

# Internal Audit of the Procurement of Programme Supplies by Supply Division for Delivery to Country Offices

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## Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the procurement of programme supplies by Supply Division for delivery to country offices. The audit sought to assess the adequacy and effectiveness of governance, risk management and controls over this type of procurement. The audit team visited Supply Division in Copenhagen, Denmark from 16 September to 9 October 2015. The audit covered the period from January 2014 to 16 September 2015.

Supply Division is the main procurement and logistics arm of UNICEF. According to the 1998 document *The Organization of UNICEF*, it aims for rapid and relevant responses to evolving supply needs, with priority on achieving value for money. As a partner with Programme Division, it focuses on supplies for children and families, especially the most disadvantaged, and supports appropriate action in national capacity-building. The Division also serves as a worldwide knowledge network and authority on children's supply situation globally, in close collaboration with manufacturers, technical and funding agencies.<sup>1</sup>

During the period under audit – 2014 and 2015 (up to September) – Supply Division had raised purchase orders for the procurement of supplies worth a total of US\$ 3.9 billion. Of this, 20 percent (approximately US\$ 770 million) pertained to programme supplies for delivery to country offices, 74 percent for Procurement Services,<sup>2</sup> five percent for warehouse replenishment and one percent for office equipment and supplies. Of Procurement Services, almost US\$ 2 billion (50 percent) were meant for an international organization. During the period under audit, the programme supplies procured by Supply Division for delivery to country offices included vaccine/biologicals (US\$ 239 million or 31 percent); nutrition supplies (US\$ 197.5 million, or 25.6 percent); cold-chain equipment (US\$ 59.6 million, or 7.7 percent); bednets and insecticides (US\$ 46.6 million, or 6 percent); and water and sanitation supplies (US\$ 41.5 million, or 5.4 percent).

Supply Division is based in Copenhagen, Denmark. It has three organizational groupings: Programme-Supply; Supply Chain; and Operations. It maintains a warehouse in Copenhagen and manages hubs in Shanghai, Panama and Dubai. As of September 2015, it had 338 established posts – 149 international professional (IP), and 149 general service staff (GS). It had a budget of approximately US\$ 250 million for the years 2014-2017.

### Action agreed following the audit

As a result of the audit, and in discussion with the audit team, Supply Division has agreed to take a number of measures to address the issues raised in this report. Two are being implemented by Supply Division as a high priority – that is to say, concerning issues that require immediate management attention. This is as follows:

- Properly maintain the vendor master records for vendor groups relating to vendors such as suppliers (ZVEN) and forwarders (ZFWD). Specifically, the Division agrees to

<sup>1</sup> *The Organization of UNICEF*, UN Economic and Social Council (E/ICEF/Organization/Rev.3, p. 17).

<sup>2</sup> This refers to an arrangement whereby UNICEF makes available its purchasing capacity and expertise to development partners for procurement of strategic commodities or services that are needed for purposes related to UNICEF programme activities. Procurement Services was not part of this audit, which concerned supplies for UNICEF country offices themselves.

ensure that the roles relating to maintenance of vendor master records are adequately segregated; to conduct a one-time thorough clean-up of the vendor master records; and to ensure validity, completeness and accuracy of vendor master records.

- Establish an oversight mechanism to ensure that changes to statistical delivery dates are justified, documented and approved by responsible designated staff. Establish, and define in divisional guidance, a mechanism to assess the need for pre-delivery inspection provisions in all purchase orders.

## 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 the procurement of programme supplies for country programmes were generally established and functioning during the period under audit.

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## Objectives and Scope

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and controls over the procurement of programme supplies by Supply Division for delivery to country offices. The audit covered the period from January 2014 to 16 September 2015.

The audit observations are reported upon under two headings: governance; and procurement of programme supplies for delivery to country offices. 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.

## Background

Supply Division is the main procurement and logistics arm of UNICEF. According to the 1998 document *The Organization of UNICEF*,<sup>3</sup> it aims for rapid and relevant responses to evolving supply needs, with priority on achieving value for money. As a partner with Programme Division, it focuses on supplies for children and families, especially the most disadvantaged, and supports appropriate action in national capacity-building. The Division also serves as a worldwide knowledge network and authority on children's supply situation globally, in close collaboration with manufacturers, technical and funding agencies.

Aside from purchasing supplies for country programmes and authorizing local and regional procurement for country programmes, Supply Division has other accountabilities. Among them are:<sup>4</sup>

- a) Establish policies for supply, procurement and related services; and maintain appropriate systems and procedures for the efficient and effective implementation of these policies.
- b) Establish standards related to quality, delivery times and cost effectiveness in the management of supply function; and ensure that proper controls are in place to maintain the highest level of integrity, ethical standards and accountability.
- c) Provide strategic input to the development of the supply component of country programmes, in addition to analytical and operational support to field offices on specification development, manufacturing, costing, standards, in-country logistics and quality assurance and global purchasing options that attain value for money.
- d) Maintain a supply database available to both UNICEF and external customers for the global analysis of product specifications, process, sources of essential supplies, as well as for tracking specific orders.
- e) Forecast and plan the global supply needs of UNICEF, and maintain a warehouse in Copenhagen to meet supply requests for commonly used items, both for country programme and emergency situations.
- f) Reach long-term agreements with major manufacturers, enabling UNICEF and its

<sup>3</sup> *The Organization of UNICEF*, UN Economic and Social Council (E/ICEF/Organization/Rev.3, p. 17).

<sup>4</sup> Ibid, p. 17-18. These accountabilities are quoted verbatim from *The Organization of UNICEF*. The full document is available on the UNICEF intranet at [https://intranet.unicef.org/pd/pdc.nsf/0/F8D7AB999B62E6E885256752004B9B5E/\\$FILE/98-OrganizationRev.3.pdf](https://intranet.unicef.org/pd/pdc.nsf/0/F8D7AB999B62E6E885256752004B9B5E/$FILE/98-OrganizationRev.3.pdf).

partners to benefit from the best possible.

- g) Direct and manage effectively and efficiently the administrative, human resources, finance and training functions within Supply Division in accordance with all applicable rules, regulations and policies.

Supply Division is based in Copenhagen, Denmark. It has three organizational groups: Programme-Supply, Supply Chain, and Operations. It maintains a warehouse in Copenhagen and manages hubs in Shanghai, Panama and Dubai. As of September 2015, it had 338 established posts – 149 international professional (IP) and 149 general service staff (GS).

During the period 2014-2015 (September), Supply Division had raised purchase orders for the procurement of supplies with a total of US\$ 3.9 billion. As shown in the table below, 20 percent of the procurement action pertained to programme supplies for delivery to country offices, 74 percent for procurement services, five percent for warehouse replenishment and one percent for office equipment and supplies. Of the total procurement action for procurement services, almost US\$ 2.0 billion (50 percent) were meant for GAVI, an international global alliance on vaccines.

**Table 1: Supply Procurement of Supply Division in 2014-2015<sup>a</sup> (in thousands of US dollars)**

Year	Programme supplies	Procurement Services			Warehouse replenishment	Assets/Ad min	Total
		GAVI	Others	Total			
2014	469,298	1,028,741	608,850	1,637,591	125,066	12,602	2,244,557
2015	301,008	937,764	324,635	1,262,399	80,367	10,434	1,654,208
<b>Total</b>	770,306	1,966,505	933,485	2,899,990	205,433	23,036	3,898,765
<b>%</b>	20%	50%	24%	74%	5%	1%	100%

<sup>a</sup> Generated from VISION in September 2015, not audited.

During the period under audit, Supply Division had raised purchase orders worth US\$ 770.3 million in 2014-2015 (September) for the procurement of programme supplies. This was mainly based on purchase requisitions authorized by the country offices (US\$ 745.3 million) and for the acquisition of contribution in kind (US\$ 25 million).

Depending on the type of programme supplies, the procurements were handled mainly by the different procurement centres within Supply Division. These are the Vaccine Centre, Medicines and Nutrition Centre, Health Technology Centre, and the Water, Sanitation and Education Centre. During the period under audit, the programme supplies procured by Supply Division were vaccine/biologicals (US\$ 239 million, or 31 percent); nutrition supplies (US\$ 197.5 million, or 25.6 percent); cold-chain equipment (US\$ 59.6 million, or 7.7 percent); bednets and insecticides (US\$ 46.6 million, or 6 percent); and water and sanitation supplies (US\$ 41.5 million, or 5.4 percent), among others.

# Audit observations

## 1 Governance

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

- **Supervisory** structures, including advisory teams and statutory committees.
- **Setting and communicating** priorities and expected results.
- **Staffing structure** and its alignment to the needs of Supply Division.
- **Human-resources management.** This includes recruitment, training and performance evaluation.
- **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 and holding staff accountable.
- **Risk management:** Supply Division's approach to external and internal risks to achievement of its objectives.
- **Ethics in procurement**, 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 above areas were covered in this audit.

The audit found that a number of controls were functioning well. For example, Supply Division had established seven key results areas in its 2014-2017 office management plan, and had defined outcome targets for each result area. It had also identified performance targets and expected results, with corresponding strategies and key performance indicators. Performance was regularly monitored and analysed by procurement centre, and the results followed up. The Division conducted a mid-term review in August 2015, identifying lessons learned, and drawing up an action plan to address them. In addition, annual key priorities were identified; responsibilities for them were assigned to staff members, and management monitored progress on them.

Supply Division had conducted a systematic risk assessment, and had drawn up an action plan for 2014 and 2015 to address the identified risks. The risk assessment for 2015 had identified risks in 12 risk categories, of which five were assessed as high. These were under the risk categories of supply and logistics (emergencies, service contracting and freight management), human resources/ethical behaviour, and ICT Systems and Information Security. The office had prepared action plans for these risks and monitored their implementation, making updates and revisions where applicable.

Supply Division had conducted ethics training for its staff and had correctly identified which staff members should file financial disclosure statements to the Ethics Office in 2015 under UNICEF's Conflict of Interest and Financial Disclosure Programme (CIFDP). Annual staff performance assessments were done on time.

However, the audit also noted the following.

## Assignment of authorities

Each UNICEF office is required to maintain a Table of Authority (ToA), setting out the authorities delegated to each staff member. The ToA should be reflected in the roles assigned within UNICEF's management system, VISION (from Virtual Integrated System of Information). Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with much else. Heads of offices are also expected to review the ToA periodically to confirm its continued accuracy and appropriateness (preferably quarterly). A key requirement is to ensure, as far as possible, adequate segregation of duties, so that no single staff member can carry out a whole process (for example ordering, receiving and payment) without checks and balances. The audit noted the following.

**Delegation of authority:** Supply Division had issued guidance on delegation of authorities through divisional procedures. Through these procedures, it had set out its ToA. The divisional procedures, however, comprised the financial control functions (namely, authorizing, certifying, approving and paying functions) outlined by former Financial Circular 34, which had been superseded by Financial and Administrative Policy 1 and its supplement since 2012. This increased the risk of inappropriate implementation of the delegated functions. Although the divisional procedures did refer to the updated policy, it did not include the delegation of the functions related to purchase order releasing officer and receiving officer.

Also, under the current UNICEF policy, the approving officer is no longer the same person as the authorizing officer (budget owner). The approving officer (normally the finance officer) is the one who posts the invoice in VISION, after examining *“the certified invoice and supporting documents to ensure everything agrees with their original authorization, that the invoice has been properly entered into the system, three-way matching has occurred, and if an evaluation is required before payment, that evaluation is provided”*.

The audit acknowledges Supply Division's view that the job descriptions contained position titles, duties and responsibilities of staff, and the position titles were referred to in the divisional procedures, which documented the roles and authorities for financial and internal control processes. However, the roles of authorizing, purchasing order releasing, receiving, certifying, approving, and paying officers were not specified in the job descriptions of each staff member.

**Segregation of duties:** Segregation of duties is an important internal control that involves the distribution of roles so that no single staff member can carry out a whole process (for example ordering, receiving and payment) without checks and balances. This prevents errors and fraud. The audit assessed the number of segregation-of-duties conflicts with APPROVA, the software tool UNICEF uses for this purpose. It found 91 conflicts in the assigned roles in VISION, of which 24 were considered high-risk. Supply Division had taken steps to reduce the majority of the conflicts, but at the time of audit, there were still four high-risk conflicts that had not been mitigated.

In addition to the segregation-of-duties conflicts noted in APPROVA, a number were also noted through a manual review of the roles assigned to the staff in VISION, which can detect some segregation-of-duties conflicts not covered by APPROVA. For instance, a staff member had been assigned both the vendor master data management role (so that they could create/update vendor records, including banking details) and the general ledger, approving, receiving, paying officer and travel administrator roles, which meant they could also create and approve invoices and make payment. UNICEF policy requires that the vendor creation role should not be assigned to an individual who can also create or approve any part of the



payables and payment process.

In addition, a staff member responsible for bank reconciliations was also assigned general ledger (GL), certifying and approving officers roles. With this combination of roles, reconciling differences could be adjusted without anyone's knowledge by using the GL and approving officer roles. Another individual was assigned a combination of authorizing, purchase order releasing L2, approving, bank accounting L3 and paying roles. With these roles, s/he could complete a set of transactions from authorization of expenditures to posting an invoice and payment thereof.

The incorrect segregation of duties noted above increased the risk of errors or fraud (the audit did not note any).

**Roles recorded in VISION:** The audit reviewed a sample of seven critical and sensitive roles and noted that six of them were given to 42 different staff members whose functions did not match the assigned roles. The related roles include authorizing, approving, travel administrator, vendor master data management, receiving and the treasury field role.

The treasury field role allows an office to create a treasury transaction for account replenishment, and should be assigned to staff who are responsible for the bank account replenishment function in an office. However, it had been assigned to a member of quality assurance staff, to an administrative assistant, and to a business process staff member, in addition to 15 other staff. According to Supply Division, this issue had been identified during a segregation-of-duties cleansing exercise in March 2015 and appropriate action would be taken.

In another example, the travel administrator role was given to one receptionist, five finance assistants and three accounts assistants. The travel administrator role allowed them to approve travel authorizations and travel claims on behalf of the office. Staff with travel administrator roles could post trips, change trip details, and close trips where changes had occurred and delete incorrectly posted trips.

Finally, the receiving officer role was assigned to 99 different staff members, including (for example) finance assistants. The receiving function should be assigned to those responsible for confirming the receipt of goods and services. According to Supply Division, the roles should have been removed from the finance assistants following its review in 2014.

Assignment of roles to staff whose functions do not make them appropriate for those roles increased the risk of inappropriate transactions.

**Agreed action 1 (medium priority):** Supply Division agrees to increase oversight of delegation of authorities, and to take the following specific steps:

- i. Assign in writing the delegation of authorities to staff members, or establish a Table of Authority that includes purchase-order releasing and receiving functions in accordance with most recent Financial and Administrative Policy on Internal Controls.
- ii. Put a mechanism in place to ensure that those delegated to be authorizing, purchase-order releasing, receiving, certifying, approving and paying officers formally acknowledge their understanding of the responsibilities assigned to them by signing an acceptance of delegation.
- iii. Conduct a thorough review of the delegated authorities and the mapping of

functional roles in VISION to ensure adequate segregation of duties and alignment of roles with staff functions, and ensure that the results of the review are implemented.

Staff responsible for taking action: Director, Supply Division (SD)

Date by which action will be taken: Supply Division reports the action as having been taken for 1iii. For the remaining actions, the expected completion date is June 2017.

## Recruitment

UNICEF procedures for recruitment are set out in executive directive CF/EXD/2013-004, which aims at placing the right person in the right job in the quickest possible time. Supply Division had also issued divisional guidance covering the recruitment process. It informed the audit that, as a general practice, it conducted adequate reference checks on recommended candidates and gave feedback to those who were unsuccessful.

As of September 2015, Supply Division had 338 established posts – 149 international professional (IP) and 149 general service staff (GS). Of the established post, 117 (57 IPs and 60 GS) related to procurement centres. SD had completed 121 recruitment procedures (43 belonging to procurement centres) between January 2014 and September 2015. During the period, it also carried out induction and orientation for new staff and briefed them on UNICEF ethics policies. However, the audit noted the following.

**Selection process:** Selection panel members were duly appointed, and were trained in competency-based interviewing.<sup>5</sup> There was also a Central Review Body.<sup>6</sup> However, from the sample of eight recruitments reviewed, the audit noted some weaknesses. For instance, in three of the eight cases, the selection panel matrix did not sufficiently justify its “highly proficient” ratings of the candidates interviewed, making comparison of candidates difficult.

In three cases, the pass mark on the results of the written technical assessment was not clearly set before the test. In one of the three cases, the pass mark was stated as “the candidates with the highest scores would be shortlisted for interviews”, with no actual threshold. Four candidates were shortlisted for the interview, and it was unclear what benchmarks had been used. In the other two cases, the audit was not given sufficient evidence that the criteria relating to benchmarks had been established before the written tests, as required by UNICEF selection policy. Finally, in one case, about one-third of the competencies used to evaluate the candidates during the interview had not been in the vacancy announcement. The office stated it had identified these shortcomings during the Central Review Body review, and had addressed them after the completion of the audit. In the opinion of the audit, the errors arose through insufficient checks to ensure application of UNICEF procedure.

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<sup>5</sup> Candidates for UN posts must receive a competency-based interview in which they should demonstrate the core “competencies” that the organization is seeking. In a competency-based interview, a candidate is asked to demonstrate that they have the necessary skills and experience (“competencies”) by explaining occasions on which they have dealt with the challenges they are likely to meet in the post for which they are applying. The competency-based interview is the only mandatory interview in the recruitment process, and covers core competencies sought by the organization as a whole. However, the recruiting unit may, if it wishes, conduct a further interview or test based on the functional skills sought for the specific job.

<sup>6</sup> This is a committee in an office or division that reviews recruitment processes and ensures that correct procedures have been followed.

**Timeliness:** Supply Division had set a key performance indicator of 60 days for completion of general service recruitment (from closing date of advertisement to issue of offer letter) and 47 days for international posts (from closing date to sending names of recommended candidates to the Division of Human Resources in New York). Completion of recruitment was monitored monthly. Despite this, the audit noted that the recruitment process was protracted. The audit reviewed a sample of eight recruitment cases (four general service and four international posts) and found it took the Division an average of 99 days to recruit general service staff, with none of the four cases meeting the office's own standard of 60 days. The delays were mostly between the closing date of advertisement and approval of shortlisted candidates, which on average took 29 days; and another 34 days after the interview to the recommendation of candidate(s) prior to convening the Central Review Body.

For international posts, Supply Division took an average of 72 days, with only one of the sampled cases completed within its own standard of 47 days. It took an average of 20 days from closing date to shortlisting, another 25 days to interview, 12 days to recommend candidate(s) after the interview and another 15 days thereafter to send the recommendation to New York. Delays in recruitment could affect Supply Division's capacity to implement its workplan activities. At the time of the audit, the Division had not identified the causes of delays.

**Agreed action 2 (medium priority):** Supply Division agrees to:

- i. Conduct a refresher training for the members of the local Central Review Body to ensure adherence to the UNICEF executive directive and related procedures on recruitment in its review of the recruitment process.
- ii. Identify the bottlenecks and causes of delays in recruiting staff and take corrective measures to ensure that the recruitment process is done within the established timeline.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

## Performance management

Supply Division followed UNICEF's global cycle of staff performance assessment. Performance was managed, measured and reported through PAS and e-PAS<sup>7</sup> on a timely basis in accordance with the organizational cycle for planning, mid-term review and year-end evaluation.

However, the audit sampled six ePASs and noted that the individual workplan outputs were not sufficiently specific and measurable. The use of words like "*continuous improvement*"; "*support*", "*efficient service delivery*", and "*strengthen expertise*" are not conducive to measurement. This had reduced the capacity of supervisors to measure and report actual performance and increase individual accountability for results. Supply Division acknowledged this and said it had provided "managing people for results" training, whereby staff are coached and trained on how to develop SMART objectives, among other things.<sup>8</sup> It planned to make the course mandatory, and train all staff, including newly appointed managers.

<sup>7</sup> PAS/ePAS - performance appraisal system/electronic performance appraisal system.

<sup>8</sup> SMART = Specific, measurable, achievable, relevant and time-bound.

**Agreed action 3 (medium priority):** Supply Division agrees to establish a quality assurance review mechanism so that supervisors properly review outputs before a performance assessment is finalized, and ensure that those outputs are specific, measurable, achievable, relevant and time-bound; and to train supervisors accordingly.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

### Governance area: 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 governance, as defined above, were generally established and functioning during the period under audit.

## 2 Procurement of programme supplies for delivery to country offices

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

- **Planning** to fulfil the needs of country offices for programme supplies.
- **Defining** the supply requirements of country offices.
- **Sourcing**, through identification of existing suitable supplies on the market and qualified suppliers.
- **Selection** of appropriate procurement strategy.
- **Preparation** and issue of solicitation documents to request potential suppliers to offer quotation, bids or proposals for provisional of supplies.
- **Receipt** and opening of offers for potential suppliers.
- **Evaluation** of offers received to ensure the best value for money.
- **Contract** review and award.
- **Contract** finalization and issue.
- **Contract** management, including performance monitoring and control, receipt, inspection and acceptance procedures, and payments.
- **Emergency** procurement.

All the above areas were covered in this audit, but mainly with respect to procurement of programme supplies for delivery to country offices. The audit did not cover Procurement Services.<sup>9</sup>

During the period January 2014 to the start of the audit (September 2015), Supply Division had raised purchase orders for the procurement of supplies for country programmes amounting to US\$ 745.3 million. The types of supplies being procured included vaccines, pharmaceuticals, nutrition, bednets, cold chain equipment, and educational supplies, among others.

The audit found some controls that were functioning well. Review of a sample of the 18 purchase orders raised noted that the specifications were well-defined. They were generic and not biased towards a specific supplier.

Supply Division also maintained a catalogue online. This provided various standard supplies with specifications and indicative costs; the latter were regularly updated. The catalogue had provided the country offices a means to define clearly their supply requisitions and allocate funding for their supply requirements.

To ensure a wider pool of potential suppliers, Supply Division had established guidance, procedures and responsibilities for sourcing of potential suppliers. It had issued requests to suppliers for expressions of interest, conducted industry consultations, and made use of the

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<sup>9</sup> This is an important but separate function of Supply Division. UNICEF offers Procurement Services to Governments and other organizations for supplies and equipment needed for purposes that are related to UNICEF activities, and are consistent with UNICEF's aims and policies. Country and regional offices and some divisions in NY headquarters all play a part in this service, but Supply Division Copenhagen coordinates the entire process as part of its regular supply function. However, this audit was concerned with procurement for country offices.

United Nations Global Market (UNGM) roster and those of other bodies such as World Health Organization (WHO).

Supply Division had issued a divisional procedure setting out the processes, roles and responsibilities involved in making submissions to the Contracts Review Committee (CRC), in the functioning of the CRC, and in its tendering of advice to the Director of Supply Division. The guidance required that all proposed long-term arrangements and procurement involving purchase orders equal to or above US\$ 100,000 should be submitted to the CRC for review.

A review of 18 sampled procurement actions established that all those that met the CRC threshold had been submitted to the CRC for review and approval by the Director of Supply Division. Documentation was submitted to the CRC with sufficient lead time. The process was adequately documented. There was no separate documentation on the adjudication of the offers using the documented results of the technical and financial evaluations; however, the CRC submissions were reviewed and approved by the contract managers and the chiefs of procurement centres – which served as a compensating control.

Supply Division had issued guidance on invoice certification and approval and payment. It used the services of four UNICEF-approved freight forwarders that systematically posted goods receipts for supplies received from suppliers in VISION through an electronic data interchange (EDI). The audit reviewed a sample of 29 invoices and noted the transactions were duly supported, certified, approved and paid promptly.

However, the audit also noted the following.

### Planning and procurement strategy

In collaboration with country offices and with partner agencies such as WHO, GAVI, USAID and DFID, Supply Division prepares forecasts for procurement of vaccines, cold-chain equipment, nutrition supplies, bednets, medicines and pharmaceutical supplies. It also provided guidelines and tools to country offices in preparation of forecasts for vaccines, injection devices, cold chain equipment, de-worming tablets and Long-Lasting Insecticidal Nets (LLINs).

Supply Division had issued divisional procedures that provided guidance for its various internal processes. In particular, there was guidance on developing and documenting divisional procurement strategies for certain items. These strategies help ensure the alignment of key procurement decisions with UNICEF's overall mandate and strategy. Aside from setting the objectives of the procurement activity, the procurement strategy also maps out the planning steps and milestones in its execution and identifies the key risks that can prevent achievement of objectives.

According to the divisional procedures, procurement strategies were required for: strategic essential supplies; supplies whose total previous year's or anticipated annual procurement value exceeded US\$ 5 million; or those needing special attention as determined by senior management. However, no procurement strategy was prepared for winter clothes, even though the total annual procurement exceeded US\$ 5 million. Winter clothes had a total procurement value of US\$ 20.3 million in 2014, and US\$ 5.6 million in 2015 (to September). Supply Division said that no strategy was prepared for them because these were procured for emergency response and there was a Long Term Arrangement (LTA) for their supply. However,

it said it would determine the need for a procurement strategy for winter clothes when that LTA expired.

The audit also noted some supplies for which the total annual procurement value did not exceed US\$ 5 million, but which were still quite high-value and for which procurement strategies would assist planning and risk management. For example, the total procurement value for school bags was US\$ 3.5 million in 2014 and over US\$ 1 million in 2015. As of October 2015, the office was preparing the procurement strategy for school bags, but had not finalized it. According to Supply Division, it will be finalized in the first quarter of 2017.

A review of five sampled procurement strategies noted that three of them lacked some important elements specified by the Division's own guidance for these strategies. Although they were recommended aspects according to that guidance, their absence had reduced Supply Division's capacity to measure and achieve the objectives established for the procurement activities. For example, they lacked a plan, timeframe and metrics for evaluation of the procurement strategies themselves. Two of these three cases also did not identify partners (internal or external) to be collaborated with in implementing the strategies. One of the three lacked an analysis of risks to its objectives and actions to mitigate them. These gaps were mainly due to lack of a mechanism for ensuring rigorous quality assurance review of procurement strategies.

**Agreed action 4 (medium priority):** Supply Division agrees to establish a mechanism in the divisional procedure to ensure procurement strategies are prepared in accordance with established criteria.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

### Target arrival date (TAD) estimation tool

Supply Division had a number of tools for country offices to use in defining their requirements. One of these was a TAD estimation tool to assist country offices estimate realistic TAD at its port of entry for offshore and direct order procurement. The TAD tool also provided the last date at which the authorized purchase requisition should be received by Supply Division if the requisitioned supplies were to be procured and shipped to reach the final destination at the country office by a given time.

The TAD estimation tool, however, predated the implementation of VISION in 2012. At that time, the country offices were using ProMS (the legacy system at the country offices) and the purchase requisitions raised in ProMS had to be interfaced with the then headquarters system, FLS (Financial and Logistics System). With VISION, as soon as the purchase requisition (referred to as a sales order in VISION) is authorized, Supply Division can act on it. The processing time has therefore been reduced. Further, for the country offices to figure out the TAD, they had also to estimate the shipping transit time, which was not part of the tool. Given that historical data were available, the transit times for various shipping routes could have been built into the tool (with due allowance for the type of commodity and mode of shipment).

The audit also noted that the tool's lead times from the start of the order process in Supply Division to availability for pick-up by the freight forwarder were not realistic in light of historical data. For instance, the lead times set in the TAD estimation tool for material group

Expanded Programme on Immunization (EPI) vaccines were 15 days, and 30 days for solar refrigerators/freezers, diagnostic test kits, and non-EPI vaccines material groups. However, the historical data indicated that the average lead times for EPI vaccines was 48 days and those for solar refrigerators/freezers, diagnostic test kits, and non-EPI vaccines were 75, 101, and 60 days respectively.

**Agreed action 5 (medium priority):** Supply Division agrees to review and revise the Target Arrival Date estimation tool to take into account implementation of VISION, the shipping transit time, and realistic lead times.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

## Vendor master records

The audit reviewed the management of the vendor master records under vendor account groups ZVEN (Vendors) and ZFWD (Forwarders) in VISION. Supply Division had established a process for the creation and maintenance of vendor master records in VISION, and had assigned the role to 12 staff members. As noted earlier in this report (see observation *Assignment of authorities*, p8 above), there was poor segregation of duties, and three of these staff members had also been assigned financial roles in VISION that would allow them to process payments and even effect adjusting entries in the general ledger.

However, the audit also noted that Supply Division conducted periodic reviews of the vendor master records, particularly those under vendor account groups ZVEN and ZFWD. The audit noted the following:

- i. Of 93 vendor master records identified for deletion by Supply Division (either by renaming them "Marked for Deletion" or identifying them as such in the search term), 87 of them were not flagged for deletion, 42 were not blocked from posting and 38 were not blocked from purchasing in VISION.
- ii. Of 583 vendor master accounts flagged for deletion, none had been blocked from posting (e.g., no liability or payment can be posted to that account); and 507 of them were not blocked from purchasing (which prevents purchase orders from being raised using the vendor account).
- iii. There were 187 vendors that had been incompletely created, since they were not tagged to any company code or purchasing organization, causing duplications to some vendor master accounts. They also had incorrect vendor number series (these depend on the vendor account group. In this case, the number series of the vendor account should have been that of ZVEN or ZFWD vendors).
- iv. A vendor master record had been marked for deletion even though there were posted transactions in that vendor's account.

In addition, OIAI reviewed a sample of the approximately 16,000 vendor master records and noted at least 49 vendors (involving 105 vendor accounts) had duplicate accounts. The duplicate vendor accounts were not appropriately marked for deletion, blocked from posting and/or blocked from purchasing.

The duplications of vendor accounts were caused by a combination of a number of factors. The vendor master records had been created without checking if such records had previously been created for those vendors in the system. The accounts were also duplicated as a result



of the creation of alternate payees with the same vendor names, addresses, telephone numbers and/or bank accounts, and therefore relating to the same vendors. Finally, some duplication had occurred due to inadequate clean-up of the vendor master records before their migration to VISION in 2011.

The above weaknesses were mainly due to inadequate review of the vendor master records. This could result in erroneous information related to vendor payments, and increase the risk of overpayments or double payments. It could also lead to transactions with vendors for which other accounts may have been blocked, for whatever reason (e.g. poor service or non-delivery).

**Agreed action 6 (high priority):** Supply Division agrees to institute additional controls and oversight to ensure proper maintenance of vendor master records relating to vendor account groups ZVEN and ZFWD, and to take the following specific steps:

- i. Ensure that the staff assigned to maintain vendor master records are, in accordance with Finance and Administrative Policy 1, Supplement 2, not assigned procurement roles where they can create or approve purchase orders, programme roles where they can create or authorize cash transfers, nor financial roles where they can create or approve any part of the payables and payment process.
- ii. Conduct a one-time thorough clean-up of the vendor master records under vendor account groups ZVEN and ZFWD.
- iii. Ascertain validity of vendors with multiple master records, and block and mark for deletion master records considered invalid or duplicate; prevent duplications; and ensure completeness and accuracy of records.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

## Solicitation

An office's process for obtaining quotations, bids or proposals for goods to be procured must be fair, transparent and efficient, and in line with UNICEF regulations.<sup>10</sup>

Supply Division had divisional procedures to guide staff in preparing and processing solicitation documents. It specified three types to be used: Requests for Quotations (RFQ) for procurements estimated within a range between US\$ 2,500 to US\$ 30,000; Invitations to Bid (ITB) for procurements estimated over US\$ 30,000 and when requirements could be clearly specified; and Requests for Proposal (RFPs) for procurements estimated over US\$ 30,000 and where requirements could not be described in a complete or definitive manner.

A review of 18 sampled procurement actions noted that Supply Division had used appropriate solicitation documents to obtain quotations, bids or proposals in response to requests from country offices for programme supplies, including when there was a need to establish or renew long-term arrangements. The solicitation documents included clear and yet generic specifications to ensure a transparent and fair procurement process. Bid cut-off and bid opening dates were generally specified in the solicitation. Bidders were given ample time to submit bids. The solicitation documents reviewed consistently included evaluation criteria and clauses defining delivery terms, warranties, and clauses emphasizing UNICEF's ethical

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<sup>10</sup> Financial Regulations 12.5 and Financial Rule 112.29.

standards and zero tolerance of corruption and fraud.

However, the solicitation documents did not consistently specify penalty clauses or liquidated damages<sup>11</sup> for poor performance or late delivery. In addition, four cases were noted in which the solicitation documents did not include UNICEF's general terms and conditions – which cover, among other things, conditions for acceptance of purchase orders, tax exemption, export licences, rights of UNICEF, privileges and immunities, and prohibition of child labour. Incomplete terms and conditions in solicitation documents could result in disagreements at the contracting stage when complete terms are reflected in the purchase orders.

**Agreed action 7 (medium priority):** Supply Division agrees to institute an oversight mechanism over preparation and issue of solicitation documents to ensure that they include penalty clauses/liquidated damages for late or poor performance and a complete set of terms and conditions. Any exceptions should be justified, and documented.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

## Receipt and opening of offers

UNICEF Financial Rule 112.29 states that all bids shall be opened at the time and place specified in the invitation to bid, and an immediate record made thereof; and that bidders or their authorized representatives may attend the opening of bids. In addition, it is expected that "requests for proposals shall be advertised or otherwise issued in accordance with the procedures established by the Executive Director, who shall also establish procedure for opening and recording all proposals received".

Supply Division had procedures to guide staff in obtaining and processing solicitation documents. The processes regarding receipt and opening of offers emphasized the importance of ensuring confidentiality of documents, requirement for stamping and signing of tabulations, public bid opening, and related documentation.

Accountabilities for the receipt and tabulation of bids and proposals were adequately segregated. However, a review of 18 sampled bids and requests for proposals found no indication of review of the correctness of the tabulations. Supply Division's internal guidance did not require a review of the tabulation. Lack of or inadequate review of tabulation of offers could result in incorrect conclusions due to errors (the audit did not detect any in the sample reviewed).

Supply Division informed the audit that the CRC process reflected the responsibility of the submitting officer for verification of accuracy of the tabulation sheet, among other documentation. Supply Division, through the contracting function, agreed to stress due diligence to ensure tabulation of offers was reviewed for its accuracy.

Supply Division had received bids and proposals from potential suppliers via either sealed

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<sup>11</sup> While penalty clauses and agreed damages are similar, they are not quite the same. Liquidated damages refers to compensation that will be given in the event of non-delivery or non-performance; however, that compensation should not exceed the losses incurred by the injured party. With a penalty clause, which is punitive, it may do so. See also observation *Contract finalization and issue*, p20 below.

envelopes, through a dedicated and secured fax machine or using a generic e-mail account (e.g. a general email address to which all bids are sent). The submission method to be used had been specified on the solicitation documents. While the use of sealed envelopes had promoted confidentiality of the offers, the use of fax machine and email account did not. There is an efficiency gain in the use of technology, but it is also necessary to ensure confidentiality of offers. E-tendering may be a better alternative, and the Division said that this was being considered at the time of the audit.

**Agreed action 8 (medium priority):** Supply Division agrees to consider the option of acquiring e-tendering tool to ensure confidentiality of the offers, to replace the current means for receiving bids and proposals from potential suppliers (i.e. via e-mail and fax).

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

### Contract finalization and issue

In 2014 and in 2015 up to September, Supply Division had issued purchase orders (POs) for the procurement of US\$ 745 million of programme supplies for delivery to country offices. It had also concluded 492 long-term arrangements (LTAs), including extensions, that were either time-bound or target-bound, and from which 87 percent of the purchase orders were drawn.

The audit reviewed a total sample of 10 POs drawn from LTAs, another 10 POs without an LTA, and eight LTAs. Standard formats of POs and LTAs had been used to ensure consistency, with standard clauses included. In the review of the sampled POs and LTAs, the audit noted the following.

**Liquidated damages:** None of the 20 POs sampled, whether or not covered by LTAs, included a provision for liquidated damages. Further, even though the request for proposals (RFP) for one (not covered by an LTA) did have such a clause, it was not included in the subsequent PO. Neither did any of the eight sampled LTAs include the liquidated damages clause, although in this case five of the related RFPs had done so. The absence of this provision means there is a risk that a supplier would feel less compelled to deliver supplies on time. Moreover, this may restrict UNICEF's capacity to claim liquidated damages from a supplier if the supplies delivered were not to the agreed specifications.

Supply Division stated that it had been selective in including the provision on liquidated damages so as not to discourage suppliers from dealing with UNICEF. However, the audit noted that there were no criteria for inclusion or otherwise of liquidated damages provision in LTAs and POs. Supply Division subsequently informed the audit that it had recently started requiring a justification for non-inclusion of liquidated damages provisions in LTAs and POs. The justification is expected to be documented in the Internal Notes of solicitation documents in VISION.

**Prompt payment discount:** Prompt payment discount was not promoted during solicitation. According to Supply Division, discounts were routinely included in the bid form and it was therefore up to the supplier to offer. For instance, among the 18 sampled procurement actions reviewed, only one supplier had offered a prompt payment discount – of 1 percent net 15<sup>12</sup> for a US\$ 13.5 million LTA. However, the prompt payment discount was not included

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<sup>12</sup> That is, 1 percent discount if paid within 15 days of receipt of invoice.

in the LTA due to an oversight. Had it been included in the LTA, UNICEF could potentially have obtained a discount US\$ 135,000.

**General terms and conditions:** The standard general terms and conditions were generally included in the solicitation documents, LTAs and POs (see also observation *Solicitation*, p18 above). However, they had last been revised in 1997. Comparing them with those of other UN agencies, a number of their provisions may be worth considering for inclusion in UNICEF's version. They include provisions related to: sexual exploitation, fundamental principles and rights at work, indemnification, encumbrances and liens, confidential nature of documents and information, *force majeure*, and audits and investigations.

**Agreed action 9 (medium priority):** Supply Division agrees to:

- i. Issue specific guidance to releasing officers on the requirement to ensure provisions in the solicitation documents and suppliers' offers (such as liquidated damages and prompt payment discounts) are accurately reflected in the relevant long-term arrangements and purchase orders. Any exceptions to the requirement should be justified and documented.
- ii. Revise, in coordination with the Legal Adviser's Office, the general terms and conditions which are attached to the solicitation documents, long-term arrangements and purchase orders.

Staff responsible for taking action: Director, SD

Date by which action will be taken: Supply Division reports the action as having been taken for 9i. For the remaining, the expected completion date is June 2017

## Monitoring of contractor performance

Supply Division had issued divisional procedures to institute procedures and assign accountabilities in order to ensure that suppliers fully meet their commitments as specified in the purchase orders and long-term arrangements. It had established criteria for evaluation and monitoring suppliers' performance; the results of these were in turn used when selecting who to invite to bid for future contracts.

**Monitoring of KPIs:** Supply Division had identified key performance indicators (KPIs) and targets to monitor performance of suppliers and freight forwarders. A report on the monthly and quarterly status of the KPIs by procurement centre was circulated and reviewed during the Advisory Group Meeting (AGM)<sup>13</sup> and in the annual review.

According to the latest available report, 77 percent of international procurement orders were delivered at port of entry at or within the agreed-upon TAD. The percentage of all international supplier deliveries delivered on time was the same.<sup>14</sup> The target was 95 percent. However, this performance was better than in 2014, when on-time deliveries were 67 percent and 72 percent respectively.

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<sup>13</sup> A body composed of senior staff that advises the Division's management. This is similar to the Divisional, Office or Country Management Teams found in other UNICEF offices.

<sup>14</sup> International procurement orders refers to delivery to the port of entry at the destination country. International supplier deliveries refers to delivery to the freight forwarder, who may be in the country of origin.

The audit analysed a sample of 20 procurements. It noted that for those covered by LTAs, it took an average of 120 days for the programme supplies to be delivered by sea to the port of entry (from the time the sales orders were authorized). For those not covered by LTAs, it averaged 186 days. Certainly, having a LTA can effectively shorten the duration of procurement.

To a limited extent, the difference reflected prompter fulfilment by the supplier. Supplies procured through LTAs were shipped within an average of 70 days after the purchase orders were released; those without LTAs, after an average of 89 days. On the other hand, supplies procured through LTAs took an average of 46 days to be delivered to the port of entry after shipment, 14 days more than those without LTAs.

**Table 2: Processing of sampled procurement actions\* (in number of days)**

Procurement action (shipment by sea)	Average duration between authorization of SO to release of PO	Average duration between release of PO to shipment	Average duration between shipment date to arrival at port of entry	Total
<b>PO with LTA</b>	4.57	69.64	45.93	120.14
<b>PO without LTA</b>	64.5	89.25	32.13	185.88

\* Source data from VISION, not audited.

While there were a number of intervening factors to consider, an analysis of the process and bottlenecks would certainly help improve performance in procurement and delivery of programme supplies. The table above gives an indication of the time taken for various stages in the procurement process. Supply Division informed the audit that it monitored performance centrally through monthly review of key performance indicators to identify specific problematic shipments, with twice-yearly review at the AGM level to ensure identification of problems and implementation of corrective and preventive actions.

**Statistical delivery date:** A key element used in the monitoring of suppliers' performance is the statistical delivery date. This is the delivery date contractually agreed with the supplier and specified in the purchase order. According to the Supply Division's guidance it may be changed only if Supply Division agrees on the delivery date proposed by the supplier in the Acknowledgement Copy; if the Division itself requires a change of delivery date; or in the event of *force majeure*.<sup>15</sup>

The audit's review of 20 sampled procurements found that in two cases, the statistical delivery dates had been changed to a later date without adequate recorded justification. For example, the statistical delivery date was deferred at the request by the country office, but there was no record on file of the request. In another example, the date was extended by almost a month based on the supplier's request. According to the supplier, it had "large quantities of incoming orders" but "if it is not possible, we will maintain production as foreseen". While such accommodation may foster a better relationship with the supplier, it may jeopardize the timely implementation of programmes.

**Pre-delivery inspection:** During the period under audit, Supply Division had raised purchase orders worth US\$ 770.3 million in 2014-2015 (September) for the procurement of programme

<sup>15</sup> A contract will often contain a clause that absolves one or more party from its obligations in the event of *force majeure*, which may be loosely defined as an extraordinary occurrence (earthquake, flood, strike or war, for example) over which the parties have no control.

supplies. Supply Division had issued guidance for pre-delivery inspection (PDI) of supplies in order “to reduce the risk to the supply chain and to identify nonconformities so that preventive and corrective action is taken early and delays and waste arising out of deficient supplies reaching consignee are eliminated”.

Except for pharmaceuticals and nutrition products, however, PDIs were left to the discretion of the procurement centres. In the audit’s review of the 20 sampled purchase orders, 16 did not specify PDIs and hence none took place. In one case, a PDI for a particular line item was specified in the purchase order. But, due to a misunderstanding, Supply Division was unable to conduct the inspection and the supplies were shipped without one. Limited PDIs reduced the assurance that the programme supplies procured conformed to specifications and therefore also that they were fit for the intended purpose.

**Agreed action 10 (high priority):** Supply Division agrees to:

- i. Establish an oversight mechanism to ensure that changes to statistical delivery dates are justified, documented and approved by responsible designated staff.
- ii. Establish, and define in divisional guidance, a mechanism to assess and establish the need for pre-delivery inspection provisions in all purchase orders, either as a special provision or as part of the general terms and conditions.
- iii. Allow the Quality Assurance Centre to conduct pre-delivery inspection, as and when it sees fit in accordance with criteria to be established in the guidance.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

## Procurement for emergency response

Supply Division had procedures that defined the processes and responsibilities involved in handling different kinds of emergency requests. All sales orders (purchase requisitions) authorized by the country offices had to be reviewed by the Emergency Coordination Unit (ECU). The ECU was headed by an emergency coordinator, who determined whether the purchase requisitions were indeed for emergency cases before channelling them to the relevant procurement centres.

Where they were accepted as emergency cases, the emergency coordinator identified them as either a rapid emergency response (requiring delivery of supplies within 72 hours of the request); emergency response (requiring delivery within 14 days); or other emergency (which may take up to 60 days for delivery to be made). Total procurement of supplies made for emergency response during the period from January 2014 to September 2015 amounted to US\$ 103.4 million (13 percent of total programme supplies procured).

The audit noted the following.

**Evaluation:** Supply Division had commissioned an evaluation to assess its effectiveness in procuring and delivering supplies in response to emergency situations. The evaluation report,<sup>16</sup> completed in November 2014, was uploaded into the global evaluation database in January 2015 and the quality of the evaluation itself had been rated as highly satisfactory. It made some recommendations, and as of October 2015 Supply Division had not prepared a

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<sup>16</sup> *Evaluation of UNICEF Supply Division Emergency Supply Response (1200-2014/001).*

management response and action plan to address these. Supply Division explained that they had been finalized in June 2015 but had not been uploaded into the Evaluation database as of October 2015 (although it did share the draft responses with the audit).

This delay could limit the benefits to be gained from the report. According to guidance issued by the Evaluation Office, management responses should be drawn up in the first 60 days after the report is delivered. The main factor behind the delay had been a lack of awareness of the process involved in the preparation and implementation of management responses.

**Emergency Supply List:** To ensure a quick response to emergency needs, Supply Division maintained an Emergency Supply List (ESL) containing most of the essential items in different types of emergencies. These were held in stock in quantities reserved for emergency orders by Supply Division and selected suppliers. The latest version of the ESL had been prepared in April 2013.

The audit review noted that the ESL needed to be updated to include items that had been repeatedly procured for emergency response in recent years. These included family hygiene and dignity kits, water purification tabs, and buckets; these had been procured for emergency needs with total value ranging from US\$ 1.5 million to US\$ 2.7 million in January 2014-September 2015, but were not in the ESL. Updating it would improve its usefulness to country offices in emergencies.

**Agreed action 11 (medium priority):** Supply Division agrees to:

- i. Establish a process and assign accountability to ensure that management responses to evaluations, together with the action plan to address their recommendations, are uploaded promptly to the evaluation database, and implemented within the agreed timelines established in the action plan.
- ii. Establish a process to review the supplies procured for emergency response over the past two years and update the emergency supply list as relevant.

Staff responsible for taking action: Director, SD

Date by which action will be taken: June 2017

### Procurement of programme supplies: 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 procurement of programme supplies for delivery to country offices, as defined above, were generally established and functioning during the period under audit.

## Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited Supply Division in Copenhagen, Denmark. 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. Supply Division reviewed and commented upon a summary of observations before the departure of the audit team. The Director of Supply Division and her staff then worked 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, another 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 of 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.