

# Internal Audit of Payroll Management in UNICEF

Including Information and Communication  
Technology (ICT) Systems

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## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of payroll management in UNICEF, including the relevant information and communication technology (ICT) systems. The audit was conducted from April 2014 to July 2014, and covered the period from January 2013 to March 2014. The objectives of the audit were to assess whether governance, risk management and control processes over payroll management were adequate and effective, and to assess whether payment of salaries and benefits to staff members were accurate, complete and timely.

The Payroll Unit within the Division of Human Resources (DHR) is responsible for processing and calculating salaries and benefits related to UNICEF staff members globally. The Division of Financial and Administrative Management (DFAM) is responsible for paying salaries and benefits, while the ICT system that supports the payroll processing is maintained by the Information Technology Solutions and Services (ITSS) Division. In all three cases, the relevant operations take place at UNICEF's New York HQ.

### Action agreed following audit

As a result of the audit, and in discussion with the audit team, various headquarters divisions have agreed to take a number of measures, in association with other divisions and offices as appropriate. These include three actions that are rated as high priority – that is, requiring immediate management attention:

- The Division of Financial and Administrative Management (DFAM), in collaboration with the Division of Human Resources (DHR), the Information Technology Solutions and Services Division (ITSS) and the Regional Offices, agrees to develop robust oversight and processing mechanisms/solutions to address payroll funding shortages; and to monitor, reconcile and account for all payroll funding reallocations and repayments between OR grants, and between RR and OR grants, highlighting the responsibilities of HQ Divisions, country and regional offices (including quality assurance reviews).
- DHR agrees to review and clean up the user accesses to payroll systems and functionality, including the firefighter (edit) role, to ensure that access is commensurate with the function being performed by the staff member. Activities of the users will be monitored with the certification manager; if the transaction level monitoring tool is acquired, this will also be used.
- DFAM, together with DHR, agrees to clearly define the responsibilities for follow-up, recovery, and request for write-off of unrecovered amounts related to personal advance and recovery (PAR) accounts; and to review and reinforce the processes to recover staff overpayments or write off unrecoverable advances.

### 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 controls and processes over payroll management, including ICT systems, in UNICEF were generally established and functioning during the period under audit.

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## Objectives, Scope and Background

The objectives of the audit were to assess whether governance, risk management and control processes over payroll management are adequate and effective, and to assess whether payments of salaries and benefits to staff members were accurate, complete and timely. The audit covered the following key areas for the 15-month period ending March 31, 2014:

- Governance
- Payroll management
- Automated controls in ICT systems

Payroll for UNICEF is processed at the Headquarters (HQ) office for 146 pay areas for approximately 12,000 staff with a monthly dollar average value of US\$ 78 million in 2013. The Payroll Unit within the Division of Human Resources (DHR) is responsible for processing and calculating salaries and benefits related to UNICEF staff members globally. The Division of Financial and Administrative Management (DFAM) is responsible for paying salaries and benefits, while the SAP<sup>1</sup>-based system that supports the payroll processing is maintained by the Information Technology Solutions and Services (ITSS) Division. UNICEF country offices are responsible for funding their monthly payroll, maintaining and recording employee data pertaining to the relevant office, and maintaining master data and staff vendor records.

Payroll can be funded from either Other Resources (OR) or Regular Resources (RR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose, and may not always be used for other purposes. An office is expected to raise the bulk of the resources it needs for the country programme itself (as OR), up to the approved budget ceiling. The percentage of budgeted OR actually available in a country office can therefore vary, and the distinction between OR and RR is relevant to some of this report.

The number of pay areas expanded from seven payroll areas in SAP for HQ locations to 146 in 2012 after UNICEF's new SAP management system, Virtual Integrated System of Information (VISION), was implemented across the organization, including the 125 country offices. All UNICEF's international professional (IP) staff, regardless of location, are managed by DHR's Global Service Centre (GSC), as are general service staff in New York. Country offices are responsible for managing their general service and national office staff. The GSC should not be confused with the Global Shared Services Centre, or GSSC, that UNICEF is currently setting up. This will eventually assume payroll (and other) functions.

The audit did not review areas of DHR other than payroll. Related but separate matters not covered by this audit included the transition of payroll processes to the new GSSC, which is in progress. The audit also did not review accuracy of pension fund/medical contributions and their remittance, or the staff separation process (the latter was covered by internal audit report 2012/23 *Administration of Separation Benefits and Entitlements*, issued in 2012).

OIAI engaged the services of a consultant to provide necessary complementary expertise in the area of payroll audit in an SAP environment.

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<sup>1</sup> SAP is an acronym for the name of German-based software corporation SAP SE, and stands for SAP SE (Systems Applications Products Societas Europaea). SAP software allows updating of data in real time across a range of divisions and offices. UNICEF's management system, VISION, is a SAP system.

# Audit Observations

## 1 Governance

The scope of the audit in this area included the following:

- Roles and responsibilities at different levels.
- Performance measurement, including establishment of standards and indicators.
- Risk assessment and management.
- Payroll and HR procedures and policies and training thereon.

The audit found controls that were functioning well. The audit noted that the roles and responsibilities in the payroll section were clearly defined and documented. The roles and responsibilities between various DHR teams such as the payroll unit and the global service centre (GSC) were well defined.

However, the audit also noted the following:

### Risk and Control Self-Assessment (RCSA)

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.

The payroll team had performed a risk assessment of the payroll unit of DHR in 2013 and updated it in April 2014. Relevant risks identified included financial loss due to availability of master data edit access to country offices, insufficient RR funds in some country offices and related payroll funding matters, and VISION system issues. However, the payroll unit used this document to highlight their challenges, and did not treat it as a formal RCSA document; these risks were not included in DHR's risk assessment document, nor were they shared with the Director of DHR (as the Human Resources risk owner). The payroll team had also omitted important aspects of a risk assessment. For example, though risks had been identified, there had been no assessment of the residual risks – that is to say, those that would still remain after application of controls and risk mitigation measures. There was thus a risk that key payroll risks might not be adequately mitigated at DHR level.

The new ERM Risk Assessment and reporting guidelines were set out in a memo from the Deputy Executive Director, Management in a memo dated 1 March 2013. They require UNICEF offices to input the risk assessments into the Division Risk Assessment online portal in the inSight<sup>2</sup> system in order to share the results with other divisions or offices and enable the Senior Manager, Risk management to prepare a global risk assessment of UNICEF. This had not been done by DHR as of June 2014.

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<sup>2</sup> inSight is UNICEF's performance management system in VISION. It streamlines programme and operations performance management and increases UNICEF staff access to priority performance information. It also assists exchanges between country and regional offices and HQ divisions, as everyone sees the same data/information.

**Agreed action 1 (medium priority):** DHR agrees to:

- i. Incorporate any relevant residual risks and mitigation measures related to the payroll unit into the Risk and Control Self-Assessment of the Division of Human Resources.
- ii. Enter the relevant risk information into the DHR Risk Assessment online portal in the inSight system.

Target date for completion: October 2014

Responsible staff members: Chief, Strategic Planning & Operations (DHR)

## Payroll performance indicators and dashboard reporting

UNICEF units or offices are expected to have performance indicators to measure progress towards their targets or objectives. There were performance indicators for timeliness of payroll disbursements and processing of separation actions, but there were no indicators to measure payroll performance. As a result, DFAM and DHR were unable to promptly detect any areas performing below expectations.

Examples of performance indicators that would better support service level agreements and payroll performance include the following:

- Payroll process accuracy.
- Total number of payroll-related general ledger (GL) accounts unreconciled.
- Number of new hire notifications received late.
- Number of separation (staff leaving) notifications received late.
- Number of payroll adjustment items.
- Total number of paychecks.
- Total number of new individuals added to payroll.
- Total number of separations processed.
- Number of HR data elements processed.
- Number of data changes processed.
- Number of open items per month (issues log).
- Number of items open (total outstanding).
- Number of items closed per month.
- Payroll ticket aging (employee call centre, GSSC) – i.e. the time taken for incident management in the global shared services centre.

**Agreed action 2 (medium priority):** The Division of Human Resources (DHR) agrees to, together with the Divisional of Financial and Administrative Management (DFAM), establish performance indicators to monitor and report on timeliness and accuracy of payroll processing, as well as the efficacy of any changes in payroll processes. Reports on performance information should be submitted to DFAM and DHR management teams for review.

Target date for completion: March 2015

Responsible staff members: Chief Payroll Unit (DHR); and Chief Applications Functional Services (ITSS)

## HR and payroll policies and procedures

The audit reviewed policies and procedures relating to HR and payroll processes, including staff entitlements, and interviewed a sample of staff and consultants in DHR. It was noted that not all persons were aware of the location of all the relevant policies and procedures. Furthermore, the audit found no evidence that staff and consultants had been formally trained on applying such policies in settling staff benefits and entitlements.

The audit reviewed the exception list for global international professional (IP) and New York general staff (GS) overpayments as of 30 April 2014, sent by DFAM to DHR on 16 June 2014. The audit noted 67 instances of overpayment, totalling US\$ 202,180. While the amount of overpayments had decreased by half in 2014, it was still significant. Of note is that the issue of overpayments outstanding from separated employees had also been highlighted in the internal audit report *Administration of Separation Benefits and Entitlements (2012/23)*. With the transition of payroll processes to the Global Shared Services Centre (GSSC), HR data quality would need to be reviewed and improved, and staff would also need to be trained in applying relevant policies.

A lack of up-to-date and formally documented and communicated policies and/or training could result in errors and overpayments – and increase the risk that errors may not be promptly noted and addressed.

**Agreed action 3 (medium priority):** The Division of Human Resources agrees to identify the causes for the overpayments in the exception list for global international professional (IP) and New York general staff (e.g. unintentional errors, processing or system errors), and prepare an action plan for appropriate monitoring and resolution. An appropriate staff training plan will be developed and implemented by the Project Director, Global Shared Services Centre (GSSC) during the transition of the function to the GSSC.

Target date for completion: June 2015

Responsible staff members: HR Manager GSC (DHR); Chief Payroll Unit (DHR); Project Director (GSSC)

## Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the control processes over governance of payroll and HR procedures were generally established and functioning during the period under audit.

## 2 Payroll Management

The scope of the audit in this area included the following:

- Management of the payroll output process (i.e. salaries and benefits).
- Accuracy of salaries and benefits calculation and payment to the right employees.
- The process for management of employee records.

The audit found a number of controls that were functioning well. For example, DHR had updated the staff tool kit for salaries and benefits on the UNICEF intranet. The intranet also contained key contact information for the respective Human Resources Assistant in the Global Service Centre (GSC) New York and in the payroll unit for support on salary, benefits and entitlements.

The audit noted that exception reports were being used at the time of the audit, to monitor exceptions in areas such as the Personal Advance and Recovery (PAR) advances and master file usage.

Further, the audit reviewed the accuracy of salaries and benefits of calculation of a sample and found no significant errors.

However, the audit also noted the following.

### Funding of payroll costs of field offices

The payroll unit processed payroll amounting to US\$ 938 million in 2013. Country offices are expected to ensure that the funding sources to which financial transactions are charged are valid and appropriate, and that funds are sufficient to cover payroll costs.

**Policy and procedures:** A memo dated 29 June 2012 from UNICEF's Deputy Executive Director (DED) for Management, titled *Verification of funding availability upon recruitment or upon extension of contracts*, confirmed that "Heads of Country Offices are authorized, in exceptional circumstances, to temporarily use regular resources (RR) funds from Country Programmes to temporarily bridge the funding gap of an OR-funded post for a maximum period of six months within any given calendar year...". However, the use of country programme RR funds for posts approved for OR funding should be reported to the Regional Director through the Country Office Annual Report (COAR).

The June 2012 memorandum also states that "the Administrative Instruction CF/AI/2005-011/Rev.1 titled "Alignment of Funding with Post (Position) and Employment Contract for Other Resources (OR) Funded Positions" on the same subject is herewith abolished." However, this June memo was never formally introduced as either an Administrative Instruction or policy and procedures, and was not easily available on UNICEF intranet. Three out of four regions surveyed did not clearly identify this memorandum as a policy requirement, although the offices were aware of the six-month limit for paying back the funding reallocations between grants.

**Funding shortages:** As noted above, temporary use of RR to bridge a funding gap for other resource (OR) funded posts is exceptionally allowed. However, funding a RR position with OR grants or charging an OR-funded post to another OR grant was not specifically addressed in the above-mentioned guidance. The audit looked at a sample of 12 positions that had funding

shortages, to review the reallocation and repayment process. In eight out of 12 staff positions sampled, RR positions were funded from OR grants and/or OR-funded posts were charged to other OR grants because of temporary funding shortages. In five cases, payroll amounts were temporarily charged to incorrect OR grants that were reversed by DFAM's donor section. In two cases, RR positions were funded from OR grants without obtaining donor approval and were reversed when highlighted by this audit. In one case, 50 percent of the cost of an OR position was incorrectly charged to RR, effectively resulting in funding reallocation; again, the country office in question reversed it when it was highlighted by the audit. However, this temporary reallocation had not been tracked due to the absence of a manual or automated tracking process, and because of an emergency workload.

This had increased the risk of donor conditions not being respected. Offices surveyed by the audit confirmed that funding shortages were mainly due to delays in receiving anticipated funding from donors, unbudgeted costs such as retroactive salary increments, and claims that were processed with a time lag (such as education grants to staff members). Exchange-rate differences were also a factor. The offices also indicated that funds identified for payroll for the year were sometimes used for other priorities, since the cost distribution system itself did not commit or lock funds for payroll.

The audit reviewed the 2013-14 cost distributions from the VISION Organization Management (OM) system, and found 282 positions that had RR as the approved funding source, but which had in fact been funded from OR grants. Programme funds should only be used to support positions that are providing programme support, but it was not clear from VISION OM system how many of these positions were doing so. DFAM stated that both RR and OR were reflected as Programme Budget; therefore, reallocations between these funding sources could not be identified in VISION. Further, at the field level, the manual tracking systems in country offices were inadequate and inconsistent, making it hard to review whether funding reallocations from RR to OR were properly tracked, and were repaid in six months in accordance with UNICEF guidance. This situation highlighted the need for a report from the VISION system.

The current process for follow-up on payroll funding shortages was centralized with the payroll unit, while the responsibility for funding the payroll was at the country-office level. The follow-up was inefficient because it was time-intensive, with an estimated 1,900 person-hours required per annum. It is therefore urgent to find a cost-effective solution to the management of payroll funding shortages before this function is transferred to the GSSC.

***Oversight by Regional offices and Headquarters:*** Two out of the nine country offices sampled did not disclose the use of RR funds for posts approved by the regional office for OR funding in their COARs (see paragraph *Policy and procedures*, above). This made it harder for regional offices to keep abreast of open funding reallocations and related risks. However, the audit also noted that the regional offices, as the bodies responsible for Programme Budget Review (PBR),<sup>3</sup> did not carry out a quality assurance review of country offices' open funding reallocation from RR to OR-funded posts.

Further, at the UNICEF global level, there was no monitoring of funding reallocations outstanding at any point in time. This was due to unclear accountability and the lack of a

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<sup>3</sup> 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.

reporting tool. For instance, the UNICEF VISION system had no feature to generate a report of open funding reallocations. Sampled country offices also indicated that there was limited ongoing review in headquarters of payroll charged to the wrong grants because the VISION system did not monitor reallocations.

The donor reporting section in DFAM relies on country offices to ensure payroll charges are accurately and completely allocated to the right grant, to meet the donor conditions. The audit noted that DFAM does test whether expenditures are reasonable at the time of reporting to donors, and reviews any negative balances in fund utilization; however, it does not verify allocation of payroll charges. UNICEF's Public Partnerships Division (PPD) in Brussels stated that a donor (the European Commission) had noted some allocation errors in a study it had recently carried out in four country offices.

***VISION position budget and control (PBC) module:*** The PBC module commits the funds, budgeted in the Vision Organization Management (OM) module, so that payroll can be processed every month. To enable the PBC module to be run effectively by the payroll unit in DHR and create fund commitments, country offices are expected to ensure that sufficient funds exist to cover the full payroll costs of the entire commitment period – that is to say, for the remaining duration of staff contracts or until the end of the calendar year, whichever is shorter. The audit noted that payroll was processed for the current month even though there were funding shortages for the future months of the commitment period. This practice was not in compliance with the UNICEF guidance established in the memo dated 29 June 2012 from UNICEF's Deputy Executive Director (DED) for Management, titled *Verification of funding availability upon recruitment or upon extension of contracts*.

**Agreed action 4 (high priority):** DFAM, in collaboration with DHR, Information Technology Solutions and Services Division (ITSS) and Regional Offices, agrees to review and develop robust oversight and processing mechanisms/solutions to address payroll funding shortages; and to monitor, reconcile and account for all payroll funding reallocations and repayments between OR grants, and between RR and OR grants, highlighting the responsibilities of headquarters divisions, and country and regional offices (including quality assurance reviews).

Target date for completion: July 2015

Responsible staff members: Senior Budget Officer (DFAM); Chief Applications Functional Services (ITSS); Chief, Payroll Unit (DHR); and Regional Operations Officers

### User access, segregation of duties and firefighter access

Managers in headquarters locations and in country offices need to review user access of their staff annually. They are expected, as far as possible, to maintain segregation of duties – that is, to ensure as far as possible that one staff member cannot carry out an entire process without supervision. Where an office has few staff, roles cannot always be easily segregated, but in such cases an office would be expected to have measures or controls in place to mitigate the lack of segregation. Offices should also ensure that firefighter activity (e.g. using administrator type access) is reviewed and approved frequently (for example weekly).

Although the tools were in place to provide reporting on user access via Approva,<sup>4</sup> there was no transaction level monitoring (TLM) tool in place to ensure that those with access to HR and

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<sup>4</sup> Approva is a software tool in VISION used for (among other purposes) identification of segregation-of-duties conflicts.

payroll roles were complying with the agreed segregation-of-duties mitigation actions. Further, the certification manager functionality in Approva was not implemented in DHR at the time of audit; therefore, the head of an office (in this case, the DHR Director) was not compelled to acknowledge existing segregation-of-duties conflicts.

The audit also noted a large number of users (41) had been allowed super user (administrator-type) access to HR and payroll data (firefighter edit role); however, this access was not regularly monitored, and was not discontinued on separation of these staff. For example, the audit noted that an ex-staff member continued to have the elevated access after separation. Network access itself should be revoked on separation; however, in this case the staff member returned to undertake a consultancy, and had had network access restored – so would have been able to use this role for access had they wished to do so. DHR stated that, due to workload and other priorities, DHR had not yet been able to schedule an exercise to start removing the firefighter roles and replacing them with regular payroll roles.

The audit also identified a segregation-of-duties conflict regarding HR and payroll employees in headquarters who had edit access over their own accounts within VISION, with no process in place to monitor whether these employees had been editing their own records. DHR stated that even though it had worked with ITSS to address the issue, DHR had as yet no mechanism to restrict “updating your own data.” DHR did have checks and balances, such as review of the payroll comparison reports (last month versus current month), and capturing of payroll-related changes in an audit log to enable detection and checking of any changes in salaries and/or entitlements. However, without a proper access review process, there is a risk of inappropriate changes to systems and data.

**Agreed action 5 (high priority):** DHR agrees to review and clean up the user accesses to payroll systems and functionality, including the firefighter (edit) role, to ensure that accesses are commensurate with the function being performed by the staff. Activities of the users will be monitored with the certification manager; if the transaction level monitoring tool is acquired, this will also be used.

Target date for completion: 30 June 2015

Responsible staff members: Business Analyst (DHR); Chief, Payroll Unit (DHR); IT Officer (ITSS)

### Personal advance and recovery (PAR) accounts

Overpayments and advances to staff are kept in Personal Advance and Recovery (PAR) accounts in accordance with UNICEF established standards. These accounts should be reviewed on a regular basis to detect, understand, and identify reasons for, overpayments, and ensure timely recovery. Where recovery is not possible, Financial and Administrative Policy 3 (Revenue Policy) states that: *“When a receivable (contribution and other accounts receivables) has been determined to be uncollectible, it shall be written off upon approval by the Comptroller (with an individual value >\$5,000) or Deputy Director DFAM, Accounts (below \$5,000.)”*

**New York GS Staff/IPs PAR accounts:** The audit noted that there was no regular and timely follow-up and recovery of PAR accounts. Until February 2011, there had been a separate finance team in DFAM, the personnel finance unit (PFU) that regularly reviewed PAR accounts and followed up on timely clearance and recovery of outstanding items. The PFU was

decommissioned as part of the transition to VISION, which was expected to assist monitoring of these items; after that, no specific unit claimed responsibility for this function.

The payroll unit stated that the PAR accounts were the responsibility of DFAM, and cited the division of responsibilities given by the Comptroller at the time PFU was closed, which showed PAR accounts falling under DFAM's responsibilities. However, the DFAM accounts team stated that they could not do follow-up and recovery effectively as they were not in regular touch with the staff members. Due to the unclear responsibilities since the PFU's closure, only *ad hoc* reviews had been done, by one accounting staff member in DFAM.

The audit noted that an approved write-off of unrecoverable PAR accounts had last been done in 2011. DFAM stated that no requests for write-offs were received between 2012 and 2014, as the research into the recoverability of old outstanding PAR amounts was still in progress. However, as of May 2014, the balance of the global PAR accounts amounted to US\$ 23.4 million, including outstanding open items from 2011 (US\$ 226,000), 2012 (US\$ 39,000), 2013 (US\$ 22.9 million) and 2014 (\$US 18,000). For comparative purposes, the audit noted that the global PAR accounts totalled \$24.7 million in 2013, \$23.1 million in 2012 and \$22.4 million in 2011.

As per DFAM's dashboard as at June 2014, approximately US\$ 608,500 from PAR accounts had been outstanding for over a year. The audit noted that amounts continued to be outstanding from separated employees (see also the audit report *Separation Benefits and Entitlements, 2012/23*, in which this was highlighted).

Insufficient regular review of PAR accounts had significantly reduced both the amount that UNICEF could recover from PAR accounts, and the speed with which it could do it. This could result in unjustified write-offs and loss of funds.

**Other Suspense/Clearing Accounts:** For the sample months reviewed, the audit noted that wages payable and voucher clearing had been reviewed and that there were no long-outstanding items. However, there had been no formal sign-off and approval of the review, making it difficult to assign accountability.

**Agreed action 6 (high priority):** The Division of Financial and Administrative Management (DFAM), together with the Division of Human Resources (DHR), agrees to clearly define the responsibilities for follow-up, recovery, and request for write-off of unrecovered amounts related to personal advance and recovery (PAR) accounts; and to review and reinforce the processes to recover staff overpayments or write off unrecoverable advances.

Target date for completion: June 2015

Responsible staff members: Senior Adviser, Finance (DFAM); Chief, Payroll Unit (DHR); Chief, Human Resources Services and Systems (DHR)

## Documentation of payroll register reviews

HR/Payroll officers in country offices are expected to review payroll register and postings for non-IPs, and review in detail the payroll register/journal (net pay) report and the EPI Employer Pipeline (EPI) monthly comparison report. DHR is responsible for reviewing the plausibility of payroll register, and confirming that country offices have approved monthly payments, and verified head counts and funds availability, prior to submission to payroll unit in DHR for processing.

The practice was for country offices to send an email to DHR confirming that the review had been completed. However, the audit sampled six country offices and six headquarters divisions, and found that there was insufficient evidence to demonstrate that the payroll register/comparison review had actually been performed. For example, for net pay reports, there was no sign-off on the report by the reviewer for six of the sampled country offices and four of the headquarters samples – that is, 10 out of 12 samples of risk register reviews. For seven of these (five country offices and two headquarter divisions), there was no evidence of a review (i.e. no descriptive comments within the report).

For EPI reports, there was no sign-off by the reviewer for any of the 12 sample register comparison reviews. Further, for three country offices, there was no evidence of follow-up or explanation or material differences.

The audit noted that the payroll unit issued a payroll checklist to the country offices that asked them to review the EPI and NetPay reports. However, this procedure was not a formal procedural requirement, leading to limited compliance.

**Agreed action 7 (medium priority):** The Division of Human Resources (DHR) agrees to clearly document and communicate procedures covering the requirements, responsibilities, and process for, and documentation of, the payroll register review at headquarters and country-office level. Procedures will clearly require that evidence such as sign off/date, as well as descriptive comments on payroll register reviews, should be kept and readily available so as to enforce accountability of designated officers and improve sustainability of controls.

Target date for completion: June 2015

Responsible staff members: Chief, Payroll Unit (DHR)

### Changes to SAP employee master file

Changes to the SAP employee master file (e.g. new hire, change in employment or separation) should be reviewed, approved and documented by the Global Service Centre (GSC) in New York. However, there was insufficient evidence to demonstrate proper review and approval of changes to SAP employee master file. Examples included the following.

**Separations:** For five out of 13 sampled transactions, the audit could not obtain evidence of review by GSC as there was no signed separation checklist available. In one case, the separation checklist was completed but not signed or dated.

**Transfers:** For one of the 13 sampled transactions (a headquarters transaction), there was no evidence that a proper review of the Personnel Action Form (PAF) had been approved. Also, in three samples (all in country offices), there was no Personnel Action Completion Engine (PACE) report available as evidence that a review of data entry fields had been performed.

**New appointments (new hires):** For two of 13 sampled transactions in country offices, there was no PACE report available as evidence that a review of entry fields had been performed.

In addition, there were no standardized checklists or procedures in place for some key processes, such as entering a new appointment (e.g. new hires and transfers) into the system so that duplications could be avoided. Even though the audit did not find any specific errors in salary calculations or payments, the absence of review and approval increased the risk of

invalid or unauthorized changes being made to employee master data that could potentially lead to payments to invalid employees, or inaccurate payments to valid employees.

**Agreed action 8 (medium priority):** The Division of Human Resources (DHR) agrees to develop checklists to ensure procedures related to changes to the SAP employee master file, established for the Global Service Centre at headquarters and the country offices, are standardized and consistent, and changes are adequately approved and documented in staff files.

Target date for completion: 31 December 2015

Responsible staff members: HR Manager, Global Service Centre (DHR); Regional Chiefs of HR; and Chief, Human Resources Services and Systems (DHR)

### Payroll management: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over payroll management, as defined above, needed improvement to be adequately established and functioning.

### 3 Automated controls in ICT systems

The scope of the audit in this area included the following:

- Automated controls related to accuracy of salaries and benefits.
- Access to creation and modification of automated controls.
- SAP payroll automated controls.

The audit found a number of controls that were functioning well. ITSS and DHR staff held fortnightly meetings to discuss payroll ICT systems issues and implement IT-related change management decisions. The ITSS applications unit included any payroll system issues in their work plan (for internal systems) and initiated correspondence with SAP (for standard modules).

#### SAP payroll automated controls

There should be SAP payroll automated controls to detect and prevent any errors or irregularities in payroll processing. The audit noted the following:

- When more than one education grant advance was given to a staff member, the automated (VISION) system did not allow setting off of all advances against the claims.
- The education grant indicator for designated/non-designated status of duty stations was not working as intended, leading to potential errors such as under/overpayments. (The audit did not identify any errors, as there were effective manual controls.)
- The period of “away from duty station” in Special Operations Leave Allowance (SOLA) was computed erroneously by VISION, resulting in seven days excess SOLA entitlement.
- In reassignment cases, the system did not delimit the rental subsidy for the old duty station automatically. On reassignment of staff, the old duty station had to be replaced manually with the new one so that the rental subsidy was properly calculated by VISION.
- The position budget and control (PBC) module did not commit funds for assignment grants in off-cycle payroll processing.
- Supervisors and HR officers are not restricted from seeing employee information for employees outside of their responsibility and location (e.g., a country office), due to a limitation in the online employee self-service (ESS) functionality.

At the time of the audit, ITSS was either working with SAP or had allocated time for internal projects to address many of the above-mentioned automated controls.

**Agreed action 9 (medium priority):** Information Technology Solutions and Services (ITSS) agrees to continue to work with SAP on items related to education grants. It also agrees to include deliverables in its workplan for internal projects on Special Operations Leave Allowance (SOLA), rental subsidies and employee self-serve (ESS) to improve functionality in the system, so that automated controls can be further improved. For the position budget and control (PBC) module, ITSS agrees to communicate with SAP and put in place processes so that manual workarounds are not necessary when the item is remediated, and business operations can continue with less disruption.

Target date for completion: 31 December 2014

Responsible staff members: Chief Applications Functional Services (ITSSD); Chief, Payroll Unit (DHR); and Senior Adviser, Finance (DFAM)

### **Automated controls in ICT systems: Conclusion**

Based on the audit work performed, OIAI concluded that the control processes over payroll automated controls in ICT systems 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, questionnaires, document reviews, and testing sample of transactions. The audit compared actual controls, governance and risk management practices against UNICEF policies, procedures and contractual arrangements. To accomplish the objectives of the internal audit of payroll management including ICT controls, the following procedures were also performed:

- Interviews and walkthroughs with the process owners of the areas covered by the audit, to gain a more detailed understanding of the day-to-day activities, overall processes, high-risk areas, and controls/mitigating controls.
- Inspection of supporting documentation.
- Substantive testing/sampling for selected areas.

The audit was conducted in accordance with the *Code of Ethics* and 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.

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. The auditees review and comment upon a draft report before the finalization of the audit. They 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 auditees (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 OIAI Investigations section to take action if appropriate.

### 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 auditee 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.