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Office of Internal Audit 2010 annual report to the Executive Board

Summary

This report provides information on the activities of the Office of Internal Audit during the year ended 31 December 2010. It provides an overview of the unit, describes the key issues highlighted by its internal audit and investigations work, and gives information on the disclosure of internal audit reports during 2010. The management response to this report is presented separately as requested in decision 2006/18. The annual report of the Audit Advisory Committee is also appended to the report in line with the accountability system of UNICEF, which was approved by the Executive Board in its decision 2009/8. A draft decision is included in section VII.

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Contents

2010 Annual report of the Audit Advisory Committee (available on the Executive Board website)

I. Introduction

1.   This annual report was prepared by the Office of Internal Audit (OIA) and describes UNICEF internal audit and investigations activities during 2010. It gives an overview of OIA, describes the key issues highlighted by the unit's internal audit and investigations work, and provides information on the disclosure of internal audit reports during 2010. The annual report of the Audit Advisory Committee is also appended to this report (made available on the Executive Board web page) in accordance with the requirements of the accountability system of UNICEF, which was approved by the Executive Board through decision 2009/8.

II. Overview of the Office of Internal Audit

A. Mandate

2.   OIA provides independent and objective assurance and advisory services designed to add value and improve UNICEF operations. It helps UNICEF to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes. OIA assesses whether these processes provide reasonable assurance that:

(a)   Resources are acquired economically and are used efficiently;

(b)   Assets are safeguarded;

(c)   Activities comply with regulations, rules, policies, procedures, administrative instructions and contracts;

(d)   Financial, managerial and operating information is accurate, reliable and timely;

(e)   Programmes, plans and business objectives are achieved.

3.   The nature and scope of OIA advisory services are agreed with UNICEF management. Such services may include advice and analyses to promote improvements in governance, risk management and control processes. OIA takes care to ensure that its independence and objectivity are not compromised.

4.   OIA also conducts investigations to examine and determine the veracity of allegations of corrupt or fraudulent practices and allegations of misconduct involving UNICEF staff, consultants, non-staff personnel and institutional contractors. OIA's investigations cover various forms of misconduct including fraud, corruption, workplace harassment, sexual harassment, abuse of authority and failure to observe prescribed regulations, rules, administrative issuances and standards of conduct.

5.   OIA adheres to the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors and to the Uniform Principles and Guidelines for Investigations, which are periodically endorsed by the Conference of International Investigators.

6.   As required by the Standards, OIA hereby confirms to the Board that it enjoyed organizational independence during 2010. The unit was free from

interference in determining its audit scope, performing its work and communicating its results.

B. Risk-based audit planning

7.   OIA formulates its workplans based on risk assessments. Its 2010 risk assessment and work plan preparation exercise used input obtained from various levels of management, OIA staff, interactions with the Audit Advisory Committee and a review of the status of 2009 audit engagements. The exercise also included an assessment of the consistency of potential engagements with the guiding principles of the UNICEF Medium-term strategic plan. The OIA 2010 workplan contained audit engagements relating to country offices as well as headquarters, regional offices and thematic areas.

8.   Selection of country office audits was based on the risk profile of each office and OIA's 2010 strategy of ensuring that the 10 largest country offices (all offices are measured in terms of total budget) are audited every three years, medium-size country offices every five years, and small country offices every seven years. Headquarters, regional offices and thematic audits were selected through a risk assessment exercise that considered the relevance of the themes or audit areas to advancing UNICEF priorities and delivering better results for children; dollars at risk; potential impacts of uncontrolled risks; existence of known control weaknesses; time since the last audit; and suggestions from audit staff and senior management.

9.   OIA also took account of the planned 2010 audits of the external auditor as a means of minimizing duplication of work and optimizing audit coverage for UNICEF. The final 2010 work plan was reviewed and endorsed by the Audit Advisory Committee.

C. Staffing

10.   OIA had 29 staff positions in 2010: a director, a deputy director, 19 auditors, 3 investigators, 1 editor, 3 administrative assistants and a Junior Professional Officer (JPO). Despite best efforts to fill all vacancies during 2010, five of these positions (four P4 internal auditors and the JPO) were vacant at the end of the year. As of 31 December 2010 the recruitment process for the four P4 internal auditor positions was at the short-listing stage and OIA expected to make selection decisions early in 2011; and the Division of Human Resources (DHR) was assisting OIA to identify candidates for its vacant JPO position, which is donor funded. OIA was expecting to identify potential candidates early in 2011.

11.   In consultation with DHR, OIA was exploring ways of temporarily offsetting current and future vacancies through flexible staffing strategies, including hiring short-term consultants and staff to ensure timely achievement of the work plan. OIA was also in the process of creating staff talent pools for use in filling future vacancies on a timely basis.

12.   As of 23 May 2011, OIA had made selection decisions for the four vacant P4 internal auditor positions and was working with DHR to bring the selected individuals on staff. OIA had also created a P4 staff talent group, which is a roster

of internal and external candidates who undergo a competitive selection and assessment process that is reviewed by a competent Central Review Body, and who are available for selection to new positions for a maximum of two years. OIA was also continuing to work with DHR to identify suitable donors and candidates for the vacant JPO position.

D. Audit Advisory Committee

13. The Audit Advisory Committee, consisting of five independent external experts, reviewed OIA's annual workplan, quarterly progress reports, resources, selected reports and proposed amendments to the OIA charter. It also gave advice to improve the effectiveness of internal audit and investigation activities in UNICEF. The Committee's activities were summarized in its 2010 annual report to the Executive Director (an appendix to this report, it is available on the Executive Board web page) in line with the accountability system of UNICEF.

III. Internal Audit work

A. Results from audits of country offices

14. Country office audits conducted in 2010 focused on three main functional areas: (a) governance, including delegation of authority and responsibilities, management systems and ethical awareness; (b) management of programmes, with emphasis on planning, partnership management, results monitoring and evaluation; and (c) operations management, focusing on financial and asset management and management of information and communication technology.

15. OIA completed 20 country office audits (annex 1) during 2010 and the field work for another 3 audits before the end of the year. The 20 completed audits contained 345 observations, of which 39 were rated as high risk and 306 as medium risk. The proportion of observations that were rated as high risk was 11 per cent, similar to the proportion (about 13 per cent) over the previous five years.

16. Of the observations made in 2010, 106 were related to governance, 140 to programme management, and 99 to operations support. The issues highlighted for each of these areas are provided below.

Governance

17. The audits completed in 2010 examined the governance area and assessed the delegation of authority and responsibilities, management systems, quality assurance and ethical awareness. The audits made 106 observations, of which 6 were rated as high risk and 100 as medium risk (table 1).

Table 1
Number of 2010 governance observations by area and risk rating

Area	High risk	Medium risk	Total
Delegation and reporting on responsibilities and authorities	3	59	62
Management systems and quality assurance	3	41	44
Total	**6**	**100**	**106**

18. The most frequent observations (52 per cent, or 55 of the 106 observations) addressed the areas described below:

(a) Staff recruitment and the lack of required staff competencies: 18 observations in 13 offices. High vacancy rates combined with slow recruitment were noted in 9 offices, where it took more than a year to recruit some key staff. Audits also observed that vacancies in key positions had weakened oversight, especially in countries supporting emergency programmes, and that required human-resource capacity assessments had not been undertaken in 7 offices.

(b) Functioning of oversight committees: 14 observations in 14 offices. For example, in 9 offices, the country management team did not fully exercise its strategic role, which includes advising on programme direction, identifying priorities, using recommendations from strategic evaluations and overseeing risk management. In 4 offices, the contract review committee did not perform efficiently. There was insufficient review of contract submissions, some of which lacked evidence of competitive bidding. Nine office audits also observed the existence of numerous committees, task forces and working groups (up to 24 in one country office) with overlapping roles.

(c) Management structures: 12 observations in 12 offices. In 3 country offices supporting large-scale emergency responses, the programme management structure was not adequate to support the scale and complexity of the emergency programme, whose budgets had increased threefold over a short period. Programme and management arrangements in 5 middle-income countries were also noted to be unsuitable to ensuring effective support for various resource-leveraging and other forms of support for 'upstream' (at the level of the source of policies and programmes) work for children.

(d) Unrealistic results and priorities and indicators that were not linked with identified results and/or priorities: 11 observations. The indicators were not substantive; in most cases they were limited to financial utilization, with no qualitative indicators of actual results for children. Monitoring of these indicators by the country management teams was also weak. Some countries had no indicator for emergency support. These offices lacked evidence that annual management plans were being used as strategic tools.

19. The immediate causes of most of the 106 observations were inadequate monitoring of the functioning of controls by managers; weak planning; insufficient guidance; and inadequate resources.

Programme management

20. The completed audits reviewed programme management practices and assessed how offices gain sound analysis and understanding of the situation of children and women; how they implement advocacy initiatives; how they plan and support programme implementation; and how they monitor achievement of results. The audits also examined how offices validate key results through programme evaluations. The audits made 138 observations in the programme management area, of which 16 were rated as high risk and 122 as medium risk (table 2).

Table 2
Number of 2010 programme management observations by area and risk rating

Area	High risk	Medium risk	Total
Implementation and monitoring	9	40	49
Office planning and funding	4	41	45
Evaluation	1	17	18
Assessing quality of analysis on the situation of children and women	1	14	15
Advocacy	1	10	11
Total	**16**	**122**	**138**

21. The most frequent observations (87 per cent, or 120 of the 138 observations) were on the areas described below:

(a) Support to programme implementation, monitoring and reporting on results: 49 observations. Eight affected offices did not adequately assess the basis for their cooperation with non-governmental organizations, including the capacity of these organizations to undertake analysis or manage inputs provided by UNICEF. Seven offices had weak fundraising and planning practices, delaying provision of cash and supply inputs. This shortcoming also resulted in expiry of unused funds in three offices.

(b) Programme planning, particularly in planning annual results and planning and managing funding: 43 observations. Unrealistic planning was noted in 17 offices, including unrealistic time frames for implementation of activities. In 4 of these offices planned activities exceeded available funding, indicating that defined results would not be met. Unrealistic implementation timeframes also constrained continuity of planned activities. In 9 offices, the major issue in funds management was the absence of a systematic process for allocating funds among supported programmes.

(c) Insufficient data and information on the situation of children and women: 16 observations in 9 offices. Most of these offices demonstrated some effort to support government mechanisms for national data collection and analysis, but such support was not provided systematically or strategically, resulting in fragmentation and gaps in required information. In several offices the audit noted absence of sufficient baseline information and indicators for determining progress.

(d)   Absence of a structured approach: 12 observations. This was evidenced by the lack of an advocacy strategy, clear advocacy themes and priorities, and assignment of relevant responsibilities to staff.

22.   The immediate causes of most of the 138 observations were weak planning and analysis and inadequate monitoring of the functioning of programme controls by managers.

Operations support

23.   The completed audits examined operations support practices and assessed how offices ensure accurate and complete processing of financial transactions; proper implementation of financial controls; proper recording and management of assets, including inventory of programme supplies; and adequate information technology security. The audits made 99 observations, of which 17 were rated as high risk and 82 as medium risk (table 3).

Table 3
Number of 2010 operations support observations by area and risk rating

Area	High risk	Medium risk	Total
Financial management	9	46	55
Inventory and asset management	3	24	27
Information technology security	5	12	17
Total	**17**	**82**	**99**

24.   The most frequent observations (74 per cent, or 73 of the 99 observations) were on the areas described below:

(a)   Management of inventory and assets: 15 observations in 14 offices. For instance, audits noted problems with the accuracy of inventory records, absence of inventory counts and inventory reconciliation, and inappropriate segregation of duties over physical counts and inventory management. In one office, the inability to identify loaned inventory was rated as a high risk.

(b)   Financial control issues: 26 observations in 15 offices, relating to insufficient documentation to support transactions; absence of key financial controls, resulting in processing of payments before delivery of goods and recording unrelated transactions as outstanding budgetary obligations; incorrect coding and inappropriate classification of transactions; weaknesses in cash management; excessive financial approval limits; and preparing cheques in advance of expiring Programme Budget Allotments (PBAs).

(c)   Procurement: 13 observations in 8 offices. The observations concerned problems in bidding and selection of suppliers; inappropriate or poor documentation of bidding processes; lack of justification for competitively selected suppliers; failed attempts to establish long-term service agreements for frequently procured supplies; and lack of efforts to conduct market surveys.

(d)   Granting of access to the UNICEF information and communication technology system: 11 observations in 9 offices. The issues included granting access

to inappropriate or untrained staff; inadequate processes for granting access to UNICEF systems; duplicate user IDs; inaccurately recorded user ID expiry dates; and weak segregation of duties among the staff administering access to UNICEF systems.

(e) Warehouse and supply management: 8 observations in 7 offices. The issues noted included supplies that had become obsolete, damaged or lost because of their prolonged stay; slow movement of supplies; inadequate systems in place to monitor supplies kept in warehouses; unsuitable storage conditions; and poor recording of inventory movements. One observation was also raised relating to the functionality of the tracking system (Unitrack) in a country office that maintained 13 warehouses.

25. The immediate causes of most of the 99 observations were inadequate monitoring of the functioning of controls by managers, human errors in application of controls and lack of resources or capacities.

Analysis of causes for country office audit observations

26. As a means of understanding the underlying issues associated with audit findings, all audit observations were classified by OIA under one of five cause categories: (a) lack of monitoring by management of the functioning of internal controls; (b) lack of adequate planning, leading to failure to foresee likely risks; (c) lack of guidance on how to identify and manage risks; (d) lack of resources to identify and manage risks; and (e) errors on the part of staff or management, including misinterpretation of policies and guidance.

27. For the period 2007-2010, as in previous years, the most common causes of medium- and high-risk observations were inadequate monitoring of the functioning of internal controls and inadequate planning or analysis (table 4). These two causes accounted for 80 per cent of all country office audit observations.

Table 4
Percentage of causes of medium- and high-risk country office audit observations, 2007-2010

Cause	2007	2008	2009	2010
Inadequate monitoring by management of the functioning of internal controls	36	53	47	45
Inadequate planning or analysis	22	24	30	35
Inadequate guidance to identify and manage risks	8	7	10	6
Lack of resources or capacity to identify and manage risks	20	10	8	9
Human error	14	6	5	5
Total	**100**	**100**	**100**	**100**

B. Results from audits of headquarters, regional offices and thematic areas

28.   OIA completed seven audits of headquarters, regional offices and thematic areas and the field work for another four audits before the end of the year. OIA also issued three summary analysis reports of all country office audits conducted the previous year. The results of the seven completed audits are summarized below.

Contract management in the Division of Communication

29.   The audit found that contracts for services in the Division of Communication were not being managed properly. Shortcomings concerned planning the use of consultants and contractors for implementing the Division's work plan; setting terms of reference; selecting consultants and contractors through competitive processes; issuing contracts; and monitoring the performance of consultants and contractors. Division staff members were also not sufficiently trained on the process of contracting for services, and there were inadequate processes for identifying, assessing and responding to risks pertaining to contract management.

Joint audit of the harmonized approach to cash transfers in Malawi

30.   A joint audit by the United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA) and UNICEF concluded that Malawi was not yet fully compliant with the harmonized approach to cash transfers (HACT). A number of areas for improvement were noted, and recommendations were provided to the United Nations country team.

Joint audit of the harmonized approach to cash transfers in Viet Nam

31.   The audit in Viet Nam was carried out jointly by auditors from UNICEF, UNDP and UNFPA under the leadership of the UNFPA Division of Oversight Services. The joint team concluded that the three participating agencies had made considerable progress, but the country was not yet fully compliant with HACT. Recommendations concerning implementation of HACT were addressed to the United Nations country team, and those concerning the HACT framework were made to the United Nations Development Operations Coordination Office.

Risk assessment of IPSAS implementation in UNICEF

32.   The International Public Sector Accounting Standards (IPSAS) risk assessment identified several areas needing improvement to successfully implement IPSAS in UNICEF: late and partial implementation of planned IPSAS activities; delayed development of policy positions on significant issues; and insufficient monitoring of IPSAS implementation. The risk assessment also presented good practices or control expectations that could be used as self-assessment criteria to assist UNICEF in managing the identified risks and judging the performance of IPSAS implementation.

Safety and security of staff, premises and assets in field offices

33.   The audit of safety and security found that UNICEF directives were outdated and guidance was lacking on reporting performance on security and safety. Ambiguity was found in the responsibilities of headquarters divisions and regional

offices. Security plans were also outdated and did not include all required key elements. The security risk assessments reviewed were not well developed and were missing significant information. A number of security risk management measures were not adequately implemented or monitored, and some offices were not adhering to mandatory security requirements or reporting of security and safety incidents.

Management of the information and communication technology function in Geneva

34. The audit found that an information and communication technology (ICT) strategy had been developed in the Geneva Regional Office. Observations and feedback showed that ICT users in the Division of Private Fundraising and Partnerships and in the regional office for Central and Eastern Europe and the Commonwealth of Independent States were satisfied with the support provided by the ICT function. The ICT section in the Geneva office is the single largest complement of ICT staff outside headquarters, but no studies had been conducted to determine appropriate staffing levels, and there were no service-level agreements. Improvements could be achieved through a common ICT governance body for Private Fundraising and Partnerships and the regional office. Recommendations were also made to strengthen areas such as training, inventory management, disaster recovery planning and testing of business continuity plans in the Central and Eastern Europe and the Commonwealth of Independent States region.

Information and communications technology governance, strategic planning and project management

35. The audit found that the Division of Information Technology Solutions and Services (ITSS) had developed a global ICT strategy and strengthened its project management function. However, there was no global ICT governance body with representation from senior business management and no guidelines covering preparation, submission and review of business cases for major ICT initiatives. These initiatives were not always assessed holistically to ensure consistency and to identify opportunities for synergy, nor was a global financial framework for ICT expenditure in place. Details on the budget and source of funding were not always identified in the business case, making it difficult to meaningfully assess options and return on investment. A consistent project management methodology for all UNICEF ICT projects was lacking, and no post-implementation reviews were carried out to evaluate the benefits obtained against the investment made.

Summary reports of country offices audited in 2009

36. In 2010, OIA consolidated key findings from 26 country office audits undertaken during 2009 into three summary reports covering governance, programme management and operations support management. The main objective of these reports was to increase awareness among senior managers about the significance, recurrence and underlying causes of control weaknesses. The summary reports were based on audits covering the period from January 2008 to the end of the on-site work in 2009 and were therefore reported on in the 2009 annual report.

C. Audit ratings

37. In 2010, individual engagements were carried out based on objectives and scopes unique to each engagement, and were categorized as either assurance or advisory engagements. The overall results of country office assurance engagements were rated as satisfactory, partially satisfactory or unsatisfactory. Assurance engagements relating to headquarters, regional offices and thematic areas as well as advisory engagements were not rated.

38. Of the country office audits completed during 2010, 10 per cent, or 2 (Guinea and Peshawar, Pakistan, zone offices) out of 20, were rated as unsatisfactory. While the percentage of unsatisfactory ratings was lower than in 2009, the percentage of audits with satisfactory ratings also decreased, from 41 per cent to 30 per cent (table 5).

Table 5
Percentage of overall ratings for completed 2009 country office audits

Year	Satisfactory	Partially satisfactory	Unsatisfactory
2009	41	41	18
2010	30	60	10

D. Monitoring implementation of audit recommendations

39. OIA closely monitors country offices that are rated unsatisfactory. OIA continued to undertake quarterly desk reviews to follow up on the progress of implementation of audit recommendations. During the fourth quarter of 2010 OIA introduced a practice of conducting on-site reviews to assess implementation of recommendations in audit reports that have an overall unsatisfactory rating in the preceding year.

40. As of 31 December 2010, there were no outstanding recommendations to country offices older than 18 months. However, there were 18 outstanding recommendations older than 18 months related to audits of headquarters, regional offices and thematic areas (annex 2).

Implementation of audit observations issued to country offices

41. As of 31 December 2010, the implementation status of audit observations for previous audits of country offices was as follows:

(a) Of the observations made in 2010, 27 per cent (95 out of 347) were closed;

(b) Of the observations made in 2009, 88 per cent (353 out of 403) were closed;

(c) Of the observations made in 2008 or earlier, 100 per cent were closed.

Implementation of audit recommendations issued to headquarters units and regional offices

42. As of 31 December 2010, the implementation status of recommendations for previous audits of headquarters, regional offices and thematic areas was as follows:

    (a) Of the recommendations made in 2010, 23 per cent (20 out of 86) were closed;

    (b) Of the recommendations made in 2009, 93 per cent (229 out of 246) were closed;

    (c) Of the recommendations made in 2008, 99 per cent (207 out of 208) were closed;

    (d) Of the recommendations made in 2007 or earlier, 100 per cent were closed.

E. Advisory services

43. OIA provided numerous advisory services and other forms of support to management in 2010. These included (a) deployment of three staff to Haiti (twice) to support the country office in developing its risk management strategy shortly after the earthquake in January 2010; (b) secondment of one senior auditor to the Change Management Office to act as the global risk management focal point; (c) holding of risk and control self-assessment workshops in a number of country offices; (d) provision of guidance and advice on HACT; and (e) provision of support during the training of new representatives and workshops for those in the New and Emerging Talent initiative.

IV. Disclosure of internal audit reports

44. The current process for disclosure of internal audit reports is governed by Executive Board decision 2009/08 of 10 June 2009. It permits Member States to have read-only access to internal audit reports on UNICEF premises following notification to all Executive Board members and concerned host Member States. To date, 12 Member States have viewed various internal audit reports.

45. In 2010, six Member States viewed 12 internal audit reports, pursuant to Executive Board decision 2009/8 (table 6).

Table 6
Audit reports disclosed to Member States during 2010

Disclosed audit reports	Member State
Central African Republic country office	France
Côte d'Ivoire country office	Côte d'Ivoire, France, United States
Guinea country office	France
Ethiopia country office	France
India country office	France, India
Mozambique country office	Denmark, Mozambique, United States
Myanmar country office	United States
Nigeria country office	France
Zimbabwe country office	Denmark, France
Guidance and support for efficient operation functions in country offices	United States
Management of pilot initiatives in country offices	Denmark, United States
Process for promoting ethics and UNICEF values in country offices	Denmark, United States

V. Investigations

46.   OIA is responsible for investigating allegations of all forms of misconduct, including fraud, theft, corruption, sexual and all other forms of harassment and exploitation, abuse of authority and retaliation against whistleblowers. In coordination with DHR and the concerned regional offices, OIA continued to provide guidance to country and regional offices on how to manage preliminary investigations locally.

47.   In 2010, numerous issues were brought to the attention of OIA, by phone, fax, mail or email or by a dedicated email address accessible from the UNICEF Intranet and the Internet, known as the Integrity 1 hotline, which allows anonymous reporting. Following initial screening, approximately 450 issues were determined to constitute possible allegations of wrongdoing by a UNICEF staff member or consultant. Most of these matters needed to be referred back to the originator for further information or clarification. Following this process, 69 issues were found to constitute allegations of wrongdoing and were investigated. Three cases were carried over from 2009, meaning that 72 cases were managed in 2010 (table 7).

Table 7
Processing of investigation cases in 2010

Case load	
Carry-over as of 1 January 2010	3
Intake during the year	69
Total cases during 2010	**72**
Closed (from cases carried over)	3
Closed (from intake)	45
Total cases closed during 2010	**48**
Cases carried forward as of 31 December 2010	**24**
Total cases closed during 2010	**48**
Closure memorandum (allegation not substantiated)	17
Closure memorandum (allegation substantiated and remedial action taken by country office)	3
Closure memorandum (withdrawal of complaint)	3
Closure memorandum (miscellaneous)	4
Investigation report submitted to DHR	21

48. By the end of 2010, the 21 investigation reports submitted to the Policy and Administrative Law (PALS) section of DHR resulted in the following:
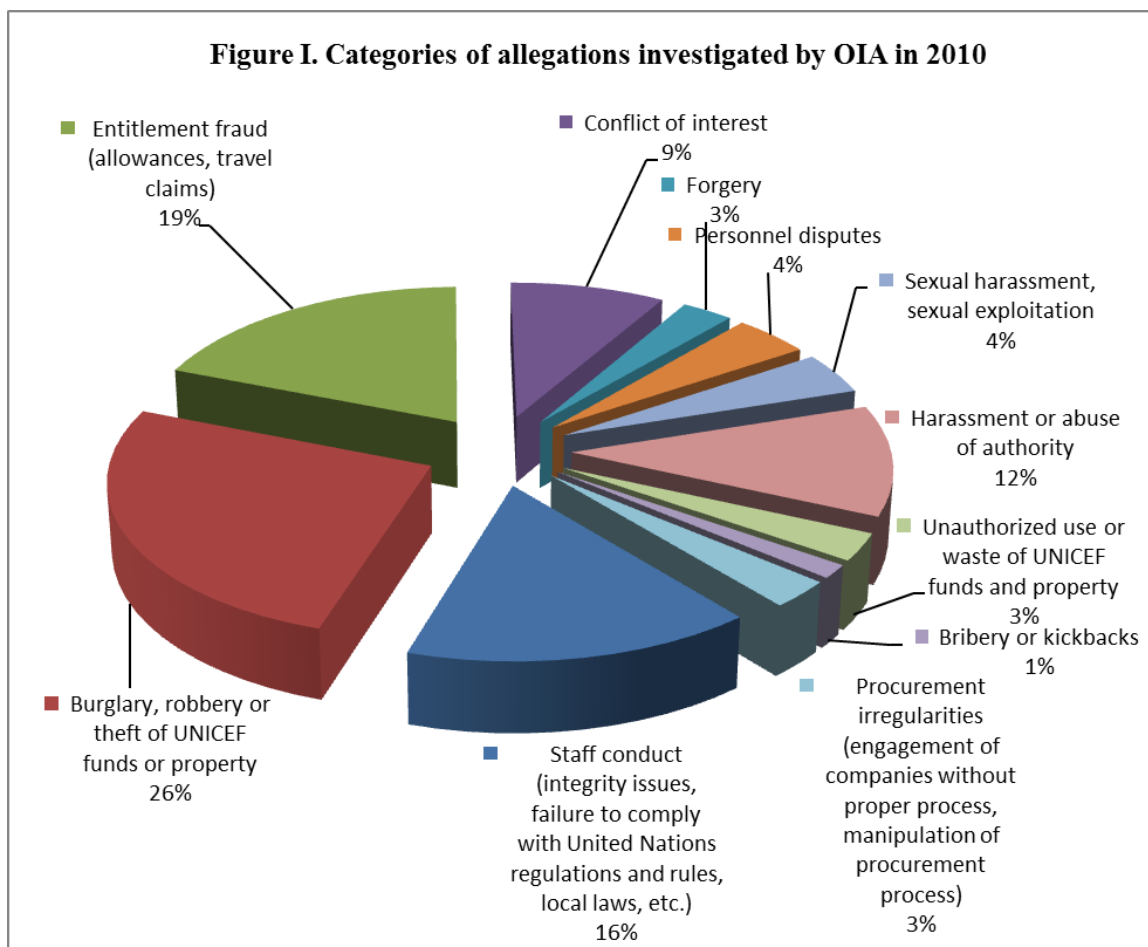
  (a) Six dismissals;

  (b) One sanction;

  (c) One loss of 4 steps in grade and fine of one month's net salary;

  (d) One censure and loss of step;

  (e) One suspension of three months without pay and loss of steps in grade;

  (f) Four cases of no further action.

49. The remaining seven cases referred to DHR were pending decision on disciplinary or other action as of 31 March 2011.

50. Of the cases closed in 2010, 84 per cent were closed within six months of receipt of the allegation. The 7 cases that were closed beyond the six-month timeline involved external entities, were held up due to a pending police investigation or were delayed by the subjects' failure to respond to OIA's requests or to sign the statement of interview.

51. Although the criteria for recording cases were modified in 2009 with the introduction of a new database, the overall caseload was generally consistent from 2008 to 2009. The caseload increased in 2010, with the majority of cases involving theft of UNICEF funds (26 per cent) followed by entitlement fraud (19 per cent). Significantly more of the 2010 cases fell into the categories of burglary, robbery and

theft (44 per cent more than in 2009) and entitlement fraud (77 per cent more than in 2009) (chart 1).

Figure I. Categories of allegations investigated by OIA in 2010

Entitlement fraud (allowances, travel claims) 19%

Conflict of interest 9%

Forgery 3%

Personnel disputes 4%

Sexual harassment, sexual exploitation 4%

Harassment or abuse of authority 12%

Unauthorized use or waste of UNICEF funds and property 3%

Bribery or kickbacks 1%

Procurement irregularities (engagement of companies without proper process, manipulation of procurement process) 3%

Staff conduct (integrity issues, failure to comply with United Nations regulations and rules, local laws, etc.) 16%

Burglary, robbery or theft of UNICEF funds or property 26%

52. The majority of allegations originated equally from the West and Central Africa region (29 per cent) and Eastern and Southern Africa region (28 per cent), followed by the Americas and the Caribbean region (16 per cent) (see figure II).

Figure II. Allegations per region, 2010
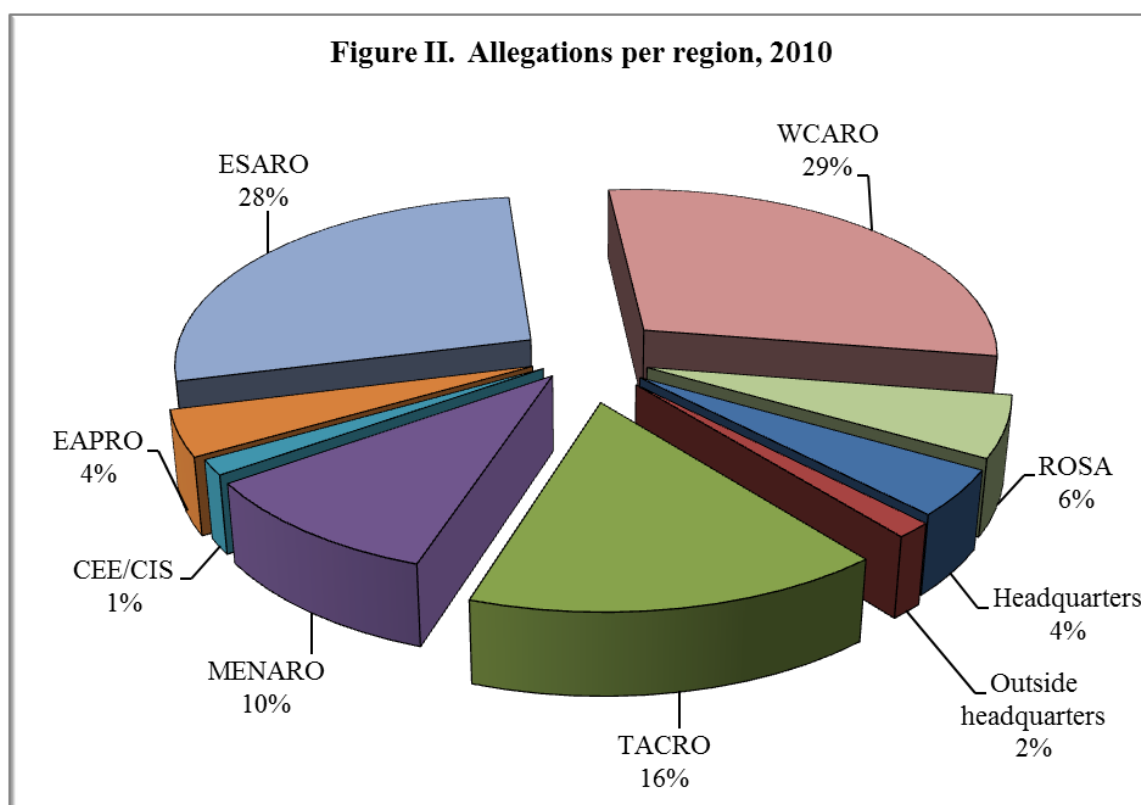
Key: WCARO = West and Central Africa regional office; ROSA = Regional office for South Asia; TACRO = The Americas and Caribbean regional office; MENARO = Middle East and North Africa regional office; CEE/CIS = Central and Eastern Europe and the Commonwealth of Independent States regional office; EAPRO = East Asia and the Pacific regional office; ESARO = Eastern and Southern Africa regional office.

53.   In addition to closure memoranda and investigation reports, OIA also issued five management memoranda to offices where system weaknesses were identified in the course of the investigation. OIA made recommendations to strengthen the internal controls.

54.   Seven of the cases in which system weaknesses were identified involved engagement of local security companies that had been ineffective in preventing thefts/burglary and/or were associated with the commission of thefts/burglary. Cases that involved loss of property from UNICEF warehouses were due either to theft/burglary or to deviations from regular procedures that were not detected on time due to delays with inventory-taking or non-functioning stock control databases. There were also two instances of risky practices. One involved urgent payment to partners without an accessible bank account, and the other involved payment to a vendor for goods consumed on a monthly basis as recorded in the vendor's system. In six more cases it was found that allegations of harassment or abuse of authority were actually interpersonal conflicts and that concerned representatives lacked the dispute resolution tools to manage those conflicts.

55.   In terms of OIA's time management, although allegations of harassment and abuse of authority accounted for only 16 per cent of total allegations, they took up a

significantly higher proportion of the investigation team's time. This is because these investigations generally involved interviewing many witnesses in order to develop a fair, balanced and complete picture of events.

56.   The investigation team of OIA is now well established, and the third full-time investigator joined in February 2010. Since this team has been in place, allegations and investigations have been dealt with much more systematically and consistently. OIA has also put in place a secure database, which has been populated with all 2010 cases and is now fully functioning. The database will enable the team to analyse patterns and trends in wrongdoing and ultimately to develop predictive indicators. This will allow for proactive investigations and application of control measures.

57.   The investigation team currently conducts a number of its investigations by guiding selected field staff to gather material and sometimes interview personnel who have been identified as having material evidence. In light of decisions made by the new United Nations Dispute Tribunal against the United Nations Secretariat and funds and programmes, it is anticipated that OIA investigation personnel will conduct more field missions in 2011.

VI.   Programme performance assessments

58.   In 2008, OIA and the Evaluation Office initiated a pilot project to conduct programme performance assessments. In the first quarter of 2010, the two conducted a joint review of the pilot programme. It concluded that while the assessments had served a useful purpose in providing country and regional offices with analysis of country programmes, the product needed to be adapted to changing circumstances. It was recommended that OIA and the Evaluation Office continue to conduct the type of analytical oversight developed in the pilot phase but to do so separately, with each office focusing on its core competencies. It was agreed that OIA would focus on programme performance auditing in ongoing country office audits and Evaluation Office on assessing the UNICEF contribution to results at the country level.

VII.   Draft decision

59.   UNICEF recommends that the Executive Board approve the following draft decision:

The Executive Board

1.   *Takes note* of the Office of Internal Audit 2010 annual report to the Executive Board (E/ICEF/2011/AB/L.9), the UNICEF Audit Advisory Committee 2010 annual report to the Executive Director, and the UNICEF management response to the annual report of the Office of Internal Audit for 2010 (E/ICEF/2011/AB/L.10);

2.   *Welcomes* the focus on risk-based audit planning;

3.   *Expresses its support* for strengthening the capacity of the Office of Internal Audit and requests management to ensure adequate and timely staffing;

4.   *Notes with appreciation* the establishment and roll-out of enterprise risk management (ERM) across UNICEF and requests that UNICEF management continue strengthening controls and mitigation strategies in country offices with high risk.

Annex 1

Audits completed in 2010

UNICEF country and area offices

1. Bosnia and Herzegovina

2. Bulgaria

3. Burundi

4. Croatia

5. Democratic Republic of the Congo

6. Guinea

7. Guinea Bissau

8. Gulf Area programme

9. Iran (Islamic Republic of)

10. Liberia

11. Madagascar

12. Malawi

13. Occupied Palestinian Territory

14. Peshawar (Pakistan) zone office

15. Philippines

16. Sierra Leone

17. South Africa

18. Tajikistan

19. Togo

20. Viet Nam

Audits of headquarters, regional offices and thematic areas

1. Contact management in the Division of Communication

2. Joint audit of harmonized approach to cash transfers (HACT) in Malawi

3. Joint audit of harmonized approach to cash transfers (HACT) in Viet Nam

4. Risk assessment of IPSAS implementation in UNICEF

5. Safety and security of staff, premises and assets in field offices

6. Management of the information and communication technology function in Geneva

7. Information and communications technology governance, strategic planning and project management

Annex 2

Recommendations unresolved for more than 18 months

Management of non-thematic other resources contributions (audit report issued in 2007)

1.   The Office of the Executive Director, together with the Programme Funding Office [currently known as the Public Alliances and Resource Mobilization office], Geneva Regional Office and Programme Division and in consultation with regional offices, should clarify the authorities, responsibilities and accountabilities of regional offices for oversight of country offices' use of other resources and related performance management and adherence to significant organizational policies and procedures. It should also establish mechanisms to exercise systematic oversight of regional offices that have responsibilities for other resources contribution management and of their performance.

SAP (Systems Applications and Products) baseline security controls (audit report issued in 2008)

2.   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 information technology and SAP security, including major risks to the confidentiality and integrity of data.

3.   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.

4.   ITSS should explore ways of granting security monitoring focal points access to query tools for checking the SAP security capabilities of users in their units and to investigate security violations.

5.   ITSS, in consultation with concerned divisions, 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 (which give users the ability to read, modify or delete any data in SAP) are documented in the security policy and authorized by data owners.

6.   ITSS, in coordination with DHR, should set standards, assign accountabilities and establish procedures for modifying or disabling SAP access rights.

7.   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 to grant, modify or disable SAP access rights is provided systematically from users' personnel files.

Audit report of the oversight and operations support to country offices and the management of internal operations in TACRO (audit report issued in 2008)

8.   The Americas and Caribbean regional office (TACRO) should develop a monitoring database to indicate the status of significant recommendations from completed on-site oversight and operations-support services activities, and mid-year

and year-end reviews of operation support services provided by TACRO to country offices.

Management of evaluations in country offices (audit report issued in 2009)

9.   Programme Division, in conjunction with the Division of Policy and Practice, should develop and implement a strategy to link the findings of country-based programme evaluations with the wider organizational generation and management of knowledge. Such a strategy should ensure that evaluation findings and lessons learned are disseminated. Adding upcoming or planned evaluations to the new Intranet site for information and knowledge management would further encourage integrated learning initiatives.

10.   Programme Division, in collaboration with the Evaluation Office, should ensure that qualified evaluation experts and relevant sectoral experts at headquarters and regional offices are sufficiently linked to evaluators throughout the organization and that they receive adequate technical support on how to evaluate specific programmes.

Processes for promoting ethics and UNICEF values in country offices (audit report issued in 2009)

11.   The Ethics Office should provide guidance to country offices on how to build the capacity of key partners and suppliers in promoting the importance of UNICEF ethical standards and values.

12.   The Ethics Office should develop and distribute training and communication materials to raise trust of staff members in the mechanisms for reporting misconduct and for protection from retaliation.

13.   The Ethics Office should develop and communicate guidance, standards and tools to country offices on how to monitor and provide feedback to staff members on ethics. This should include conduct in accordance with UNICEF ethical standards and values and implementation of mechanisms to measure, monitor and communicate the results and impacts of UNICEF efforts to promote ethics and values at country offices. This will help offices to identify ethical and value issues needing oversight and improvement.

Management of procurement services (audit report issued in 2009)

14.   Given the relatively recent and dramatic rise in Procurement Services throughput, UNICEF should revisit and clarify its short-term and long-term plans, targets and objectives. This review should include consideration of how these objectives can be clearly linked to core and programme objectives and communicated to all levels of UNICEF through clear guidance documents, especially to those directly involved in Procurement Services activities.

15.   UNICEF should ensure that the planned revision to the executive directive on Procurement Services is expedited. It should reflect (a) clarification on strategic policy and exit strategies, including links to the Medium Term Strategic Plan and Millennium Development Goals and issues raised in the evaluation of the supply function, organization review and business process review; (b) a clear explanation of the roles and responsibilities of Supply Division, Programme Division, regional offices, country offices and PROSERVE; (c) remove redundancies and ensure

provisions are kept current; (d) explain specific provisions related to local currency payments and waiver of advance payments; (e) explain how Procurement Services can be used in programming and advocacy activities; and (f) ensure consideration of issues raised by Supply Division in the September 2007 meeting of PROSERVE.

16.   In light of the increasing value of such transactions, Supply Division, with the Comptroller's office and PROSERVE, should keep under constant review the appropriateness of accepting Procurement Services requests without advance payment. This review should include an assessment of the financial risks being accepted and ensure that future revisions of the executive directive contain a more precise definition of the conditions under which discretionary authority may be used to waive payment in advance.

17.   Supply Division should strengthen its procedures and accountabilities in getting feedback from its customers to ensure that responses are systematically analysed and areas for improvement are noted and addressed adequately and promptly.

18.   Supply Division, in coordination with Programme Division and Division of Policy and Planning, should provide guidance on what is expected from country offices with respect to monitoring and evaluation of Procurement Services activities, including monitoring and reporting on local procurement capacity.