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Internal Audit activities in 2009

Annual report to the Executive Board

Summary

The Director of the Office of Internal Audit (OIA) presents an independent annual report to the Executive Board. The present report addresses OIA activities, findings and conclusions from 2009.

* E/ICEF/2010/15.



Overall conclusions

1. In 2009, OIA revised the methodology it uses to audit country offices, to focus on high-level risks within three main functional areas: (a) governance and risk management, including the delegation of authority and responsibilities, management systems and ethical awareness; (b) management of programmes, with emphasis on planning, partnership management and results monitoring and evaluation; and (c) operations management, focusing on financial and asset management, and management of information and communication technology.

2. The percentage of high-risk observations remained stable at 13 per cent of the total number of risks for four of the five past years. To reduce this proportion, more focused effort would be required to correct recurrent weaknesses that have been due mainly to insufficient oversight of the functioning of controls by country office managers, and to weak planning.

3. Eighty-two per cent of the 27 offices audited in 2009 were rated overall “satisfactory” or “partially satisfactory”. The proportion rated satisfactory or partially satisfactory was 81 per cent for governance and risk management, 85 per cent for programme management, and 77 per cent for operations management. As of 15 June 2010 all of the offices rated unsatisfactory had made good progress in implementing corrective measures (see section VI).

4. Further, the seven headquarters, systems and thematic audits completed in 2009 identified several issues that require improvement, namely: those related to governance, oversight, guidance, support and performance management. UNICEF has taken steps to implement corrective measures so as to strengthen risk management and controls in these areas. As of 31 March 2010, seven recommendations pertaining to two headquarters and system audits have remained open for more than 18 months and often require organization-wide changes.

I. Introduction

5. The present annual report has been prepared in light of comments made during the discussion on internal audit at the 2009 second regular session of the Executive Board. The following issues were addressed by UNICEF management in its response to the annual report of the Office of Internal Audit to the Executive Board for 2009: (a) the request to address, as a matter of urgency, the follow-up and implementation of audit recommendations, especially in high-risk areas; (b) the request to address systemic weaknesses, particularly in the areas of financial controls, programme management, cash transfers, and procurement and asset management, where there is a significant number of unsatisfactory ratings; and (c) the request to report on progress in improvements to strengthen risk management and controls in governance, accountabilities, oversight, guidance, support and performance in response to the results from the headquarters, systems and thematic audits completed in 2008.

6. Section II of the present report discusses the accountabilities, quality assurance and risk-based audit planning of OIA and its capacity to fulfil its accountabilities. Section III explains the 2009 audit coverage, audit ratings, the main audit findings and underlying causes. Section IV summarizes key and recurrent findings. Section V provides an overview of investigation work and section VI describes the status of

implementation of audit recommendations. Annex 1 provides risk-management ratings for country office audits completed in 2009, while annex 2 contains a table of observations that have remained unresolved for more than 18 months.

II. Accountabilities and capacity of the Office of Internal Audit

A. Accountabilities and responsibilities of OIA

7. OIA fulfils its accountabilities in accordance with the Charter of Accountabilities and Responsibilities of the Office of Internal Audit. The role of OIA is to support the achievement of the mission of UNICEF and the fulfilment of its accountabilities through independent and objective assurance and advisory services. OIA assesses and analyses the effectiveness and adequacy of risk management, controls and governance processes of UNICEF through systematic and disciplined reviews at all levels within the organization. OIA follows the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).

8. OIA is responsible for conducting investigations into allegations of fraud, corruption and mismanagement in UNICEF, as well as of harassment and abuse of authority. OIA is also responsible for investigating cases of alleged retaliation against whistle-blowers. UNICEF guidelines for investigations are currently being reviewed and updated; in the meantime, OIA is following the United Nations Uniform Guidelines for Investigations.

9. The annual global audit plan and workplan are reviewed and endorsed by the UNICEF Audit Advisory Committee, and OIA reports to the Audit Advisory Committee on progress made. The audit plan is coordinated with the Evaluation Office and the United Nations Board of Auditors.

B. Quality assurance and maintaining professionalism

10. The OIA internal quality assurance process provides independent objective assurance that each audit is conducted and reported in accordance with the OIA Standards. To assure UNICEF management on the quality of audit reports, the Director of OIA includes a "Statement of Conformity to OIA Standards" in each report that meets the Standards. In 2009, all completed audits met OIA accepted performance standards for planning, implementation and reporting. OIA work was independently reviewed by the IIA in 2008. As reported last year, the IIA assessors expressed their overall opinion that the OIA generally conforms to the IIA International Standards for the Professional Practice of Internal Auditing, and to the Code of Ethics. The recommendations addressed to OIA have been implemented.

11. All auditors and managers of OIA are members of the IIA, and all auditors are encouraged to obtain and maintain a designation as Certified Internal Auditor (CIA), or similar professional designation such as information technology auditor or investigator. In 2009, OIA helped three staff members to obtain their CIA certification and supported the participation of 10 other auditors in external training events as part of their continuing professional education and development.

C. Risk-based audit planning

12. To focus audit resources on the most important areas, OIA uses a risk-based audit planning methodology. As a first step, OIA identifies and evaluates the potential risks to the achievement of UNICEF objectives. The identification of risk is informed by the enterprise risk management processes that management is implementing.

13. For an objective selection of risk areas that lead to thematic audits or audits in headquarters divisions, regional or country offices, OIA considers several risk factors, including: the resources involved; the time elapsed since the last audit; the performance of the office or division in implementing previous audit recommendations; and the extent of programme implementation in a field office, as estimated by expenditure rates. Prior to each audit, auditors conduct a pre-audit risk analysis to develop and refine the objectives and scope of the audit. The risk-based selection of audit areas and risk-based scoping of each individual audit ensure that OIA focuses on the areas of greatest risk, and more predictably identifies areas for improvement.

14. There is an increasing disparity in the sizes of the programme budgets of UNICEF field offices, with some offices having annual budgets more than \$100 million and many others operating with less than \$1 million. The OIA policy in 2009 has been that all UNICEF field offices are audited within a cycle of five years, and that the 10 offices with the largest programme allocations are subject to more frequent audits — typically every two to three years. However, the accumulation of other risk factors may necessitate an audit before or after the completion of the cycle. Under a risk-based audit approach, greater attention should be given to the offices with the highest risk. In view of this, OIA revised its audit cycle policy in 2010 to audit country offices within a cycle of seven years for the small offices (with a total budget of less than \$10 million); of three years for the top 10 offices with the largest total budgets; and of five years for the large and medium-size offices (with total budgets greater than \$10 million but less than those of the top 10 country offices). This new audit cycle policy was endorsed by the Audit Advisory Committee.

D. Oversight-related activities and advisory services

15. There is close collaboration between the Evaluation Office and OIA. Workplans are shared and jointly reviewed. In 2009, OIA and the Evaluation Office jointly carried out programme performance assessments (reported separately in section III D).

16. To support the launch of the Enterprise Risk Management policy in UNICEF, OIA provided Risk and Control Self-assessment workshops in three country offices and in one headquarters division to strengthen their risk-management processes. OIA also provided several orientation sessions on risk and control self-assessment to country offices that were audited in 2009. In addition, the Office carried out a comprehensive risk assessment of partnership management in UNICEF; and of DevInfo, a database system facilitating the sharing of data at the country level.

17. OIA provided support to a number of organization-wide initiatives such as the new accountability framework, organizational performance management and enterprise risk management — and for the establishment of a security framework for

SAP.¹ Advice was also provided on the evaluation of the harmonized approach to cash transfers; the policy on cash transfers in emergency situations; the development of the new Core Commitments for Children in Humanitarian Action; and the development of risk-management guidance for National Committees for UNICEF.

E. OIA resources and capacities

18. The OIA report on internal activities for 2007 presented to the Executive Board confirmed that the increase to 25 in the number of Professional posts for the Office of Internal Audit was fully funded, with effect from January 2008. This allowed OIA (a) to establish a full investigation section with two full-time investigator positions, one quality-assurance position, and one position dedicated to programme performance assessments; and (b) to convert two previously temporary positions to regular audit positions.

19. The total number of OIA staff in 2009 remained at the 2008 level: 29 posts, including one for a Junior Professional Officer (JPO) and three for General Service staff. Staffing was generally stable during the year, with only two posts becoming vacant. As of December 2009, there were only two vacant posts; one was a senior post and the other, which was unfunded, was for a JPO.

20. In its budget proposal for 2010-2011, OIA requested additional funding to cover short-term IT expertise, one P-4 position to meet increased demand for advisory services, and one P-3 investigator position to increase investigation capacity. Additional funding was granted for the P-3 investigator post (which has already been filled) and for the IT expert, but not for the P-4 advisory services post. OIA currently has adequate capacity to meet its mandate as established in the Charter of Accountabilities and Responsibilities.

F. Audit Advisory Committee

21. The Audit Advisory Committee, which serves as an independent advisory body, met three times in 2009 as planned. It interacted frequently with senior managers throughout the organization. In accordance with the new Charter of the Committee (which was approved in August 2009), the Committee is now composed of external members only, with OIA providing administrative and secretarial support.

22. The Committee continued to provide advice on the strengthening of the UNICEF oversight system. It issued an annual report to the Executive Director on its activities during 2009 (this is a separate document available to the Executive Board on the UNICEF Executive Board website).

¹ SAP, a software application, is the acronym for Systems, Applications and Products in data processing.

III. Results of work undertaken in 2009

A. Audit coverage

23. All country offices have been audited at least once over the last seven years, with four exceptions (all of which are small offices, and are projected to be audited in 2010). The 10 largest offices are audited at least once every three years and, as shown in table 1 below, OIA completed 27 of the 30 audits planned in 2009. Audits in three countries were postponed at the request of country offices for various reasons, including security constraints, illness and absence of key staff. Annex 1 is a list of country offices audited in 2009 and the ratings by audited functional areas. Section III E provides a summary of main findings from headquarters, thematic and systems audits, seven of which were completed in 2009.

Table 1
Audit coverage, 2007-2009

	2007	2008	2009
Number of completed country office audits	24	25	27 ^a
Number of completed headquarters, systems audits and summary reports	6	10	7
Number of joint United Nations audits	1	—	2 ^b
Number of completed audits	31	35	36

^a Including a follow-up audit.

^b Includes a joint United Nations risk assessment in Somalia and joint audit of the harmonized approach to cash transfers in Viet Nam.

B. Country office risk observations and ratings

24. In 2009, OIA revised its audit methodology and focused its review on three main functional areas: (a) governance and risk management, including delegation of authority and responsibilities, management systems and ethical awareness; (b) management of programmes with emphasis on planning, partnership management, and results monitoring and evaluation; and (c) operations management, focusing on financial and asset management, and management of information and communication technology. A comparative analysis of 2009 and 2010 ratings by functional area will be presented in next year's annual report of the Office of Internal Audit to the Executive Board.

25. Table 2, below, shows the audit observations in country offices by level of risk for 2005-2009. The number of total observations has decreased each year since 2005, except for 2009. The increase in the number of observations, to 403 in 2009, was largely explained by the fact that an additional two offices were audited in 2009 compared to 2008 (table 1), and by the changes in the audit methodology. The percentage of high-risk observations remained at 13 per cent of the total number of risks for four of the past five years (table 2).

26. To further reduce the percentage of high-risk observations, more effort would be required to correct recurrent weaknesses in programme and operations management

that were mainly due to inadequate oversight of the functioning of internal controls by country office managers, and to weak planning (see section III C).

Table 2
Country office audit observations by level of risk, 2005-2009

	2005		2006		2007		2008		2009	
High risk	81	13%	66	13%	51	13%	55	17%	53	13%
Medium risk	545	87%	424	87%	334	87%	272	83%	350	87%
Total risk observations	626	100%	490	100%	385	100%	327	100%	403	100%

27. In accordance with Executive Board decision 2006/18, the internal audit services of UNICEF, the United Nations Population Fund, the World Food Programme, the United Nations Office for Project Services and the United Nations Development Programme agreed on a common understanding of risk-management ratings to be used in internal audit reports. The new ratings, which are “satisfactory”, “partially satisfactory”, and “unsatisfactory”, have been applied to UNICEF internal audits since 1 January 2007.

28. Table 3 shows that 41 per cent of country offices audited in 2009 were rated satisfactory overall, and 41 per cent partially satisfactory. As of 15 June 2010, the offices rated unsatisfactory had made good progress in implementing corrective measures.

Table 3
Ratings by audited area for field offices, 2009

	<i>Satisfactory</i>		<i>Partially satisfactory</i>		<i>Unsatisfactory</i>	
Governance and risk management	14	54%	7	27%	5	19%
Programme management	6	23%	16	62%	4	15%
Operations management	14	54%	7	27%	5	19%
Overall rating*	11	41%	11	41%	5	18%

* Overall rating includes the rating of the follow-up audit, for a total of 27 audits completed in 2009.

29. It is not possible to make direct comparisons of ratings with those of previous years, due to the revised audit methodology and redefinition of audited functional areas. However, where comparison is possible, qualitative assessment by OIA strongly suggests that performance of country offices from 2007 to 2009 has been consistent.

30. The following section presents an analysis of observations and ratings by functional area.

Governance and risk management

31. Governance and risk management practices were reviewed in 26 country offices. These audits assessed how offices organize themselves (governance) and examined how they ensure appropriate responsibilities and authorities; effective risk and management systems; and appropriate ethical behaviour and practices.

32. In 2009, 14 (54 per cent) of the 26 audited offices were found to be satisfactory in this area, and 7 (27 per cent) partially satisfactory (table 3). The remaining 5 offices were rated unsatisfactory mainly because of the high-risk observations related to weaknesses in the assignment and delegation of authority and responsibilities. It should be noted that gaps in governance and risk management are often correlated with weaknesses in management of programme and operations. For instance, the offices rated unsatisfactory in governance were generally also rated as such in either programme or operations management.

33. Table 4 shows audit observations in governance and risk management by main area of governance in 2009. The 26 audits identified 125 risk observations, 14 of which were rated as high risk.

Table 4
Audit observations in governance and risk management, 2009

	<i>High risk</i>	<i>Medium risk</i>	<i>Total</i>
Delegation of authority and responsibilities	10	61	71
Management systems and quality assurance	4	38	42
Ethical and professional standards	0	12	12
Total	14	111	125

34. The majority of audited offices demonstrated positive practices, including effective internal oversight committees; timely implementation of previous audit recommendations; staff awareness of UNICEF ethical practices; and a strong tone at the top.

35. A more detailed analysis of the most frequent risk observations (42 per cent, or 52 of the 125 risks) showed that they are related to the following areas:

(a) Twenty-two observations (18 per cent of the 125 observations) showed weak strategic planning and priority-setting by country offices. These risks were found in 17 of the 26 audited offices. For instance, some offices had not developed annual management plans. A number of other offices had plans that were incomplete — missing information on operations or on programme priorities and targets. Still other offices had plans that contained too many priorities and therefore lacked focus or had unclear priorities;

(b) Sixteen observations (13 per cent) related to the lack of a systematic approach to risk management. While country offices had some mechanisms in place to identify and review constraints to programme implementation and operations support, they lacked a structured risk management approach for identifying,

responding to and reporting on risks. This was mainly due to insufficient support and guidance regarding the implementation of Enterprise Risk Management in UNICEF;

(c) Weaknesses in human resources strategy and recruitment were reported in 14 observations (11 per cent). For instance, five offices used high numbers of temporary staff and consultants because of inadequate capacity gap analysis and/or delayed recruitment.

36. The main underlying causes of these 125 observations were inadequate monitoring of the functioning of controls by managers (39 per cent); weak planning (36 per cent); and insufficient guidance as to how to identify and manage risks (13 per cent), as shown in table 7 (section III C).

Programme management

37. Twenty-six country-office audits reviewed programme management practices that UNICEF considers essential to achieving results for children and women. These audits reviewed how offices assess the situation of children and women in countries, and how they advocate, plan, support and monitor the achievement of results. They also examined how offices validate key results through programme evaluations.

38. In 2009, 22 (or 85 per cent) of the 26 audited offices were rated satisfactory (23 per cent) or partially satisfactory (62 per cent) in this area (table 3). The remaining four offices were rated unsatisfactory mainly because of the high-risk observations related to weak programme implementation and monitoring of results. Table 5 shows audit observations in programme management by main area in 2009. The 26 audits identified 164 risk observations, 19 of which were rated as high risk.

Table 5
Audit observations in programme management, 2009

	<i>High risk</i>	<i>Medium risk</i>	<i>Total</i>
Knowledge of the situation of children in the country	3	15	18
Advocacy for children	1	15	16
Programme planning, implementation and monitoring of results	14	91	105
Evaluation of programme results	1	24	25
Total	19	145	164

39. The majority of audited offices demonstrated positive practices, including the following: endorsement of UNICEF annual workplans by partners; alignment of country programmes with national priorities; and participatory review processes. However, the audits identified several risk observations, the most frequent of which (121 of the 164 risks, or 74 per cent) related to the following areas:

(a) Thirty-four observations (21 per cent) showed inadequate assessment of the capacity of implementing partners to use and manage UNICEF-supported inputs; and weak mobilization and delivery of programme inputs (such as direct cash transfers and programme supplies to partners). Further, the audits made 28 observations related to weak monitoring of results due to the inadequacy or lack of programme indicators and monitoring tools;

(b) The audits raised 25 observations (15 per cent) related to the evaluation of results. The evaluation function was weak in 15 of the 26 offices. For instance, the programme evaluations were not properly prioritized or implemented on time, and/or their recommendations were not rigorously monitored, with the result that institutional knowledge of programme effectiveness and accurate reporting on the achievement of multi-year results were weakened;

(c) Thirty-four observations (21 per cent) related to insufficient knowledge of the situation of children (11 per cent) and weak advocacy for children's rights (10 per cent). For instance, eight offices showed a lack of current relevant data and information on the situation of children, which weakened the identification of priority needs of children and the design of country programmes and advocacy plans. The offices also did not sufficiently support national data collection and analysis by partners. In 15 offices, there were no structured advocacy plans with clear strategies, assigned responsibilities, resources and targets so as to measure progress in the realization of children's rights.

40. The underlying causes of these 164 risk observations were mainly related to inadequate monitoring of the functioning of controls by managers (42 per cent); and weak planning and analysis (42 per cent), as shown in table 7.

Operations management

41. Twenty-six country office audits reviewed operations management practices that UNICEF considers essential to support for programme implementation. These audits examined how well offices ensure accurate and complete processing of financial transactions and proper implementation of financial controls; proper recording and management of assets, including inventory of programme supplies; and adequate IT security.

42. In 2009, 21 (81 per cent) of the 26 audited offices were found to be satisfactory (54 per cent) or partially satisfactory (27 per cent) in this area (see table 3). Five offices were rated unsatisfactory mainly because of high-risk observations related to financial management (processing financial transactions and supervising financial controls), as shown in table 6.

Table 6
Audit observations in operations management, 2009

	<i>High risk</i>	<i>Medium risk</i>	<i>Total</i>
Financial management	14	56	70
Inventory and asset management	5	25	30
Information technology security	1	13	14
Total	20	94	114

43. The 26 audits identified 114 risk observations, 20 of which were rated as high risk (table 6). The majority of audited offices demonstrated positive practices, including the following: clearly assigned financial authorities; accurate financial reporting; availability of programme supplies to support programme implementation;

and adequate IT security. However, the most frequent risk observations (50 per cent, or 57 of the 114 risks) related to the following areas:

(a) Twenty observations (18 per cent) showed weaknesses in the processing of financial transactions and implementation of financial controls. These risks were found in 14 of the 26 offices. For example, sampled payments for the procurement of goods and services were not always processed on time, fully supported, correctly coded and compliant with relevant financial requirements. In the majority of audited offices, the goods were not always certified as received. In the offices that had implemented the harmonized approach to cash transfers, there were delays in the processing of direct cash transfer requests from partners;

(b) Fourteen risks (12 per cent) were observed in the procurement of supplies and selection of suppliers in 11 offices. For instance, market surveys were often outdated; the databases of suppliers were either lacking or outdated; contracts were at times issued prior to the proposal being reviewed by the contract review committee; and bids were sometimes not processed properly;

(c) Twenty-three risks (20 per cent) were observed in the management of inventory and assets in 13 offices. In those cases, there was generally no physical count of inventory; delayed implementation or weak monitoring of the status of recommendations of the property survey board; use of a parallel manual system in recording assets in addition to the standard database; and some delays in the distribution of programme supplies to implementing partners.

44. The underlying causes of these 114 observations were mainly related to inadequate monitoring of the functioning of controls by managers (64 per cent), as shown in table 7 (section III C).

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

45. As a means of understanding the underlying issues associated with the audit findings, all audit observations are classified by OIA under one of the five categories set out in table 7 below. In 2007, OIA revised its classification of underlying causes to improve clarity. Five underlying causes were identified: a lack of guidance on how to identify and manage risks; a lack of adequate planning, leading to failure to foresee likely risks; a lack of monitoring by management of the functioning of internal controls; risk due to error on the part of staff or management, including misinterpretation of policy and guidance; and a lack of resources to identify and manage risks. This classification was also used in 2009.

46. Table 7 provides an analysis of the main underlying causes for medium- and high-risk observations in country offices for the period 2007-2009. Risks due to inadequate planning or analysis increased from 24 per cent in 2008 to 30 per cent in 2009. Other causes, however, had declined in importance. As in previous years, the most common cause is inadequate oversight of the functioning of internal controls, but this cause decreased from 53 per cent in 2008 to 47 per cent in 2009. Lack of resources accounted for only 8 per cent of the risks observed in 2009 audits – a significant improvement over the 20 per cent reported in 2007. Human error accounted for 5 per cent, down from 14 per cent in 2007.

Table 7
Underlying causes for medium- and high-risk observations (percentage), 2007-2009

	2007 total	2008 total	2009 total	2009 by audited area		
				Programme management	Operations management	Governance and risk management
Inadequate monitoring by management of the functioning of internal controls	36	53	47	42	64	39
Inadequate planning or analysis	22	24	30	42	6	36
Inadequate guidance to identify and manage risks	8	7	10	9	8	13
Lack of resources or capacity to identify and manage risks	20	10	8	6	10	8
Human error	14	6	5	1	12	4
Total	100	100	100	100	100	100

47. For 2009, table 7 shows the underlying causes of weaknesses disaggregated by audit area. The most frequent in all three audit areas was inadequate monitoring by management of the functioning of internal controls. This was the underlying cause of 42 per cent of weaknesses in programme management and 39 per cent in governance and risk management — and was especially significant in operations management, where it was associated with 64 per cent of the observations. Inadequate planning or analysis was the next most frequent cause, except in operations management, where it explained only 6 per cent of the risks. The other three underlying causes were generally less significant.

D. Findings from programme performance assessments

48. Programme Performance Assessments (PPAs) aim to assess the contribution of UNICEF to development of a country by considering the country office's strategic positioning in that country. To do this, PPAs assess management performance in five areas: (a) engagement with partners; (b) management of strategies and annual priorities; (c) advocacy; (d) knowledge management; and (e) capacity development of implementing partners. These areas contribute to objectives set in the UNICEF medium-term strategic plan (MTSP), 2006-2013.

49. UNICEF has taken several steps to address PPA findings and recommendations. It is strengthening its performance management system by defining benchmarks and standards of performance. With respect to the new Enterprise Resource Planning, it has planned to develop a web-based system to facilitate the sharing of experience and analysis of performance in areas such as advocacy and capacity development, management efficiency and effectiveness, and achievement of programme results. Further, other initiatives are being completed, such as developing an advocacy toolkit to support the planning and management of advocacy initiatives in country offices; additional guidance on capacity development; and a knowledge management framework that emphasizes the role of UNICEF as a provider and broker of child-related knowledge.

50. In 2010, OIA and the Evaluation Office plan to review the purpose, relevance and effectiveness of the 2008-2009 PPA pilot programme in providing oversight and assurance of performance, comparing it to other tools available to assess country office performance.

E. Findings from headquarters, thematic and systems audits

51. OIA undertook headquarters, systems and thematic audits in 2009, the results of which are summarized below.

Audit of information disclosure and data protection in UNICEF

52. The audit examined the policies and systems in place in UNICEF to support organizational transparency, balanced with the need to protect confidential and sensitive information in the organization's possession. UNICEF made a clear commitment to transparency in the accountability system approved by the Executive Board at the annual session of 2009 (decision 2009/8), and the audit made a number of positive observations regarding the support of UNICEF to that commitment. However, UNICEF does not currently have a specific transparency policy guiding the public disclosure of information. To address this gap, a draft UNICEF Information Disclosure Policy is currently under consideration within the organization. The audit identified some weaknesses in the guidelines for the protection of confidential or sensitive information, which may be necessary to preserve essential public or private interests of stakeholders, employees or third parties. There is a need for a clear policy on the classification and handling of sensitive information that applies to both electronic and hard copies. There is also a need to revise the current Information Security Policy to make it consistent with United Nations guidelines and the recently adopted accountability system.

Audit of UNICEF guidance and support for efficient operation functions in country offices

53. The audit assessed the extent to which UNICEF has sufficient and appropriate guidance and tools to assess the efficiency of the main support functions in country offices: finance, administration, human resources, supply, and information and communication technology. The objective of the audit was not to assess the actual efficiency of the support functions but to establish whether UNICEF provides country offices with the support, guidance and tools to do the assessment themselves. The audit also assessed the mechanisms of the country offices for planning, monitoring and reporting on, and ensuring accountability for, the efficiency of their support functions.

54. The audit proceeded on the assumption that a meaningful methodology for measuring efficiency must link costs with the achievement of results. The audit found no guidance on measuring the efficiency of the main support functions in country offices. It also found no global efficiency indicators linking costs with the results (or outputs) of the main support functions to assist UNICEF in overseeing the efficiency of the operations functions of country offices. Consequently, the sampled country offices showed weaknesses in planning for and monitoring and reporting on efficiency. For instance, sampled annual management plans of country offices generally lacked efficiency objectives and efficiency indicators (such as efficiency savings) or targets so as to monitor efficiency.

Audit of management of pilot initiatives in country offices

55. The audit assessed whether pilot initiatives undertaken through country offices were adequately managed and whether they contributed to UNICEF strategic objectives. Pilot initiatives are projects, usually innovative in nature, that are designed to test the effectiveness of an approach or the feasibility of its implementation.

56. The audit found that the small number of pilot initiatives initiated at the country level were probably insufficient for UNICEF to fully realize its strategic objective of being a global knowledge leader for children. The majority of pilot initiatives reviewed did not clearly indicate the expected achievements or the hypothesis or action to be tested. Less than 25 per cent included a baseline study or control against which results could be assessed; and almost all lacked sufficiently detailed budgets. Other observations included unclear responsibilities for supporting pilot initiatives throughout UNICEF; inadequate emphasis on the importance of piloting as a strategy; and weak dissemination of information from pilot initiatives. More positively, the audit found that pilot initiatives initiated by headquarters in conjunction with regional offices had strong and consistent monitoring mechanisms, clear implementation timelines and detailed costing.

Audit of the processes for promoting ethics and UNICEF values in country offices

57. The audit assessed whether the significant processes for promoting ethics and UNICEF values in country offices are working effectively, and whether risks to those processes are appropriately controlled. The audit found that many elements for promoting ethics and values exist in UNICEF, but that staff members showed weak awareness and understanding of, and confidence in, these elements. More specifically, staff awareness of the mechanisms for reporting cases of misconduct was significantly weak; and staff showed low confidence in the mechanisms for protection against retaliation. Other weaknesses related to the following areas: the UNICEF governance and ethical framework; mechanisms for seeking confidential advice and reporting misconduct; and monitoring and reporting on ethical conduct.

Audit of vehicles in support of operational and programme objectives

58. The audit assessed the quality of guidance and support provided by headquarters and regional offices to country offices for the management of vehicles. It also reviewed the planning, monitoring and use of vehicles for operations support and programme implementation in country offices as well as vehicles provided to implementing partners as programme inputs. The audit found that guidance was outdated and did not include important elements such as planning, management of vehicle life cycle, including environmental considerations, and performance measurement. Sampled country offices developed their own operational procedures with minimal oversight by headquarters division and regional offices. There was inadequate management information on vehicle use and costs at the country office and global levels. Sampled country offices did not consistently compare their vehicle fleet requirements with the existing number of vehicles so as to establish whether vehicle resources met their needs and were used efficiently and effectively. The sampled offices did not rigorously monitor the use of vehicles by implementing partners.

Audit of the management of the information and communication technology function in country offices

59. The audit reviewed whether the ICT function in sampled country offices has adequate structures, controls and procedures to ensure the completeness and integrity of data, and the continuous and cost-effective delivery of ICT services. Standard UNICEF applications were mostly used, and the majority of ICT-related licences were negotiated at the global level. However, there had been no identification of appropriate organizational frameworks and resource allocations for ICT services in different types of locations. There was no guidance on ICT governance structures, strategies and expected services at country level. The terms

of reference of the Regional Chiefs of ICT were unclear, and there was no coordinated effort to identify opportunities for outsourcing or inter-agency coordination. Further, regional and country offices did not have tools to monitor computer misuse and attempted security violations.

Audit of SAP security at the application level

60. The audit reviewed whether access to the SAP modules was designated in accordance with job responsibilities. It also reviewed the division of responsibility for security between the Division of Information Technology Solutions and Services (ITSS) and the main user divisions. The audit found that user divisions lacked their own procedures for creating, maintaining and assigning groups of access privileges. Weaknesses were also noted in the assignment of roles, the provisioning and de-provisioning of access rights and in the development and maintenance of customized programmes. These weaknesses need to be addressed within the context of the future Enterprise Resource Planning system of UNICEF; the sharp increase in the number of users; and the challenges posed by a geographically dispersed user base. ITSS has taken steps to implement the audit recommendations and has appointed a specialist firm to advise on the security framework that is most appropriate for the UNICEF SAP environment.

Summary of key and recurrent findings

61. Frequent observations that are common to a large number of country offices have been noted in section III C of this report, and in previous annual reports to the Executive Board. Table 8 summarizes key recurring findings in 2009. The findings are consistent with those reported by OIA to the Executive Board for 2008. The causes of findings in 2007, 2008 and 2009 were presented in section III C.

Table 8

Summary of key recurring observations in audits of field offices, 2009

<i>Functional area</i>	<i>Key recurrent findings</i>
Governance and risk management	<p>Weak strategic planning and priority-setting by country offices</p> <p>Lack of systematic approach to risk management</p> <p>Weaknesses in human resources strategy and recruitment</p>
Programme management	<p>Inadequate assessment of the capacities of implementing partners</p> <p>Inadequate prioritization of evaluation activities</p> <p>Insufficient knowledge of the situation of children</p>
Operations management	<p>Weak processing of financial transactions and implementation of financial controls</p> <p>Inadequate selection of suppliers</p> <p>Weak management of physical assets</p>

62. Headquarters, systems and thematic audits completed in 2009 did not have recurrent audit findings, except for noted weaknesses in guidance and monitoring. Other key observations in these audits included: lack of efficiency indicators in annual management plans; lack of procedures for the creation and assignment of roles; and weaknesses in awareness and understanding of, and confidence in, elements of UNICEF guidance for supporting ethics and values in country offices.

63. Several of the above key recurrent weaknesses are being addressed through the implementation of UNICEF organizational improvement initiatives. For instance, progress in developing an organization-wide risk management framework would enhance the capacity of managers and staff to make risk-informed decisions; the consolidation of an accountability system would clarify accountabilities and oversight at all levels in UNICEF, and the strengthening of performance indicators and management tools would improve the measurement and evaluation of results at all levels.

V. Investigations

64. As was stated in section II of this report, OIA is responsible for conducting investigations into allegations of fraud, abuse of authority, corruption, sexual harassment and exploitation, mismanagement in UNICEF and retaliation against whistleblowers. In 2009, approximately 100 allegations were received — either directly, or through an e-mail address accessible from the UNICEF Intranet and Internet website.

65. The number of investigations carried out by OIA decreased from 78 in 2008 to 51 in 2009. The decrease is due to the fact that cases are now recorded only if they have developed into investigations after preliminary assessment. Table 9 indicates the categories of investigations recorded by OIA during 2009. The list of categories is comparable to that of other United Nations, funds, programmes and agencies, and in future years will assist in a pattern analysis of wrongdoing within UNICEF, as well as in identifying weaknesses within the system.

66. Of the 51 investigations, 20 were closed after a preliminary assessment. The remaining 31 cases were subject to investigations. Of these, one case remains open and another was referred to the Office of Internal Oversight Services of the United Nations Secretariat. In addition to conducting field investigations, in coordination with the Division of Human Resources (DHR) and the concerned regional offices, OIA continued to provide guidance to country offices and regional offices on how to manage preliminary investigations locally. Guidance to staff on reporting suspected fraud or wrongdoing is included in the UNICEF anti-fraud policy.

Table 9
Number of cases per category submitted by OIA to DHR and Policy and Administrative Law Section (PALS) and number of cases resulting in disciplinary actions by DHR, 2009

<i>Categories of investigation cases</i>	<i>No. of cases</i>	<i>No. of cases submitted to DHR/PALS</i>	<i>No. of cases in which disciplinary action taken by DHR/PALS</i>
Burglary, robbery and theft of UNICEF funds or property	7	5	2
Entitlement fraud (pay, allowances, travel claims, etc.)	3	1	1
Procurement irregularities (engagement of companies without proper process; manipulation of procurement process)	4	1	1
Bribery or kickbacks	3	1	1
Unauthorized use or misuse or waste of UNICEF funds and property involving UNICEF personnel	2	1	1
Forgery	1	1	0
Fraud or theft not involving UNICEF personnel	3	0	0
Gross mismanagement or recklessness resulting in loss of UNICEF funds	1	0	0
Staff conduct (integrity issues; failure to comply with United Nations regulations, rules and local laws; and inappropriate acts by staff members as an international civil servants)	11	7	5
Harassment or abuse of authority	6	4	1
Sexual harassment and exploitation	5	3	3
Conflict of interest	5	4	3
Total	51	28	18

67. All cases from previous years were closed. The 48 completed investigations resulted in 28 investigation reports, all of which were referred to DHR for its review and action. Though the total number of investigated cases in 2009 was significantly lower than in 2008, the number of investigation reports referred to DHR (28) was only one less than in 2008 (29). As of 26 April 2010, DHR had taken disciplinary action on 18 investigation cases. In seven cases the staff members resigned during the investigation or the disciplinary proceedings. In two cases, DHR took no further action. One case was pending. The number and types of disciplinary actions taken are publicized through an information circular issued annually by the Executive Director so as to raise awareness of the type of misconduct and/or wrongdoing that has occurred and the disciplinary consequences, including any legal action.

68. As of 26 April 2010, DHR had issued seven summary dismissals (for wrongdoings such as staff misconduct, sexual harassment, and theft of UNICEF funds); two more summary dismissals were pending. In addition, there were three written censures with loss-in-grade; four written censures; three written reprimands; and one oral reprimand.

69. The remaining 20 cases out of the 48 completed investigations were closed by OIA for the following reasons:

- (a) Reported allegations were found to have no substance (seven cases);
- (b) Reported allegations could not be substantiated (nine cases);
- (c) Proactive action was taken to avert banking fraud (two cases);
- (d) The cases were outside of OIA investigative jurisdiction (two cases).

VI. Implementation of audit recommendations by management

70. OIA regularly monitors the status of actions taken by audited country and regional offices and headquarters divisions in order to close audit recommendations. Where a reported action has not adequately addressed the identified risks, OIA points out gaps and suggests additional actions to address the inadequately controlled risks. Reminders are sent if implementation reports are overdue. In its decision 2006/18, the Executive Board requested disclosure of all recommendations not implemented within 18 months of being issued. As of 31 March 2010, there were seven outstanding recommendations older than 18 months (see annex 2) and all of them related to audits of headquarters and regional offices.

Implementation of audit observations issued to country offices

71. As of 31 March 2010, all recommendations are closed for observations issued to country offices in 2008 or earlier.

72. OIA issued 403 observations to country offices in 2009; as of 31 March 2010, 220 of these cases remained open. These observations pertain to 19 offices. Of the 26 offices audited in 2009, 16 were due to report their corrective actions by 31 March 2010, and all 16 had done so. OIA determined that adequate controls had been established for 69 per cent of the risks identified in these 16 country offices.

Implementation of audit recommendations issued to headquarters and regional offices

73. All recommendations of the 28 reports of headquarters and regional audits and summary reports issued in 2002-2006 are reported as being fully addressed.

74. The implementation rate for all headquarters and systems audits completed in the period 2007-2009 was 75 per cent. Of 263 recommendations included in the six reports of headquarters and systems audits issued in 2007, 256 have been closed. The remaining 7 recommendations in two audit reports (one pertaining to the management of non-thematic other resources contributions and SAP baseline security controls) were still open and were older than 18 months (see annex 2). Of the 202 recommendations included in the 10 audit reports issued in 2008, 115 have been closed and the remaining 87 audit recommendations are still open. The four audit reports issued in 2009 contained 74 recommendations, of which 35 were closed as of 31 March 2010.

Annex 1**Risk management ratings for field office audits completed in 2010**

<i>Office</i>	<i>Overall rating</i>	<i>Rating of functional area</i>		
		<i>Governance and risk management</i>	<i>Programme management</i>	<i>Operations management</i>
Bangladesh	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Cameroon	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
Central African Republic	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
Chad	Partially satisfactory	Partially satisfactory	Partially satisfactory	Unsatisfactory
Côte d'Ivoire	Unsatisfactory	Unsatisfactory	Partially satisfactory	Unsatisfactory
Cuba	Partially satisfactory	Partially satisfactory	Satisfactory	Partially satisfactory
Dominican Republic	Satisfactory	Satisfactory	Satisfactory	Satisfactory
El Salvador	Partially satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Ethiopia	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
Haiti	Unsatisfactory	Unsatisfactory	Unsatisfactory	Partially satisfactory
India (Bhopal)	Satisfactory	Satisfactory	Satisfactory	Satisfactory
India (Delhi)	Partially satisfactory	Partially satisfactory	Partially satisfactory	Satisfactory
India (Lucknow)	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
Jordan	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Kosovo	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Mozambique	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Myanmar	Partially satisfactory	Satisfactory	Partially satisfactory	Partially satisfactory
Namibia	Partially satisfactory	Partially satisfactory	Partially satisfactory	Unsatisfactory
Nicaragua	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Nigeria	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Oman	Partially satisfactory	Satisfactory	Partially satisfactory	Partially satisfactory
Pacific Island Countries (Fiji)	Satisfactory	Satisfactory	Partially satisfactory	Satisfactory
Panama	Unsatisfactory	Unsatisfactory	Unsatisfactory	Satisfactory
Somalia	Partially satisfactory	n/a*	n/a*	n/a*
Syrian Arab Republic	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Timor-Leste	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Zimbabwe	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory

* Follow up audit does not provide rating by functional area.

Annex 2

Table of observations that remain unresolved for more than 18 months, as of 31 March 2010

<i>Audit observation</i>	<i>Recommendation</i>
Management of non-thematic other resource contributions (report issued in 2007)	
Oversight authorities, responsibilities and accountabilities of regional offices for the oversight of country office use of other resource contributions not clearly defined	UNICEF, together with relevant headquarters divisions and regional offices, should clarify the authorities, responsibilities and accountabilities of regional offices for the oversight of country offices' use of other resources; and establish mechanisms to exercise systematic oversight of regional offices that have responsibilities for other resource contribution management
SAP baseline security controls (report issued in 2008)	
Adequate training not provided to SAP security focal points	The Division of Information Technology Solutions and Services (ITSS), in collaboration with the Division of Human Resources (DHR), should draw up and implement a training programme for SAP security focal points on IT and SAP security, including major risks to the confidentiality and integrity of data
Procedures for the generation, review and follow-up action of SAP security reports not established	ITSS should develop and implement a clear policy with regard to online access to security reports and the frequency of security report generation. The generation and review of security reports should be delegated to appropriate focal points within each division and country office
Monitoring access levels and investigating security violation reports solely on a central basis not practical in light of expected increase in the number of SAP users	ITSS should explore ways of granting the focal points assigned to the security monitoring function within each division and country office access to query tools for checking the SAP security capabilities of users within their units and to investigate security violations

<i>Audit observation</i>	<i>Recommendation</i>
Sampled critical transactions codes in SAP inappropriately provided to users	ITSS, in consultation with the divisions concerned, should review staff member access to critical transactions codes in SAP to ensure that it is appropriately justified and monitored. ITSS should also ensure that the criteria for granting access to critical transaction codes (that give users the ability to read, modify or delete any data in SAP) are documented in the security policy and authorized by data owners
Procedures for modifying or disabling SAP access rights not established	ITSS, in coordination with DHR, should set standards, assign accountabilities and establish procedures for modifying or disabling SAP access rights
Lack of automated link with the personnel data in SAP to manage access rights of staff members that have been transferred or terminated	ITSS should assess the feasibility of developing an automated link between the SAP security function and the SAP personnel data so that user information required for the granting, modification and disabling of SAP access rights is provided systematically from respective users' personnel files