagements.

21. The OIA report on internal audit activities in 2006 presented to the Executive Board in 2007 (E/ICEF/2007/AB/L.8) concluded that OIA resources were not commensurate with the expansion of UNICEF operations and the requirements for oversight in United Nations organizations. The report noted that, in order to provide sufficient assurance over the effectiveness and functioning of UNICEF risk management, control and governance processes, extra audit capacity was needed to maintain field office audit coverage and enhance headquarters and systems audit coverage and the number of performance reviews.

22. Based on the analysis, OIA developed specific budget proposals to increase the number of posts in OIA to 25 international Professional and three General Service positions, which were fully funded with effect from January 2008. The changes comprised the conversion of two temporary positions to regular positions; and the establishment of two full-time investigator positions, one quality assurance position and one position dedicated to programme performance assessments. As of end-June 2008, 21 of the 25 international Professional posts and all General Service staff

positions were filled, including that of one Junior Professional Officer. The position is filled until January 2009, and replacement of the incumbent will depend on the readiness of Member States to sponsor staff. Two senior staff members from elsewhere in UNICEF were seconded to OIA in 2007, to assist the office with investigations and programme performance assessments.

23. With the additional resources and with the recruitment of new staff to be completed soon, OIA expects to have the capacity to conduct its planned assurance activities during the 2008-2009 biennium. However, as mentioned above, OIA has been increasingly providing advisory and consulting services. Both the Executive Director and the Institute of Internal Auditors have recommended that OIA provide even more services of this nature, including the identification and sharing of good practices, assisting newly appointed managers in understanding the UNICEF control environment. Though the nature and extent of such work still has to be determined, it is evident that it will require additional resources if OIA's assurance-related accountabilities are not to be compromised.

F. UNICEF Audit Committee

24. In 2007, the Audit Committee continued to provide assurance over 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. While in 2007, the committee included three members external to UNICEF and three members holding senior management positions in UNICEF, by the end of 2007 the Executive Director had changed the committee's composition to comprise, exclusively, five external members. The new structure, implemented in 2008, is in line with international best practices for audit committees. The Audit Committee issued an annual report to the Executive Director on its activities during 2007. The report included recommendations on the need for UNICEF to establish an implementation plan for the enterprise risk management project, to give high priority to ensuring that managers implement audit recommendations in a timely manner, and to ensure that the Audit Committee is able to meet with senior managers and the external auditor when needed.

III. Results of work undertaken in 2007

A. Audit coverage

25. In accordance with recommendations made by the Board of Auditors (in 2005) and the Audit Committee, OIA increased the audit coverage of headquarters divisions and systems, and planned 14 of these audits in 2007. While four of the audits were postponed to 2008 because of vacancies in OIA, substantive work was completed or was near completion for 10 of the audits by the end of the year. Audit reports were issued on the management of non-thematic other resources contributions, emergency preparedness, change management procedures in SAP, baseline security controls in SAP, and on the Global Staff Association. A summary report on the management of supply assistance in UNICEF country offices was also issued (for details, see section III D). The results of several other audits begun in 2007 but not completed will be reported in the next annual report.

26. Since OIA increased its focus on headquarters and systems audits and because of the staff capacity constraints in 2007, OIA reduced the overall number of country office audits. OIA also reduced the scope of country office audits with annual programme budgets of less than $ 10 million, which make up slightly more than 50 per cent of all 126 country offices. This change in audit strategy reflects the effort by OIA to identify and select the most risky locations for audit while providing all offices with a high level of audit coverage. Consequently, OIA planned 27 and completed 23 country office audits, one zone office audit and one audit of a joint-UN office (See Annex 1 for a list of country offices audited in 2007 and a summary of their risk ratings). Two of the audits were related to the response to the 2004 Indian Ocean tsunami. Due to low staff resources for investigations in 2007, three field audits planned for 2007 were postponed to the first quarter of 2008. Another audit was postponed to 2008 to avoid duplication with the external auditors.

Table 1
Audit coverage, 2005-2007

	2005	*2006*	*2007*
Number of completed field office audits	33	31	24
Number of HQ or systems audits, and summary reports	7	11	6
Number of joint-United Nations audits (CapeVerde)	-	-	1
Number of completed audits	40	42	31

27. 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 standards. In 2007, all completed audits met OIA’s demanding performance standards for planning, implementation, and reporting.

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

29. In 2007, OIA issued 444 risk observations and 75 positive practice observations. A positive observation is made when all aspects of a particular work process step in an audited area are found to function as expected.

Table 2
Audit observations by level of risk, 2005-2007

	2005		*2006*		*2007*	
High risk	81	12%	66	12%	51	11%
Medium risk	545	81%	424	76%	334	75%
Not rated (headquarters and special audits only)	44	7%	71	12%	53	13%
Total risk observations	**670**		**561**		**444**	
Positive practice observations	223		164		75	
Per cent of all observations that are positive	25		23		15	

30. In 2007, thirty-one per cent of high risk observations to field offices were issued in the area of programme management, compared to 15 per cent in 2006. The remaining high risk observations were mainly related to supply management (22 per cent), financial controls (18 per cent, down from 40 per cent in the previous year), cash transfers to implementing partners (16 per cent) and the implementation of prior audit recommendations (10 per cent).

B. Findings from audits of field offices

31. Table 3 indicates the audit coverage of field offices over the last seven years. All field offices were audited at least once. The 10 largest offices are typically audited every other year. Some high-risk offices and operations, such as the office in Iraq or the tsunami relief operation in Indonesia, have been audited more frequently.

Table 3
Field offices audited, 2001-2007

Field offices audited once	70
Field offices audited twice	46
Field offices audited three times	8
Field offices audited four times or more	2
Field offices not audited once	0

32. OIA has a standard audit programme for field offices consisting of audit guidelines in 10 audit areas. The audit programme is reviewed annually. Detailed assessments of the core areas of financial controls and programme management are carried out in most audits of field offices. The implementation of prior audit recommendations is reviewed where applicable. Cash or supply assistance are reviewed only where audit preparation identifies the likelihood of risks.

Programme management

33. Twenty-three field audits reviewed programme management practices that UNICEF considers essential. Sixteen high risk observations were made. Table 4 indicates that the distribution of observations closely follows the pattern observed in 2006.

Table 4
Programme management: number of observations raised (high risk observations in parentheses)

Area	*2006*		*2007*	
Programme governance	18	(1)	25	(4)
Annual planning standards	42	(2)	40	(5)
Programme implementation and performance monitoring	33	(6)	36	(3)
Measuring results achievement	-	(-)	20	(2)
Evaluation and research	26	(1)	11	(2)
Accuracy of reporting	9	(0)	10	(0)

34. OIA revised its guidelines for the audit of programme management to focus strongly on results-based management; the revised guidelines were implemented in all audits in 2007. Also in

2007, a separate audit programme was implemented for audits of offices with annual programme budgets of less than $10 million. This programme reduced the scope of such audits to the review of internal controls and management practices deemed essential for small offices. The guideline for small offices was applied in 9 offices audited in 2007; its application helped to shorten the duration of each audit and helped OIA to economize the use of resources.

35. The profile of findings from the audits of programme management showed variation in the risks faced by offices working in different country situations. However, a number of common risks were identified, as detailed below.

36. Seventeen offices had weaknesses in their governance structures designed to support the achievement of programme results. In 11 offices, country management teams did not adequately advise Representatives on the progress made by the offices to support key programme priorities; twelve offices had not adequately identified key programme priorities or established mechanisms to monitor progress against them. Twenty-three offices had one or more weakness in the design of programme plans, which are agreed with partners and form the basis of UNICEF assistance in the countries. In 20 offices, weaknesses were also found in the clarity and logic of these work plans, which should describe the expected results and the specific activities of implementing partners. Weak plans and agreements may lead to misunderstandings between the office and the implementing partner about what is to be done and achieved. Twelve offices did not adequately assess the basis for their cooperation with non-governmental organizations, including the capacity of these organizations to use and manage UNICEF-supported inputs. Eighteen offices had one or more weakness in effective and on-time mobilization of programme inputs, in monitoring progress made by partners and in managing risks to successful work plan implementation.

37. In 7 offices, ambitious implementation plans and weak management of identified constraints caused delays, and in 12 offices weak field-based monitoring may lead to late identification of constraints that cause avoidable delays. Audits in 14 offices noted difficulties in measuring annual and multi-year results due to unclear programme design, including missing baselines and indicators. Similarly, 11 offices did not report on their progress to achieve planned annual results in their annual reports to headquarters. Evaluation and research activities were poorly prioritized in 7 offices, and this led to low implementation of evaluative work and missed opportunities to establish baselines, assess progress and contribute to institutional knowledge on programme effectiveness.

38. While the existence of positive management practices does not assure that planned programme results will actually be achieved, and weak practices do not imply failure, it is reasonable to expect that offices with positive practices have a higher likelihood of overall success than those that do not.

Finance and accounts

39. Financial controls were reviewed in 23 field locations, and four high risk observations were made.

Table 5
Finance and accounts: number of observations raised (high risk observations in parentheses)

Area	*2006*	*2007*
Assignment of financial control responsibilities	49 (3)	22 (1)

Transaction processing	50	(12)	32	(2)
Management supervision of financial controls	27	(8)	19	(1)

40. While the profile of issues identified in 2007 audits is generally consistent with that of prior years, proportionately fewer observations were issued as a result of continuing efforts to report on systemic rather than individual observations. Observations in 16 offices related to the assignment of financial control responsibilities, including incomplete or inadequate assignment and segregation of duties. Corresponding weaknesses in the authorization, certification, approval and payments of transactions were found in 17 offices. Thirteen offices had weaknesses in the functioning of contract review committees. Fifteen offices displayed one or more weakness in the management and supervision of financial controls, including the reconciliation and closure of accounts. More positively, offices generally had strong internal controls over the integrity of financial data.

Management of cash and supply assistance and contracts

41. Based on a preliminary review of a field office's performance data, audits may examine how the field office manages programme inputs: cash transfers, supply assistance, and contracting services.

42. The management of cash transfers was reviewed in 13 country offices. Table 6 indicates the distribution of observations made. In 2007, the focus of this audit area 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 agencies of the Executive Committee.

43. Together with United Nations country teams, 12 offices had not adequately planned and prepared for the implementation of the harmonized approach to cash transfers. For example, the assessment of capacities of partners to manage and account for cash transfers was not done or was incorrectly done by 9 of the 13 offices. The orientation of partners on the new modality had not started or remained incomplete, and strategies and action plans for the offices' assurance activities over the proper use of cash transfers were not established. Thirteen offices had weaknesses in the allocation and disbursement of cash transfers. New procedures for the processing of cash transfers were not yet in place in 7 offices, while delays in the release of funds to supported projects were noted in 11 of the 13 offices. Ten offices had weaknesses in their monitoring and review of partners' reported utilization of cash transfers, while five 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	*2006*		*2007*	
Planning cash requirements	10	(1)	18	(4)
Allocating and disbursing cash	21	(4)	24	(3)
Monitoring and reporting utilization	14	(1)	11	(1)
Assuring proper use of cash provided	4	(0)	5	(0)

44. Supply assistance was reviewed in nine field offices. Table 7 indicates the distribution of observations made.

Table 7
Supply assistance: number of observations raised (high risk observations in parentheses)

Area	*2006*	*2007*
Planning supply and logistics requirements	14 (1)	17 (3)
Selecting and contracting suppliers	7 (0)	17 (4)
Pre-delivery quality control and in-country logistics	10 (4)	10 (4)
Assessment of the effectiveness of supplies	5 (0)	4 (0)

45. All nine offices displayed 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. Four audits of offices with large supply functions noted the lack of assessments of the capacity of national partners to procure supplies for themselves. Eight offices did not follow recommended procedures for the identification, assessment and evaluation of suppliers. Six offices did not adequately monitor the receipt, distribution and delivery of UNICEF-procured supplies, or did not follow established criteria for pre-delivery inspection of locally purchased supplies. Three offices did not adequately monitor the effective use of UNICEF-procured supplies by implementing partners.

46. Practices for contracting consultants were audited in one office and found to be unsatisfactory. The office did not effectively identify the consultancy requirements, an oversight that led to poor performance by the contractor. The office also inadequately monitored the work of non-governmental organizations contracted through service agreements.

Office administration

47. Several office management practices were tested in 10 country offices. Issues related to weak human resource planning, the timeliness of recruitment, and untimely performance appraisal were reported in 8 of the 10 offices. Staff learning and general administration was positively assessed in 7 of the 10 offices, but observations were raised in the planning of learning activities in the other three offices. Seven of the offices had weak management practices regarding UNICEF property and five had weaknesses in travel management.

Table 8
Office administration: the number of observations raised (high risk observations in parentheses)

Area	*2006*	*2007*
Staff recruitment and performance management	24 (3)	12 (1)
Staff learning and administration	8 (0)	4 (0)
Office premises and non-expendable property	16 (3)	7 (0)
Travel	15 (0)	5 (0)

Implementation of prior audit recommendations

48. The implementation of prior audit recommendations was reviewed in 8 field offices. All offices were found to have generally addressed the recommendations made to them in the previous

audit; though 13 observations, of which 5 were rated high, identified weaknesses by the offices in sustaining and monitoring the implementation and preventing recurrence of the same issues. In 2007, OIA assessed the performance of offices audited in 2005-2007 in sustaining audit recommendations and found that over 30 per cent of the 800 recommendations reviewed were re-opened during the subsequent audit. Sixty per cent of the re-opened recommendations were in the areas of financial controls and programme management. Offices in the Eastern and Southern Africa, West and Central Africa, and South Asia regions accounted for approximately 60 per cent of the re-opened recommendations.

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

49. 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 Organisations of the Treadway Commission (COSO). In prior annual reports, OIA indicated that a very high proportion of underlying causes were attributable to inadequate monitoring by country offices. OIA revised its classification in 2007, to help to elicit a more evenly distributed and, therefore, clearer, depiction of underlying causes. 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.

50. Table 9 provides an analysis of the main underlying causes for unsatisfactory performance based on the new classification. Notably, a large proportion (36 per cent) of the risks observed in 2007 audits can still be attributed to inadequate oversight by country office managers of the internal control framework.

Table 9
Reasons for weaknesses in risk management practices in 2007

Inadequate guidelines to identify and manage risk	8%
Inadequate planning or analysis	22%
Inadequate monitoring by management of the functioning of internal controls	36%
Error	14%
Lack of resources or capacities	20%
	100%

51. Inadequate planning and monitoring of the functioning of internal controls were particularly prominent underlying causes for weaknesses in programme management and supply assistance. Underlying causes for weaknesses in financial controls were largely related to inadequate guidelines to identify and manage risks, or human error.

52. Fifty-one (13 per cent) of the 385 rated observations reported in 2007 were considered to be of high risk. Thirty-one per cent of these high risk observations were attributed to inadequate monitoring, mostly in programme management; and 24 per cent were attributed to error in the application by managers of UNICEF policies, rules and regulations, mostly in supply management.

53. Weaknesses in the application of management practices recommended to country offices have been the focus of 11 summary reports undertaken by OIA since 2002, covering a wide range of functional areas. The summary reports have identified areas where regional offices should increase oversight of country office operations and performance, clarify priorities and expectations

and provide feedback. They also have identified gaps in guidance and have recommended specific skills-development activities that would assist staff in adopting positive management practices.

D. Headquarters locations, thematic and systems audits

Audit of the management of non-thematic other resources contributions

54. The audit was conducted at four headquarters divisions, three regional offices and five country offices. It reviewed the extent to which (a) oversight accountabilities, policies and guidance were clearly defined for the management of non-thematic other resources (OR) contributions; (b) funding proposals and agreements were adequately developed and implemented; (c) the programme budget was efficiently allocated; (d) income and expenditure accounting was accurately processed and recorded; and (f) donor reports were accurate and presented in accordance with contribution agreements, UNICEF policies and standards. The audit found that an important cause of slower spending or under-utilization of funds was unrealistic planning, due to insufficient guidance on risk assessment and budget preparation given to programme staff. Unrealistic planning also led to overambitious expectations and resulted in frequent project extension and some refunds because the funds were not spent as planned. Low awareness of the reasons for extension requests prevented the identification and resolution of bottlenecks to programme implementation. Furthermore, a lack of action to address the preventable causes of refunds to donors has likely contributed to an increase in annual refunds.

55. Key findings also included that responsibilities and objectives for the oversight of OR contributions were unclear, and global and regional oversight of the spending of OR funds by country offices was weak. The report also identified weaknesses in the allocation of OR funds across the expected life of projects and in the measurement of utilization of OR funds. These weaknesses reduced the capacity of country offices to plan future use of OR funds and to monitor the effectiveness of programme spending. While headquarters divisions and regional and country offices monitored the timeliness of submission of donor reports, the audit found that the information on the timeliness of reporting to donors was unreliable. The audit also identified weaknesses in the oversight of the quality of donor reports by regional offices and headquarters divisions, because their oversight accountability in this area was not clearly defined.

Summary report on supply assistance management in UNICEF country offices

56. Audits of 35 country offices in the area of supply assistance management provided the basis for the summary report. These offices account for approximately 80 per cent of supply expenditure each year. The report noted insufficient focus on strengthening the capacity of Governments to procure and manage essential commodities for children. There was limited awareness of UNICEF staff of the in-country availability of essential commodities and the bottlenecks that prevent their availability and affordability. UNICEF offices generally assumed responsibility for the reception, handling and distribution of supplies, where Governments had agreed to do so, and where the offices had not positively established that the Governments were lacking capacities in this area. Few capacity-building initiatives in supply management were undertaken by UNICEF offices. The offices did not adequately promote the use of UNICEF procurement services to Governments through Supply Division as alternative to country office procurement. The report also (a) identified weaknesses in the capacity of UNICEF to manage the in-country supply chain; (b) noted inconsistent policies and practice related to the liability for supplies UNICEF holds in care and a

lack of standards for the management of supplies; and (c) noted low awareness among staff of the effective use of supplies by partners.

Audit of emergency preparedness

57. The audit reviewed several aspects of emergency preparedness: (a) the effectiveness of country office management arrangements to achieve emergency readiness; (b) the adequacy of country office analysis of emergency threats and early warning information; (c) the effectiveness of country office emergency preparedness and response planning; and (d) the implementation of planned emergency preparedness activities. Field work was carried out at four headquarters divisions, one regional office and nine country offices. Despite many positive practices noted, the following weaknesses were observed: local arrangements for managing emergency preparedness were inadequate; the review and assessment of early warning information was irregular, unsystematic or incomplete, and an emergency response might therefore be delayed; preparedness and response activities were inadequately formulated; emergency preparedness plans were not always complete or updated; the capacity of implementing partners for emergency relief was in many cases not assessed and not strengthened; relevant staff members were often not involved in emergency planning; and weaknesses were apparent in the implementation and monitoring of the cluster leadership approach, under which UNICEF is assigned specific responsibilities for coordinating an inter-agency emergency response. Additional observations were made in respect to specific functional responsibilities for the management of stockpiles, logistics, IT and human resource management, and to fund-raising. Weaknesses were also noted in the regional office's support to country offices and in its own emergency preparedness.

Audit of change control procedures for the SAP and PROMS applications systems

58. The audit reviewed the state of controls to ensure that all changes to SAP and PROMS (the Programme Manager System) are managed so as to minimize the likelihood of disruption, unauthorized alterations and errors. The audit concluded that governance and administrative structures that influence changes to SAP and PROMS are not sufficiently defined. Key findings included weaknesses in the IT governance structure and management framework; limited reviews of the cost-effectiveness of a high number of proposed changes to applications; a lack of a quality assurance mechanism over changes to applications and systems; and a lack of mechanisms to prevent unauthorized changes.

Audit of SAP baseline controls

59. The audit assessed the adequacy of basic security controls implemented by UNICEF within the SAP system to protect its programs and data from unauthorized access and alteration. The audit found some weakness in the administration and support for SAP security and a lack of an adequate security policy. Monitoring controls to prevent inappropriate access were also weak.

Audit of the UNICEF Global Staff Association

60. The audit reviewed the Global Staff Association's statements of receipts and expenditures for the periods 1 January 2005 to 31 December 2006, in accordance with the association's constitution. While the audit did not give rise to any significant observations, five recommendations

were made, related to oversight accountabilities, management of budgets, contributions and expenditure, and periodic reporting.

IV. Summary of key and recurrent findings

61. Of all observations raised in 2007, 36 per cent were made in the area of programme management; 19 per cent in financial controls; 15 per cent in relation to cash assistance, especially regarding the use of the harmonized approach to cash transfers to implementing partners; and 14 per cent in supply assistance.

62. Table 10 provides an overview of the ratings given in the audited areas in 2007. 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 replaced "exemplary", "satisfactory" and "unsatisfactory", and have been applied to UNICEF internal audits since 1 January 2007. The introduction of these harmonized risk management ratings shifted the profile of 2007 audit ratings for the various functional areas, generally assigning a higher percentage of ratings to the "partially satisfactory" category. The change limited comparison with past years' ratings.

63. In the area of financial controls in 2007, 50 per cent of audited country offices were found to be satisfactory and 50 per cent partially satisfactory. Even though comparison with the performance from previous years is difficult, the 2007 rating suggests some overall improvement in the risk management practices in financial controls.

64. OIA revised the audit approach for programme management in 2007. The audits expanded the scope of review and assessed more closely how offices plan, support and monitor the achievement of results for children. Audits examined whether the office and implementing partners analysed any lack of progress, and whether key results were validated through evaluation. Only 7 per cent of the audited offices achieved a satisfactory rating, and 70 per cent received a partially satisfactory rating.

Table 10
Summary of "satisfactory" ratings by audited area for field offices, 2007

	No. of Audits	*Per cent Satisfactory*	*Per cent Partially satisfactory*	*Per cent Unsatisfactory*
Finance	14	50	50	0
Programme management	14	8	71	21
Cash assistance	13	15	62	23
Supply assistance	9	11	56	33
Implementation of audit recommendations	8	50	50	0
Office management	6	67	33	0
Small offices				
Programme management	9	11	89	0
Operations management	9	33	67	0

65. The new rating scale identified the proportion of offices whose management practices do not meet most performance expectations in functional areas: twenty-one per cent of audited offices do not meet the basic management standards of UNICEF in core areas such as programme management; 23 per cent do not meet standards in the provision of cash transfers to implementing partners; and 33 per cent of the audit offices do not meet standards in the provision of supply assistance. Significant additional effort is required by management to address consistently poor ratings, by supporting field offices to implement positive practices, such as periodic self assessments, to address common and recurring weakness, and clarifying the accountabilities of regional offices in performance monitoring and support.

66. Frequent observations common to a large number of country offices have been noted in section III (b), and in previous annual reports to the Executive Board. Table 11 summarizes findings recurring since 2004. The findings are consistent with those reported by OIA to the Executive Board in 2006.

Table 11
Summary of key recurring findings in audits of field offices, 2004-2007

Audit area	*Findings*
Finance	Weaknesses in the assignment of financial responsibilities
	Weak awareness and application of financial responsibilities
	Inadequate functioning of contract review committees
Programme	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
	Weaknesses in warehouse and inventory management
Office administration	Untimely recruitment of staff and performance assessment
	Travel planning not clearly linked to priorities
Prior audit implementation	Actions to address risks not sustained

67. Table 12 summarizes key and recurring findings related to the roles and responsibilities of headquarters divisions and regional offices. These observations resulted from an analysis of past field office audits, or were direct results of audits of headquarters, regional offices, systems and themes. These findings, based on data gathered over several years, will not change significantly for some time.

Table 12
Summary of key recurring recommendations related to headquarters and regional offices

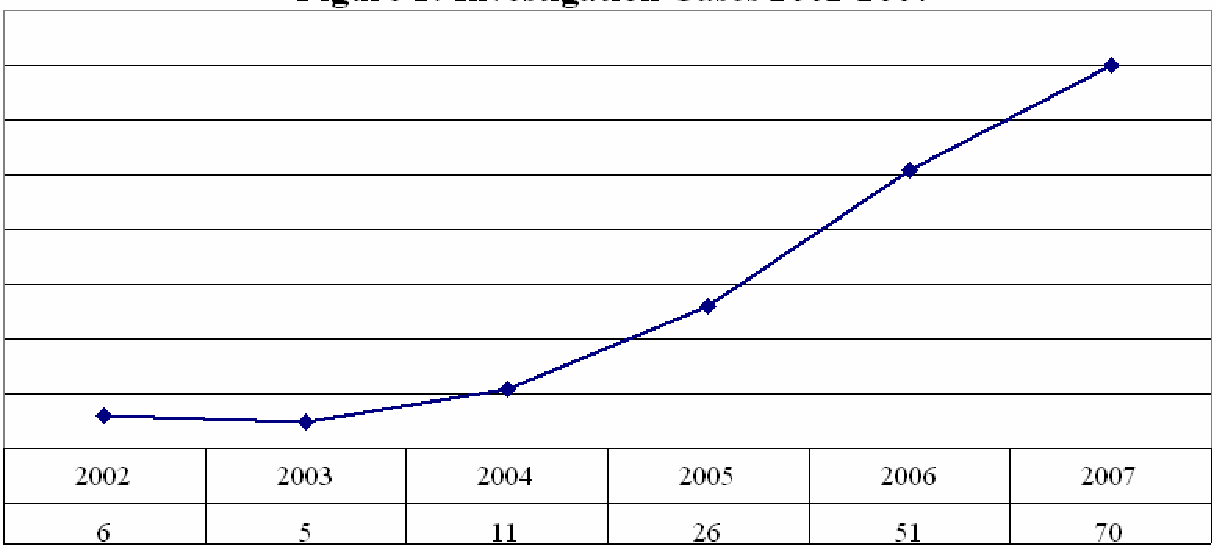
Audit Area	*Findings*
Governance and accountabilities	Accountabilities not defined, including accountabilities between headquarters and regional offices
Oversight, guidance and technical support to country offices	Lack of clarity on the specific nature of responsibilities related to oversight, guidance and support; where responsibilities are clear, regional offices indicate there are inadequate resources to fulfil those responsibilities; guidance is incomplete or requires updating.

Monitoring and assessing the performance	The organizational performance information framework is weak; global and regional profiles do not exist or are inadequate; regional offices use different criteria to monitor country office performance; there is no mechanism for monitoring regional performance

V. Support to investigations

68. Figure 1 illustrates the number of allegations received by OIA over the past six years. Seventy allegations were received in 2007, compared with 51 in 2006.

Figure 1: Investigation Cases 2002-2007



69. The increase in reported cases has likely resulted from the issuance of the anti-fraud policy in late 2006, which guides staff on reporting fraud or wrong-doing, and the “whistleblower” policy issued in early 2007. The Executive Director notifies staff once a year of the disciplinary actions taken, thereby increasing confidence among staff members that their allegations receive serious review.

70. Table 13 indicates the categories of cases reported to OIA in 2006 and 2007. Compared to 2006, there is notable increase in allegations involving staff, and allegations of mismanagement and abuse of authority. Allegations not involving staff members have been reported less frequently.

Table 13
Investigation cases by category, 2006-2007

	2006	*2007*
Allegations of fraud involving staff members	17	38
Allegations of fraud not involving staff members	14	1
Theft	8	7
Mismanagement and abuse of authority by staff members	8	16
Others (e.g., scams)	4	8
Total number of cases	51	70

71. Allegations are received directly or through an e-mail facility accessible from the UNICEF intranet and the Internet. Few allegations have been made by persons outside UNICEF.

72. OIA continued to provide guidance to country offices and regional offices on how to manage local investigations, though OIA also conducted on-site investigations in coordination with the Division of Human Resources and the concerned regional offices.

73. A number of cases, dating back to 2005, remain open. Open cases are those in which the investigation is ongoing and for which OIA is awaiting additional information from the concerned office or unit. OIA prioritizes the most important cases to ensure their timely resolution. Most of the open cases from prior years are assessed by OIA to be of minor to medium significance. A senior investigator joined OIA on 1 July 2008, and a second full-time investigator is under recruitment. The added capacity should enable the timely handling of investigations. Table 14 indicates the number of open cases, as of June 2008.

Table 14
Open Cases

	2005	*2006*	*2007*
Total number of cases	26	51	70
Open cases	3	13	37

VI. Implementation of audit recommendations by management

74. OIA tracks the status of actions by audited country and regional offices and headquarters divisions to implement audit recommendations. Updated closure rates are available to UNICEF managers through the key performance indicator database on the intranet and from OIA's online database.

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

76. Follow-up audits may be made to country offices for which notably elevated risks were identified in an audit. In 2007, a follow-up audit was conducted of the Banda Aceh zone office in Indonesia. Other audits tested and found that the implementation reports submitted by the country offices accurately reflected the actions they had taken.

77. Annex 2 includes a table with all recommendations not implemented within 18 months of being issued, as requested by the Executive Board in its decision 2006/18. No country office currently has an outstanding recommendation older than 18 months.

Implementation of audit observations issued to country offices

78. All recommendations are closed for observations issued to country offices in 2005 or earlier. OIA issued 490 observations to country offices in 2006, of which only nine observations remain open. These nine recommendations pertain to one office.

79. Twenty-one of the 24 offices audited in 2007 were due to report their corrective actions by 15 June 2008, and all had done so. OIA determined that adequate controls had been established over the 73 per cent of the risks identified in these 21 country offices, representing an increase in the rate of closure from 56 per cent reported in 2007. The increase can be attributed in part to the timely reporting by country offices of their actions to address audit recommendations, the timely release of audit reports and the issuance of fewer observations that focus on systemic management practices rather than on individual internal control weaknesses.

Implementation of audit recommendations issued to headquarters and regional offices

80. Of the 18 reports of headquarters and regional audits and summary reports issued in 2002-2005, recommendations of 17 reports have been closed. Three recommendations (pertaining to the 2005 audit of the management of internal performance information in headquarters divisions) still need to be addressed and are listed in annex 2. These unresolved recommendations were also reported to the Executive Board in 2007.

81. Of the 10 reports of headquarters and systems audits issued in 2006, recommendations of 5 reports have been closed. Ninety-seven (68 per cent) of 124 recommendations in the other five reports have been closed. Three of these reports (on the response of UNICEF to the 2004 Indian Ocean tsunami, on the Global Alliance for Vaccines and Immunization (GAVI) Secretariat, and on cooperation agreements between UNICEF and National Committees for UNICEF), are older than 18 months and are included in annex 2.

82. Human Resources still has to implement one recommendation of the 2006 report on the UNICEF tsunami response relating to the simplification of recruitment procedures.

83. Regarding the 2006 audit of the GAVI Secretariat, two outstanding recommendations request the Secretariat to clarify why exceptions were made in the implementation of UNICEF rules regarding hospitality and travel, while the third recommendation requests explanation for the limitations to the audit scope made by the Secretariat.

84. Regarding the 2006 audit of cooperation agreements with National Committees, three recommendations remain outstanding. Actions to close the audit include (a) the demonstration by Private Fundraising and Partnerships (PFP), formerly Private Sector Division, that there is guidance on the periodic review of the implementation of the jointly agreed strategic plans and targets; and (b) that assurance by PFP that the recommendations raised in the annual review by PFP are addressed directly with each respective National Committee.

85. Human Resources has implemented 12 of the 22 recommendations made in the 2006 audit of the administration of staff benefits and entitlements. However, only 6 of 24 recommendations from the 2006 audit of the management of temporary assistance have been implemented as of 15 June 2008. Eleven of 14 recommendations for Human Resources and all 7 recommendations to Supply Division remain open. Outstanding recommendations include filling gaps in guidance, simplification of contracting, better oversight by managers on the purpose, value-added, and effectiveness of consultants, and better assurance over service delivery.

86. Formal responses have been received for the four 2007 audit reports for which a response from headquarters divisions and regional offices was required before 15 June 2008.

Annex 1

Risk management ratings for field audits completed in 2007

Number and distribution of audited areas by rating

	Satisfactory		Partially Satisfactory		Unsatisfactory	
Medium/large offices						
Burkina Faso	0	0%	3	75%	1	25%
China	1	20%	4	80%	0	0%
Dem. Rep. of Congo	1	17%	3	50%	2	33%
Ethiopia	2	50%	2	50%	0	0%
Guatemala	1	33%	1	33%	1	33%
Indonesia	1	25%	3	75%	0	0%
Kenya	1	14%	3	43%	3	43%
Lao People's Dem. Rep.	3	50%	3	50%	0	0%
Liberia	0	0%	3	60%	2	40%
Northern Sudan	4	67%	2	33%	0	0%
Rwanda	3	60%	2	40%	0	0%
Sri Lanka	0	0%	6	100%	0	0%
Tanzania, United Rep.	3	60%	1	20%	1	20%
Turkey	1	33%	2	67%	0	0%
Small offices						
Belarus	0	0%	2	100%	0	0%
Ecuador	0	0%	2	100%	0	0%
Kazakhstan	1	50%	1	50%	0	0%
Moldova	1	50%	1	50%	0	0%
Papua New Guinea	0	0%	2	100%	0	0%
Romania	0	0%	2	100%	0	0%
Serbia and Montenegro	0	0%	2	100%	0	0%
Turkmenistan	2	100%	0	0%	0	0%
Uzbekistan	0	0%	2	100%	0	0%

Note: The audits of the Banda Aech zone office and the joint-United Nations office in Cape Verde were not rated.

Annex 2: Table of observations that remain unresolved for more than 18 months, as of June 2008

Management of internal performance information in headquarters divisions, 2005

Audit observations	*Recommendations*
The performance information and reporting framework for headquarters divisions was incomplete.	Policy and Practice (formerly the Division of Policy and Planning), which was given responsibility to implement the recommendation by the Office of the Executive Director in 2008, should establish and use a performance information reporting framework, and issue a policy on performance information management. (Significant progress noted.)
There were weaknesses in performance-related policies, guidance and terminology.	Policy and Practice should resolve differences in terminology in current guidance.
There were insufficient training materials on setting priorities and results, performance targets and indicators related to headquarters work.	Policy and Practice and Human Resources should develop training materials for headquarters divisions on the preparation of biennial office management plans, annual plans and performance indicators.

Global Alliance for Vaccines and Immunization (GAVI) Secretariat, 2006

Audit observations	*Recommendations*
Disagreements on audit scope and limited access to information.	The GAVI Secretariat and UNICEF should resolve the disagreements on UNICEF oversight and internal audit.
Hospitality claims were not processed according to procedures.	The GAVI Secretariat should clarify to UNICEF and the GAVI Executive Board exceptions to hospitality rules.
Travel not by "most direct and economical route".	The GAVI Secretariat should clarify to UNICEF and the GAVI Executive Board exceptions to travel procedures.

UNICEF response to the tsunami, 2006

Audit Observations	*Recommendations*
Delays in recruiting staff	Human Resources should simplify recruitment procedures for offices in emergencies.

Administration of cooperation agreements with National Committees for UNICEF, 2006

Audit observations	*Recommendations*
Limited awareness on National Committee performance	Private Fundraising and Partnerships (PFP), formerly Private Sector Division, should periodically review the implementation of the jointly agreed strategic plan and targets.
Weak follow up on action points from guidance and periodic performance reviews	PFP should track the implementation of action points and should address issues related to the implementation of recommendations directly with each respective National Committee.