Internal Audit of the Republic of Serbia Country Office

October 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/40

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children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Serbia Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit was conducted during the period 26 August to 6 September 2013, and covered the period from 1 January 2012 to 25 August 2013.

The current UNICEF Board-approved country programme for Serbia covers the period 2011-2015. The overall goal of the country programme is to support national efforts towards social inclusion of vulnerable and marginalized families and children, in line with international human and child rights standards and national sustainable development and inclusion strategies. The office has 23 approved posts.

The country programme has two main components – *System-strengthening for social inclusion*, and *Social accountability for children's rights.* The total approved budget (excluding OR for activities in Kosovo) is US$ 27.25 million, of which US$ 3.75 million is regular resources (RR) and US$ 23.5 million is other resources (OR). Regular Resources are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. Other Resources are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as Other Resources.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office had agreed to take a number of measures.

One of these is being implemented as high priority – that is, it concerns an issue that requires immediate management attention. It relates to the management of contracts for services. More than 25 percent of contracts were issued without the required competitive bidding process; and 28 percent of contracts were signed after the start date of the assignment. The office also did not ensure that consultants who travelled on behalf of UNICEF or who work in its premises were insured against service-incurred death, injury or illness.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Serbia country office has prepared action plans to address the issues raised in this report.

The Serbia country office, with support from the Regional Office for Central and Eastern Europe and Commonwealth of Independent States (CEE/CIS), and OIAI will work together to monitor implementation of these measures.

Contents

Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit Observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including, but not necessarily limited to, the following:

The office had an adequate supervisory structure with clear terms of reference. The main supervisory body within the office was the Country Management Team (CMT). According to its terms of reference, the purpose of the CMT is to provide overall leadership, manage and coordinate UNICEF Serbia programme and office functioning, provide for effective programme design, planning and implementation. Review of the CMT minutes for 2012-2013 showed that the CMT functioned effectively.

The office's annual management plan (AMP) clearly defined the key management priority results for 2012 and 2013, and the office regularly monitored their achievement. Staff were actively engaged in the preparation of the AMP, especially in defining the office priorities to ensure transparency, and good understanding by all staff of their roles. The CMT had reviewed and endorsed the office priorities.

The office's staffing structure met the needs of the country programme. The office had proposed, and obtained approval for, a more efficient staffing structure to further improve its efficiency. The office ensured that staff had the profiles required to carry out the programme.

The office had defined its management indicators clearly, and regularly monitored its performance against them. The appropriateness and relevance of the indicators were reviewed annually and they were updated as appropriate.

The office conducted its first risk and control self-assessment (RCSA)[1] in the first quarter of 2011. Actions plans were developed to address the eight areas identified as medium-high risks. During mid-2012, the office reviewed the implementation of the action plan and revised its risk rating accordingly, reducing the number of medium-high risks from eight to three. During mid- 2013, the office conducted more in-depth risk assessment as part of the mid-term review and updated its risk and control library in June 2013.

The office promoted ethical behaviour and ensured that staff were kept informed on policies and procedures in this regard. The 2011 global staff survey[2] showed positive responses, which in most cases were higher than global and regional averages for areas related to ethics. All staff stated in the 2011 survey that they understood the standards of conduct as per the UN regulations and rules. Staff renewed their Oath of Office at an all-staff meeting. At the time of audit in August 2012, 20 out of 22 staff (90 percent) had attended ethics training.

Delegation of financial controls

The Representative had issued a table of authority delegating roles and functions in processing financial transactions, and the office ensured that they were accurately recorded in VISION. Staff were formally notified of the roles/authorities assigned to them and acknowledged their awareness of the responsibilities and accountabilities associated with exercising these financial authorities.

However, as the number of staff in the office was limited, staff were assigned incompatible functions (for example, multiple functions in processing a single transaction). The audit identified 10 staff who had been given the role of authorising purchase orders in addition to

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[1] Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes. The risks and their mitigation measures are recorded in a risk and control library.

[2] UNICEF's Global Staff Survey, first launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymized.

their role of requesting the supply or service, receiving the goods or service and signing as paying officer in the release of payments. A review of sample transactions showed that, in a number of cases, the staff member who requested the service and received and evaluated the performance of the service provider, was the same staff person who authorized the purchase order (as releasing officer) and signed as paying officer for the release of payment. This inadequate segregation of functions could lead to inappropriate transactions.

Agreed action 1 (medium priority): The office agrees to strengthen procedures for the delegation of roles and functions in VISION ensuring that, as far as possible, incompatible functions are segregated and that, and in cases where this is not possible, staff are advised not to exercise incompatible functions in a single transaction. A step in the process will be established to verify compliance by staff with this requirement as part of the final step in processing the payment.

Target date for completion: 30 October 2013
Responsible staff member: Representative and Operations Manager

Governance area: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the Governance area, as defined above, were generally established and functioning during the period under audit.

2 Programme management

In this area, the audit reviews the overall management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had a resource-mobilization strategy and monitored the status of funding for its proposals. The status of utilization of programme funds was monitored and donor reports were submitted on time. The office faced challenges in generating resources to fund its programme activities, but had contacted the regional office and headquarters for support.

The office developed, jointly with the government, multi-year workplans based on a review of implementation of the previous period. There were cross-sectoral discussions in order to promote programme coherence, and partners were identified in the workplans. The office reviewed the validity of the indicators, baselines and targets defined in the Country Programme Action Plan (CPAP)[3] results matrix and proposed adjustments as necessary.

The office regularly monitored the status of programme implementation during programme meetings and meetings of the CMT. The office conducted mid-year and annual reviews in 2012 and a mid-term review in 2013. Performance against the indicators, baselines and

[3] The CPAP is a formal agreement between a UNICEF office and the host Government on the Programme of Cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments.

targets defined in the CPAP Results and Resources Framework was monitored and systematically reviewed.

All donor reports that had so far become due had been submitted on time. The office had a formal internal quality control mechanism for donor reports and they had passed through this process. The office had defined the process and accountabilities for preparing the country office annual report for 2012, and had ensured compliance with the reporting requirements. The annual report was completed and submitted on time.

Harmonized Approach to Cash Transfers (HACT)

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

HACT compliance means that the three elements of HACT – the assessments, the use of FACE forms, and assurance activities – are in place and are being used and referred to by implementing partners. Assurance activities include spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits. The risk assessments and assurance activities are supposed to be carried out in cooperation with the three other UN agencies that have also adopted HACT.

Cash transfer to implementing partners is one of the major inputs of the Serbia country programme. Cash transfer expenses in 2012 totalled US$ 1.8 million, which represented 34 percent of total expenses for the year. Cash transfer expenses in 2013 (as of 4 September) totalled US$ 1 million, 35 percent of total expenses. In addition, outstanding cash transfer advances amounted to US$ 626,526 on 31 December 2012 and US$ 359,088 on 4 September 2013.

The office had implemented HACT since 2010, doing so jointly with UNDP in Serbia. The procedure for managing cash transfers using HACT procedures was described in the CPAP signed with the Government. The office staff and its partners had been trained on HACT procedures. The macro-assessment had been done in 2010. However, the audit noted the following.

FACE form: The prescribed Funding Authorization and Certificate of Expenditure (FACE) form[4] was used for all cash transfer disbursements and liquidations. However, a weakness was identified in the use of the form. Although partners signed the certification portion of the FACE forms that covered requests for cash transfer and liquidation of outstanding cash transfers, they should also have ticked the appropriate box as to what they were certifying;

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[4] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

they had not done so in any of the 14 samples reviewed.

Also, when a partner made a request for a cash transfer, they did not tick the box on the FACE form as required to certify that *"The funding request shown above represents estimated expenditures as per AWP* [annual workplan] */CPAP and itemized cost estimates attached."* Likewise, to support liquidation of outstanding cash transfer, they did not tick the box to indicate that *"The actual expenditures for the period stated herein have been disbursed in accordance with the AWP/CPAP and previously approved itemized cost estimates. The detailed accounting documents for these expenditures can be made available for examination when required, for the period of five years from the date of the provision of funds."*

Assurance activities: The office developed an assurance plan at the beginning of each year, and the CMT regularly monitored its implementation. However, the assurance plan was not systematically linked to the risk rating of partners. Spot checks and field visits were planned for all partners regardless of risk rating and the amount of cash transfer. For example, during 2012 the office conducted two field/programme visits and two spot checks on a partner that received less than US$ 10,000 cash transfer that year.

The audit also noted that spot checks were limited to a review of supporting documents. The sample size was not defined; neither were the transactions traced against the implementing partner's accounts to assess the validity of the supporting documents. Further, although the office had a standard format for reporting the results of spot checks, there were no written guidelines as to how to conduct them.

Gaps in the implementation of HACT procedures could lead to inappropriate transactions and wasteful use of resources, and weakened assurance that cash transfers to implementing partners were used effectively and efficiently.

Agreed action 2 (medium priority): The office agrees to strengthen the implementation of the harmonized approach to cash transfer by ensuring that:

i. The Funding Authorization and Certificate of Expenditure form is completely and correctly filled in by implementing partners before it is accepted for payment of cash transfer or liquidation of outstanding cash transfer, with special attention being given to the certification portion of the form.
ii. The assurance plan is systematically linked to the risk rating of the partner and the amount of cash transfer involved so that field/programme visits and spot checks are cost-effective.
iii. Spot-check procedures are clearly defined, including sample size of transactions to be reviewed, and verification of the supporting documents into the books of accounts of the implementing partner.

Staff responsible for taking action: Deputy Representative and Operations Manager
Date by which action will be taken: October 2013

Integrated Monitoring and Evaluation Plan (IMEP)

The office had developed a five-year IMEP coinciding with the country programme cycle, which was part of the CPAP signed with the Government. The office also drew up multi-year IMEPs for 2011-2012 and 2013-2014 to document annual plans for studies, surveys, research, evaluations and monitoring activities. However, there were inconsistencies between the five-year IMEP and the multi-year IMEPs. Only one survey/study was planned for 2012 in the five-year IMEP, but 11 were planned for 2012 in the 2011-2012 multi-year IMEP. For 2013, three were planned in the five-year IMEP but 14 were planned for 2013 in the 2013-2014 multi-year IMEP. In terms of evaluation, one each was planned for 2012 and 2013 in the five-year IMEP; but in the multi-year IMEP, none was planned for 2012, and five were planned for 2013, three of which were multi-country evaluations initiated by the regional office.

Of the 11 surveys/studies planned in 2012, eight were rolled over to the 2013-2014 IMEP. According to the office, four of the eight were planned to be completed in 2013, but this was not clear from the plan. It therefore appeared that their completion had been delayed. The office also explained that the evaluation planned for 2012 in the five-year IMEP had become *An Assessment of Models within the De-Institutionalization and Development of Services*. The change was because the donor had reallocated resources originally intended for the evaluation to programme activities. The office stated that the assessment report nevertheless complied with all evaluation standards. Further, of the five evaluations planned for 2013, three were regional multi-country evaluations that were introduced in 2012, while the fourth related to a donor-funded project that was only approved in April 2011. So these four evaluations could not be reflected in the five-year IMEP developed in 2010.

Feedback from the CEE/CIS Regional Director on the review of the office's 2012 annual report had included a comment on the need to pay more attention to the timely completion of evaluations and studies.

A multi-year IMEP that is not consistent with the five-year IMEP weakens accountability and ownership. Further, delays in implementing IMEP activities affect the office's ability to gather the required information/data needed to support results-based programme management and to learn lessons from programme implementation.

Agreed action 3 (medium priority): The office agrees to strengthen the planning and implementation of its five-year and multi-year integrated monitoring and evaluation plans, ensuring that:

i. Planned surveys/studies and evaluations are prioritized, the time-frame for implementation is clearly defined and there is consistency between the five-year and the multi-year integrated monitoring and evaluation plans. If changes are needed, justifications will be documented.
ii. Priority is given to the recommendation from the CEE/CIS Regional Director on timely completion of planned evaluations and studies.

Staff responsible for taking action: Deputy Representative and the Monitoring and Evaluation focal point
Date by which action will be taken: 30 October 2013

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The office had adequate procedures for financial management. There were monthly bank reconciliations and mid-year and year-end closure of accounts within the agreed period and following prescribed procedures. The appropriate utilization of the office's budget was regularly monitored.

There were adequate procedures to manage plant, property and equipment (PPE). The office conducted inventory of plant, property and equipment in July 2012 and an inventory report was submitted by the office as part of the 2012 closure reports. The Property Survey Board met twice in 2012 and reviewed disposal of unserviceable assets.

The office had 23 approved posts. During the audit period, the office undertook recruitment of one post – a national officer – and required procedures were complied with. During the May 2013 PBR,[5] the office recommended, and the PBR approved, abolition of four posts effective 2014. The office, with support from the CEE/CIS Regional Office, took appropriate

[5] The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

steps to inform affected staff in advance and conducted training on career development to help them prepare for the transition.

The ICT function was adequately managed. The office ensured the security of both equipment and data. There were adequate procedures for access, back-up and disaster recovery.

Managing contracts for services

A major procurement component of the office relates to procurement of services. The office issued 123 contracts for individual consultants and contractors during the period 1 January 2012 to 4 September 2013 with total value of US$ 883,407, and issued 61 local corporate/institutional contracts that had a total value of US$ 590,359. The audit noted the following.

Sourcing of contracts: At least 36, or 29 percent, of the contracts for individual consultants and contractors, and 16, or 26 percent, of the corporate contracts were single-sourced. In several cases tested, the office recorded that the selection was competitive; however, the selection was actually made from a roster which had not been prequalified.

Late signature: Of contracts for individual consultants and contractors, 35, or 28 percent, had not been signed before the start of the assignment. This was also the case for 28 (46 percent) for institutions. For individual consultants and contractors, the office explained that 27 contracts related to consultancy services performed in January 2012, when they were still adjusting to the implementation of VISION[6] and the unavailability of funds until late in the January 2013. The remaining eight cases were due to oversight. For the corporate contracts, the office said that after a contract was issued in VISION, it took several days for the contract to be sent by mail, signed by the contractor, and returned back to the office.

Insurance: For individual consultants and contractors, insurance for service-incurred death, injury or illness was not always arranged as part of the contracting process. Of the 123 contracts for individual consultants and contractors, only 10 were originally recorded in VISION as having been covered by insurance. When requested by OIAI on 26 August 2013 to review its entries in VISION, the office registered insurance for an additional 37 consultants/contractors. Insurance for individual consultants and contractors that are required to travel, and those expected to work in UNICEF premises, should be triggered by ticking the appropriate box when creating the contract in VISION.

Contract information: Information such as gender, former staff member status, nationality, and review by the contract review committee was not completely recorded in VISION. Missing information in the system could affect the quality of reports generated and the usefulness of these reports to users.

Weaknesses in managing contracts for services could affect the ability of the office to get the best value for money, or could delay completion of planned activities, or expose the office to reputational risks and undue liability in the event of a death or injury of a consultant/contractor who was supposed to be covered but was not.

Agreed action 4 (high priority): The office agrees to strengthen the management of

[6] VISION is UNICEF’s new financial management system, implemented from 1 January 2012.

contracts for services, ensuring that:

i. Contracts for services are issued based on competitive selection of candidates in order to get the best value for money. The roster of candidates will be screened for qualifications, references and prior experience before it is used as a tool for competitive selection of candidates.
ii. The need for contracts for services is planned in advance, taking into consideration all the steps in the process to ensure that the contract is signed prior to the start of the assignment.
iii. Insurance is registered in VISION for individual consultants and contractors required to be covered for service-incurred death, injury or illness. This will be done as part of contract preparation process by ticking the appropriate box when creating the contract in VISION.
iv. All required information for managing contracts for services from the time they are opened to the time they are closed is recorded correctly and in full in VISION in order to ensure accuracy of related reports.

Staff responsible for taking action: Representative and Operations Manager
Date by which action will be taken: 30 October 2013

Accuracy of accounts

The office maintained inventory of cards and gifts for sale. The inventory report submitted by the office for year-end 2012 closure showed a balance of cards and gifts with a total value in Serbian dinars of RSD 11,130,263, equivalent to US$ 130,254.69 (using the December 2012 exchange rate of 85.45). However, at year-end 2012, the VISION record pertaining to the office for account *1320130 Finished Goods, Cards and Gifts* showed a negative balance of US$ 20,292.36. As at 4 September 2013, the balance of this account was negative US$ 59,659.28.

Private sector Fundraising and Partnership (PFP), Geneva Office was responsible for maintaining these accounts and the Serbia office was not aware of the reason for the discrepancy. The audit raised a query with the accounting section of PFP, which explained that the Serbia office should have no entries in the account 1320130 as all stock movements should be recorded only in the PFP Geneva’s records. Geneva office was still investigating the cause of the negative balance when the audit ended. Failure to correct error in the accounts would affect the accuracy of the office financial reports and UNICEF corporate accounts.

Agreed action 5 (medium priority): The office agrees to follow up with the PFP Geneva Office in identifying the reason for the negative balance in the account *1320130 Finished Goods, Cards and Gifts* pertaining to the office, until the issue is clarified and necessary correction to the account is made.

Staff responsible for taking action: Representative and PSFR Specialist
Date by which action will be taken: 30 October 2013

Business continuity plan

Business Continuity Management (BCM) is a management process that helps to strengthen an organization’s ability to ensure staff safety and security, as well as to maintain continuity of critical functions during and after a crisis of any nature. The process integrates crisis management, business continuity planning and information technology disaster recovery planning. All UNICEF offices – headquarters, regional or country – must be able to continue highly critical functions during and after a disaster or crisis. The central element is the Business Continuity Plan (BCP).

The office had developed its first BCP in 2008 and updated it in 2009, 2011 and 2013. However, the plan had never been tested in its entirety. The office planned to test its BCP in the fourth quarter of 2013.

Delay in testing the plan could affect the office's ability to resume its essential operations in the event of an emergency or the threat thereof.

Agreed action 6 (medium priority): The office has agreed to ensure that its Business Continuity Plan is fully tested to determine its completeness and practicability and get assurance that it can continue to perform its critical functions during and after a crisis incident of any nature.

Staff responsible for taking action: Representative and Operations Manager
Date by which action will be taken: November 2013

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the control processes over the country office's operations support were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, and testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.