



Economic and Social Council

Distr.: Limited
4 April 2012

Original: English

For action

United Nations Children's Fund

Executive Board

Annual session 2012

5-8 June 2012

Item 8 of the provisional agenda*

Office of Internal Audit 2011 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 2011. It provides an overview of the Office, describes the key issues highlighted by its internal audit and investigations work, and gives information on the disclosure of internal audit reports during 2011. The management response to this report is presented separately as requested in decision 2006/18. A draft decision is included in section VI.

* E/ICEF/2012/9.



Contents

	<i>Page</i>
I. Introduction	3
II. Overview of the Office of Internal Audit	3
A. Mandate	3
B. Risk-based audit planning	4
C. Enhancements to internal audit reporting practices	5
D. Staffing	5
III. Internal Audit work	5
E. Completed engagements and related recommendations	5
F. Results from country office engagements	6
G. Results from headquarters, regional offices and thematic area engagements	11
H. Monitoring the implementation of audit recommendations	13
IV. Disclosure of internal audit reports	13
V. Investigations	14
VI. Draft decision	17
Annexes	
1. Engagements completed in 2011	18
2. Recommendations unresolved for more than 18 months	19
3. Charter of the UNICEF Office of Internal Audit	22
Appendix	
UNICEF Audit Advisory Committee annual report for 2011 (available on the Executive Board website)	

I. Introduction

1. This annual report was prepared by the Office of Internal Audit (OIA) and describes the key internal audit and investigation activities of UNICEF during 2011. It provides an overview of OIA, describes the key issues highlighted by the office's internal audit, investigation and advisory work, and provides information on the disclosure of internal audit reports during 2011.

2. The UNICEF Audit Advisory Committee, consisting of five independent external experts, reviewed OIA's annual work plan, quarterly activity reports, resources and selected audit as well as investigation reports. The Committee gave advice to improve the effectiveness of internal audit and investigation activities in UNICEF. Its annual report is appended to this report in line with the accountability system of UNICEF, which was approved by the Executive Board in its decision 2009/8.

II. Overview of the Office of Internal Audit

A. Mandate

3. OIA provides independent and objective assurance and advisory services designed to add value to and improve UNICEF operations. It helps UNICEF to accomplish its objectives by applying a systematic, disciplined approach to assessing 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.

4. 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 ensures that its independence and objectivity are not compromised through the provision of advisory services.

5. 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 follow prescribed regulations, rules, administrative issuances and standards of conduct.

6. OIA's authority and operational independence are established in the Financial Regulations and Rules of UNICEF. The purpose, authority and responsibility of the Office are defined in a charter, which was last approved by the Executive Director, in consultation with the Audit Advisory Committee, in April 2011 (annex 3).

7. OIA maintains a quality assurance and improvement programme that covers all aspects of its activities. This programme includes internal quality assessments that involve ongoing performance monitoring and periodic reviews, and external quality assessments that are conducted at least once every five years by a qualified external independent reviewer or review team.

8. The last external quality assessment of OIA's audit activities was conducted in 2008, and confirmed that the unit was in general in conformance with the international auditing standards that it follows. The next such assessment, which will cover internal audit and investigation activities, is planned for 2013.

9. OIA adheres to International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors (IIA), and also follows the reporting standards of the International Organization of Supreme Audit Institutions (INTOSAI).¹ The office also adheres to the Uniform Principles and Guidelines for Investigations, which are periodically endorsed by the Conference of International Investigators.

10. As required by IIA Standards, OIA hereby confirms to the Executive Board that it enjoyed organizational independence during 2011. The Office was free from interference in determining its audit scope, performing its work and communicating its results.

B. Risk-based audit planning

11. OIA formulates its work plans based on risk assessments. Its 2011 risk assessment and work plan preparation exercise used input obtained from various data sources, various levels of management, OIA staff, interactions with the Audit Advisory Committee and a review of the status of 2010 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 (MTSP), 2016-2013. The OIA 2011 work plan contained audit engagements relating to country offices as well as headquarters, regional offices and thematic areas.

12. Selection of country office audits was based on the risk profile of each office and the requirement stipulated in OIA's charter that the 10 largest country offices (all offices are measured in terms of total budget) be audited every two years, and that all other country offices, subject to audit resources, be audited every five years. Headquarters, regional offices and thematic audits were selected through a risk assessment exercise that included use of input obtained from: various levels of management; OIA staff; a number of interactions with the Audit Advisory Committee; a review of the status of 2010 engagements; and an assessment of the relevance of potential engagements to the guiding principles of the MTSP.

¹ The International Organization of Supreme Audit Institutions, or INTOSAI, is an international umbrella organization for the government audit community. It was founded in 1953 and currently has 189 full-time members, who consist of national audit institutions and the European Court of Auditors.

13. OIA also took account of the planned 2011 audits of the United Nations Board of Auditors as a means of minimizing duplication of work and optimizing audit coverage for UNICEF. The final 2011 workplan was reviewed and endorsed by the Audit Advisory Committee.

C. Enhancements to internal audit reporting practices

14. In preparation for the possible eventual public disclosure of internal audit reports, OIA adopted (with effect from 1 September 2011) additional internationally recognized reporting standards that represent best practice guidance on the form and contents of publicly disclosed audit reports. OIA did this because the other standards that it follows (the IIA International Standards for the Professional Practice of Internal Auditing) do not contain sufficient reporting guidance for audit functions that disclose their reports to the public. OIA chose to adopt the Reporting standards in Government Auditing of INTOSAI.

15. One of the changes related to OIA's adoption of these standards was the implementation of a requirement for the use of specific engagement conclusions (rather than standard overall opinions) in reports for non-financial statement audits. These engagements are referred to as "performance audits" in the reporting standards of INTOSAI and focus on issues (related to economy, efficiency and effectiveness) that are similar to those covered by OIA audits. As a result of this change, OIA stopped using its previous standard overall opinions and started to express specific overall conclusions in each audit report. OIA also started to provide, in its quarterly and annual reports, additional information on the priorities of audit recommendations in specific audit reports to make it easier for comparisons to be made of the severity of issues across audited entities.

D. Staffing

16. OIA had 28 staff positions in 2011: a director, a deputy director, 19 auditors, three investigators, one editor and three administrative assistants. Despite best efforts to fill all vacancies during 2011, two of the auditor positions (at the P3 and P5 levels) were vacant at the end of the year. As of 31 December 2011, OIA had made selection decisions for both positions and arranged for offers to be made to concerned candidates.

17. OIA created a P4 auditor talent group in 2011 and is now in the process of creating additional talent groups for auditors at the P2, P3 and P5 levels. The use of these groups, which are rosters of qualified and pre-assessed international Professional candidates, will enable OIA to ensure that it is able to fill future vacancies in a timely manner.

III. Internal Audit work

E. Completed engagements and related recommendations

18. OIA completed 30 engagements (see full list in annex 1) during 2011 and made 330 recommendations, of which 108 were rated as high priority and 222 as

medium priority (table 1). Low priority recommendations were dealt with by audit teams directly with concerned managers and were not included in audit reports. Of the recommendations that were high and medium priority, 232 were related to country office engagements and 98 were related to headquarters, regional offices and thematic area engagements.

Table 1
Number of recommendations in reports of completed 2011 audit engagements

Rating	Definition of rating	Number of recommendations
High priority	Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.	108
Medium priority	Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.	222
Total		330

F. Results from country office engagements

19. Country office audits conducted in 2011 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.

20. OIA completed 19 country office engagements during 2011 (see full list in annex 1) and made 232 recommendations, of which 73 were rated as high priority and 159 as medium priority. Forty seven of these recommendations were related to governance, 95 to programme management and 90 to operations support.

Governance

21. The audits completed in 2011 examined the governance area and assessed the delegation of authority and responsibilities, management systems, quality assurance and ethical awareness. The audits made 47 recommendations, of which 20 were rated as high priority and 27 as medium priority (table 2).

Table 2
Number of 2011 governance recommendations

Area	High priority	Medium priority	Total
Delegation and reporting on responsibilities and authorities	17	20	37
Management systems and quality assurance	3	7	10
Total	20	27	47

22. The 20 high-priority recommendations were related to the following issues:

(a) **Vacant posts.** Eight recommendations in three offices were related to high vacancy rates and slow recruitment processes. In one case, the office indicated that it was hard to attract candidates due to the difficult working conditions. The lack of sufficient funding also hampered the office's ability to fill its vacant posts quickly, and difficulties in obtaining visas for selected candidates exacerbated the vacancy situation. In another case, the audit noted that there were slow decisions about existing vacant posts, with some on hold for more than a year. This raised the question as to whether the posts were still required. In the last case, the office was confronted with the challenge of attracting both national and international staff because of perceived security tensions and a difficult living environment. The audit also noted that posts were sometimes vacant because they were not funded;

(b) **Zone offices.** Three recommendations in three offices were related to unclear roles and responsibilities of zone offices and their staff, and the lack of established priorities and mechanisms to measure performance;

(c) **Assignment of delegated authorities.** Two recommendations in two offices were related to situations in which management had failed to attach appropriate significance to, and place appropriate monitoring processes over, assignment of delegated authorities, leading to improper segregation of duties and discrepancies between approved delegated authorities and actual authorities;

(d) **Compliance with minimum operating security standards.** One recommendation in one office was related to lack of compliance with minimum operating security standards. The office was not able to secure sufficient funding to ensure that all the standards were met. It indicated that while high security costs were an unavoidable part of implementing project activities in the particular country, the funding of such costs was not attractive to donors and as a result the office was constrained by available resources;

(e) **Contracting-out of programme and support responsibilities.** Two recommendations in one office were related to the outsourcing of the management of zone offices based on contracts that did not adequately specify objectives, roles, accountabilities, and output assessment methodologies. The accountability for management of contracted-out warehouses in six districts was also not clearly specified and none of the warehouses was insured;

(f) **Operating procedures for emergencies.** One recommendation was related to inadequate guidance on operating procedures for levels 2 and 3 emergency situations. The office being audited indicated that there were no simplified and streamlined organizational operating procedures for emergencies and that there was

a lack of clarity regarding the period for which a particular operational emergency mode was to be applied;

(g) **Long-term programme strategy.** One recommendation in one office was related to lack of adequate and timely review of the area programme to ensure a revised strategy in the country programme management plan that matches available resources to the activities to be carried out and to the management capacity of the office;

(h) **Operational costs and support budget.** Two recommendations in one office were related to the inadequate sharing of the allocation of support budget between two area programmes operating in the same country. There was no strategy developed to meet the operational costs required for the implementation of one area programme, and there were no agreed criteria to be used to share the support budget allocation between the two area programmes;

23. The immediate causes of most of the 20 recommendations were: unpredictability of funding/inadequate funding; insufficient planning; inadequate management attention; and harsh/tough/difficult working conditions in some duty stations.

Programme management

24. The completed audits reviewed programme management practices and assessed how offices: gained a sound analysis and understanding of the situation of children and women; implemented advocacy initiatives; planned and supported programme implementation; monitored achievement of results; and validated key results through programme evaluations. The audits made 95 recommendations in the programme management area, of which 19 were rated as high priority and 76 as medium priority (table 3).

Table 3
Number of 2011 programme management recommendations

Area	High priority	Medium priority	Total
Implementation and monitoring	18	47	65
Office planning and funding	1	15	16
Evaluation		6	6
Assessing quality of analysis on the situation of children and women		4	4
Advocacy		4	4
Total	19	76	95

25. The 19 high-priority recommendations were related to the following issues:

(a) **Support to programme implementation:** Nine recommendations in seven offices were related to problems with delays in the release of cash transfers, insufficient training and supervision of staff members involved with processing of cash-transfer requests and liquidations as well as weak systems of financial controls for partners. Three affected offices also experienced weaknesses in the planning and

management of supply inputs. The main issues were related to lack of clearly assigned responsibilities and accountabilities for supply planning, poor estimation of delivery times for programme supplies and clearance of supplies through customs. Decisions for procurement of supplies were in some cases driven by programme budget allotment expiry dates and not by programme needs. Programme supplies stock recording and reporting was also weak in some cases. In one office, there was poor oversight over publications;

(b) **Programme monitoring:** Two recommendations in two offices were related to the absence of an adequate field monitoring system. Travel plans, where they existed, were incomplete and most of the actual trips did not accord with the plans. Field-monitoring trip reports did not always include clear and specific recommendations or follow-up actions to address observations. There were also a lack of office-wide standards on the frequency of field monitoring, and inadequate oversight by management on planning and implementation of field-monitoring visits. Additionally, insufficient tools and guidance were provided to staff for conducting end-user monitoring, preparing good-quality trip reports, and ensuring systematic follow-up of action points;

(c) **Harmonized approach to cash transfers (HACT):** Five recommendations in three offices were related to poor quality of HACT assurance activities, and insufficient follow-up and monitoring procedures for weaknesses highlighted by assurance activities. Several factors caused these shortcomings, including: lack of clearly assigned responsibility for ensuring that assurance plans met HACT standards; inadequate monitoring of HACT implementation; ambitious and unrealistic planning; insufficient resources and priority assigned to HACT assurance activities; and insufficient related guidance and training provided to relevant staff, particularly in the design and implementation of spot checks;

(d) **Programme funding:** One recommendation in one office was related to fund-raising. The concerned office did not have a fund-raising strategy for the country programme, had not assigned staff responsibilities for fund-raising, had not included broad cross-sectoral costs in funding proposals, did not have a process for adjusting the funding planning levels to reflect funding realities and/or lack of capacities for use of funds, and relied on too narrow a donor base;

(e) **Project cooperation agreements (PCAs):** One recommendation in one office was related to: overlapping PCAs among different programme sections and within the same programme section; failure to systematically value and/or reflect in PCAs contributions from the office that included supply inputs; and failure to ensure that value of supply dispatched was in line with signed agreements. There was also no established mechanism for ensuring the systematic evaluation of partnerships with non-governmental organizations at the end of relevant agreements;

(f) **Direct payments to staff members of partners:** One recommendation in one office was related to salary payments being made directly to government staff or to individuals who were not UNICEF staff, in a way that could have led to UNICEF being seen as responsible for them as employees. One zone office justified this practice by its desire to ensure close monitoring of the quality of work undertaken. There however seemed to be a lack of awareness of other potential risks that could arise from such arrangements.

26. The immediate causes for most of the 19 recommendations were: insufficient prioritization due to competing demands; inadequate management oversight and monitoring; and insufficient planning.

Operations support

27. The completed audits examined operations support practices and assessed how offices ensured the following: accurate and complete processing of financial transactions; proper implementation of financial controls; proper recording and management of assets, including inventory of programme supplies; and adequacy of information technology security. The audits made 90 recommendations, of which 34 were rated as high priority and 56 as medium priority (table 4).

Table 4
Number of 2011 operations support recommendations

Area	High priority	Medium priority	Total
Financial management	21	31	52
Inventory and asset management	13	22	35
Information technology security		3	3
Total	34	56	90

28. The 34 high-priority recommendations were related to the following issues:

(a) Financial controls: Nineteen recommendations in seven offices were related to: processing of payments outside the Programme Manager System (ProMS), failure to comply with UNICEF segregation-of-duties requirements, inadequate financial controls, insufficient supporting documents, delays in recording of cash receipts, and incorrect charging of expenditures;

(b) Management of inventory and assets: Five recommendations in three offices were related to problems with inventory records that were not corroborated by physical inventory counts, an insufficient monitoring mechanism to account for fuel coupons distributed to partners and inadequate segregation of duties in the management of vehicles and fuel;

(c) Supply procurement and warehouse management: Six recommendations in four offices were related to inadequate communication between supply and programme sections, resulting in poor supply planning, lack of inaccurate distribution lists leading to high levels of long-standing supplies in the warehouse, unclear agreements with third parties for the management of office warehouses and inadequate insurance coverage for warehouse supplies;

(d) Procurement of goods and services: Four recommendations in four offices were related to: unclear specifications and deadlines for submission for bids; failure to justify single-source selections; release of final payments without prior completion of the evaluation of deliverables against terms of reference; payments to a single contractor/service provider exceeding the established approval thresholds without submitting the case for review; use of consultants instead of temporary staff for regular programme activities; lack of monitoring mechanisms to ensure that the total value of orders actually placed under long term agreements was within

recommended limits; and delegation of procurement responsibilities to partners without the prior assessment of their capacity.

29. The immediate causes of most of the 34 recommendations were: inadequate staff understanding of the regulatory framework of UNICEF; inadequate monitoring by management of the functioning of internal controls; unpredictability of funding; inadequate workflows and insufficient monitoring; and offices operating in emergency modes.

G. Results from headquarters, regional offices and thematic area engagements

30. OIA completed 11 engagements of headquarters, regional offices and thematic areas and the field work for another two engagements before the end of the year. The completed engagements made 98 recommendations, of which 35 were rated as high priority and 63 as medium priority. The results of the completed engagements are summarized below.

Management of zone offices

31. The audit made one high-priority recommendation, which was related to a lack of up-to-date policies and procedures that include clear criteria for the establishment, performance monitoring, relocation and closure of zone offices.

Common Humanitarian Fund (CHF) for Sudan

32. The audit made two high-priority recommendations, which were related to delays in implementation of planned activities because of the long processes involved in the allocation and release of funds.

West and Central Africa Regional Office (WCARO)

33. The audit made seven high-priority recommendations, related to: delays in filling key vacant posts; gaps in guidance and work processes; poor management of contracts for services; inadequate planning for travel and delays in processing travel claims; and lack of a regional fund-raising strategy.

Staff rotation

34. The audit made two high-priority recommendations. One related to the fact that no global rotation exercises had been conducted since 2005, and 649 staff members eligible for rotation remained in their duty stations. The other addressed inadequate documentation of the implementation of rotation.

Efficiency and effectiveness of recruitment

35. The audit made three high-priority recommendations, related to two areas. The audit found that in 2010, only 41 per cent of recruitments for international Professional positions were accomplished within the 90-day target, although the UNICEF MTSP called for 75 per cent to be completed within this time. The audit also found that there were no organization-wide performance indicators for recruitment of national staff in country offices.

Business continuity management (BCM)

36. The audit made three high-priority recommendations, which were related to a reduction in resources for BCM at all levels, lack of assigned responsibility for the review of BCM and its alignment with IT disaster recovery plans, and lack of assigned responsibility for testing and updating BCM plans.

Readiness assessment of the VISION project

37. The assessment, which took place five months before the implementation of VISION (Virtual Integrated System of Information) by UNICEF, found a number of positive aspects to the preparations for VISION. However, it also made seven high-priority and six medium-priority recommendations developed in response to risks or concerns identified during the engagement. It also recommended that management consider performing regular quality assurance reviews at key milestones to ensure that additional risks were being adequately identified and addressed prior to go-live.

Joint audit of the harmonized approach to cash transfers (HACT) in Indonesia

38. The audit was led by OIA and was conducted in coordination with the Office of Audit and Investigations of the United Nations Development Programme. It made three high-priority recommendations, which were related to: weak HACT governance due to insufficient guidance on responsibility and accountability of the relevant bodies; poor coordination among participating agencies; and a consolidated assurance plan for participating agencies that was not complete or accurate.

Implementation of Enterprise Risk Management (ERM)

39. The audit made three high-priority recommendations. They were related to risk management being perceived as a compliance exercise and lack of continuity in staff allocated to the ERM project. Risk management was also not yet fully embedded into policies, processes and tools related to planning, programming, performance management and reporting. Also, different risk management practices had not yet been harmonized into an overarching ERM framework.

Information security governance (ISG)

40. The audit made four high-priority recommendations. They were related to: (a) absence of a dedicated framework for ISG and forum in which ISG issues could be discussed; (b) absence of a cohesive ISG policy; and (c) lack of defined standards for information security.

Advisory engagement related to inventory practice runs in Haiti, Ethiopia and Sudan

41. This engagement provided advice related to inventory practice runs undertaken as part of the process of establishing the opening balances required for the adoption of IPSAS on 1 January 2012. The report recommended the issuing of additional guidance on segregation of duties over inventory counts and reconciliations. It also provided advice on the requirements for inventory counts, and recommended the establishment of a helpdesk to support country offices.

H. Monitoring the implementation of audit recommendations

42. OIA continued to undertake quarterly desk reviews to follow up on the progress of the implementation of all audit recommendations. OIA also conducted one on-site review to assess the implementation of recommendations made by its 2010 audit of the Peshawar zone office in Pakistan.

43. As of 31 December 2011, there were nine outstanding recommendations that were older than 18 months. Three were related to country offices and six were related to headquarters, regional offices and thematic areas (annex 2).

Status of recommendations made in final audit reports of country offices

44. As of 31 December 2011, the implementation status of audit recommendations for previous audits of country offices was as follows:

- (a) Of the recommendations made in 2011, 45 per cent (88 out of 194) were closed;
- (b) Of the recommendations made in 2010, 97 per cent (542 out of 556) were closed;
- (c) Of the recommendations made in 2009 or earlier, 100 per cent were closed.

Status of recommendations made in final audit reports of headquarters, regional offices and thematic areas

45. As of 31 December 2011, the implementation status of recommendations for previous audits of headquarters, regional offices and thematic areas was as follows:

- (a) Of the recommendations made in 2011, 26 per cent (32 out of 123) were closed;
- (b) Of the recommendations made in 2010, 78 per cent (60 out of 77) were closed;
- (c) Of the recommendations made in 2009, 98 per cent (251 out of 255) were closed;
- (d) Of the recommendations made in 2008 or earlier, 100 per cent were closed.

IV. Disclosure of internal audit reports

46. At its second regular session, in September 2011, the Executive Board requested UNICEF (through decision 2011/21) to prepare a briefing note on a broad range of possible transparency and accountability measures, including public disclosure of internal audit reports, for consideration by Member States during informal consultations in preparation for the first regular session of 2012. UNICEF responded to this request by arranging with the Executive Board to hold an informal consultation in December 2011 and providing the requested briefing note to Member States.

47. The current process for the disclosure of internal audit reports is governed by Executive Board decisions 2009/8 and 2011/21. These decisions permit Member States and approved non-Member State donors (donor intergovernmental organizations, National Committees for UNICEF, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GAVI Alliance, UNITAID, and Rotary International) to have either read-only access in UNICEF premises or read-only remote access through a controlled technological mechanism, to internal audit reports following notification to all Executive Board members and concerned host Member States. In 2011, 13 Member States viewed 14 internal audit reports (table 5).

Table 5
Audit reports disclosed during 2011

Disclosed audit reports	Member State
1. Haiti Country Office, 2009/14	Haiti, Sweden, United States
2. Management of Pilot Initiatives in Country Offices, 2009/32	Denmark
3. Zimbabwe Country Office, 2009/22	Denmark, Sweden, United States, Zimbabwe
4. Democratic Republic of Congo Country Office, 2010/13	United States
5. Philippines Country Office, 2010/09	United States
6. Peshawar Zone Office, 2010/27	Australia, Canada, Denmark, Japan, Netherlands, Norway, Pakistan, United States
7. Joint Audit of the Harmonized Approach to Cash Transfers (HACT) in Malawi, 2011/04	United States
8. Processes for Promoting Ethics and UNICEF Values in Country Offices, 2009/01	Denmark, United States
9. Risk Assessment of IPSAS Implementation in UNICEF, 2010/12	United States
10. Myanmar Country Office, 2009/23	United States
11. Timor-Leste Country Office, 2009/11	Sweden
12. Ethiopia Country Office, 2009/08	Ethiopia, Sweden
13. Mozambique Country Office, 2009/07	Denmark, Mozambique, Sweden
14. Somalia Country Office Follow-up, 2009/34	Sweden

V. Investigations

48. OIA is responsible for investigating all 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 the Division of Human Resources (DHR) and concerned regional offices, OIA continued to provide guidance to country and regional offices on how to manage preliminary investigations locally.

49. In 2011, numerous issues were brought to the attention of OIA, by phone, fax, mail, email or a dedicated anonymous email address known as the "Integrity 1" hotline. Following initial screening of several hundred messages, 100 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, 73 issues were found to constitute allegations of wrongdoing and were investigated. Twenty-six cases were carried over from 2010 or earlier, meaning that 99 cases were managed in 2011, of which 74 were closed during the year, as set out in table 6 below.

Table 6
Processing of investigation cases in 2011

Case load	Number of cases
Carry-over as of 1 January 2011	26
Intake during the year	73
Total cases during 2011	99
Closed (from cases carried over)	(24)
Closed (from intake)	(50)
Cases carried forward as of 31 December 2011	25

Analysis of cases closed during 2011	
Closure memorandum and reprimand given by the country office	4
Closure memorandum (following preliminary assessment, where allegation not substantiated)	17
Closure memorandum (staff member left the organization during investigation)	13
Closure memorandum (allegation substantiated but not involving UNICEF staff member)	9
Investigation report submitted to DHR	28
Referrals to other UNICEF offices	3
Total	74

50. The 28 investigation reports submitted to the Policy and Administrative Law Section (PALS) of DHR were related to 30 staff members who were subject to disciplinary proceedings. By the end of 2011, they had resulted in the following:

- (a) Three dismissals;
- (b) Five written reprimands;
- (c) One written censure;
- (d) Three written censures with loss of steps in grade;
- (e) One written censure with loss of steps in grade and loss of one month's salary;
- (f) Two demotions;
- (g) No further action in seven cases due to concerned staff members leaving the organization before the completion of the disciplinary process;
- (h) No further action in one case whose allegation was not substantiated.

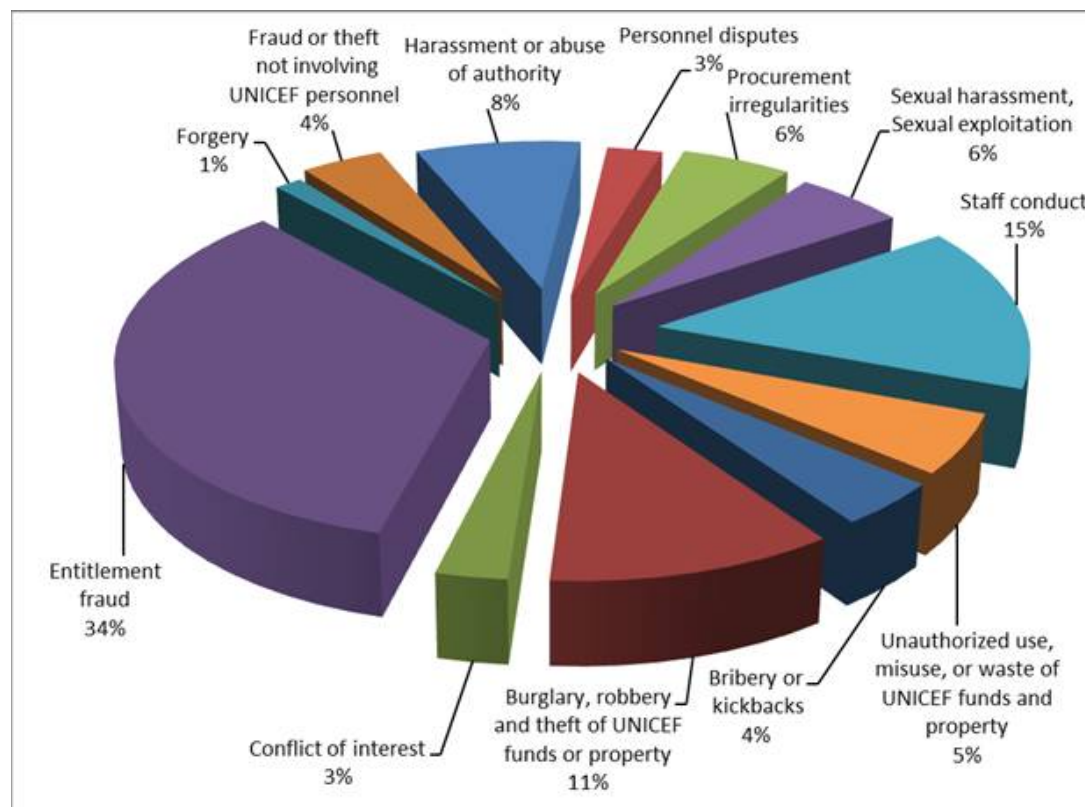
51. The remaining seven cases referred to DHR were pending decision on disciplinary or other action as of 31 December 2011.

52. Three investigation reports were also provided to the Office of the Executive Director, with a request that the Executive Director consider, in consultation with the UNICEF Legal Adviser, referring the cases covered by these reports to the relevant local authorities for possible criminal investigation. OIA has been advised by the Office of the Executive Director that these three cases have been conveyed to the United Nations Office of the Legal Counsel for review and consideration. In addition to closure memoranda and investigation reports, OIA also issued one management memorandum to an office where control weaknesses were identified in the course of the investigation.

53. Of the cases closed in 2011, 55 per cent were closed within six months of receipt of the allegation. The 34 cases that were closed beyond the six-month timeline were mostly held up due to OIA dealing with several highly time-consuming cases, which dominated the work of the three investigators. These cases were completed during the third quarter, and investigators were released to concentrate on other work.

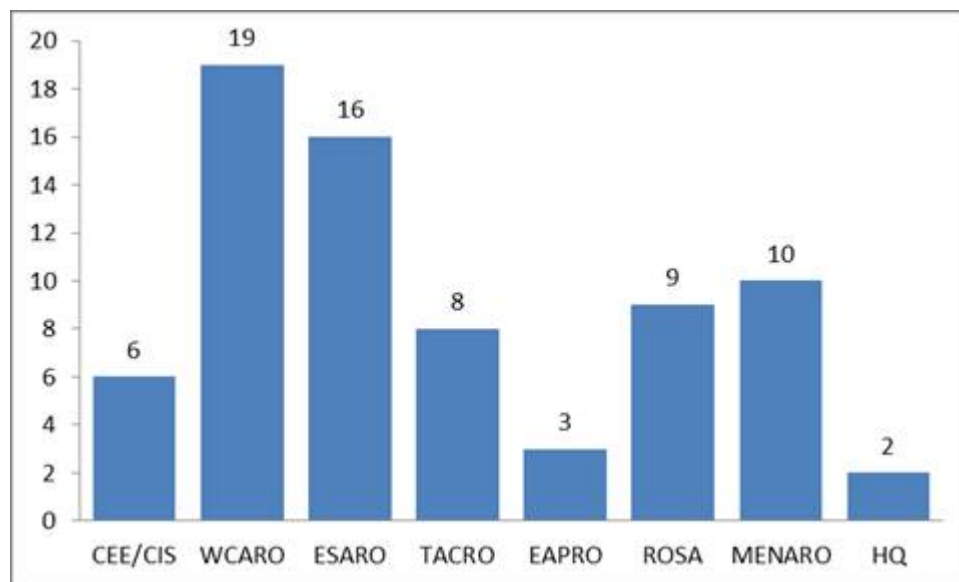
54. The overall caseload intake increased from 69 cases in 2010 to 73 cases in 2011. The majority of cases in 2011 involved entitlement fraud (34 per cent) followed by staff conduct (15 per cent). Figure I provides a full breakdown of the types of allegations received by OIA.

Figure I
Types of allegations received in 2011



55. The largest number of allegations originated from the West and Central Africa region, followed by the Eastern and Southern Africa and Middle East and North Africa regions, as indicated in figure II.

Figure II
Allegations received in 2011, by region



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.

VI. Draft decision

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

The Executive Board

1. *Takes note* of the Office of Internal Audit 2011 annual report to the Executive Board (E/ICEF/2012/AB/L.2), the UNICEF Audit Advisory Committee annual report for 2011, and the UNICEF management response to the Office of Internal Audit annual report for 2011 (E/ICEF/2012/AB/L.3);

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.

Annex 1

Engagements completed in 2011

Engagement name	Recommendations		
	High Priority	Medium Priority	Total
UNICEF country, area and zone offices			
1. Afghanistan country office	5	9	14
2. Bangladesh country office	-	4	4
3. Plurinational State of Bolivia country office	9	6	15
4. Cambodia country office	2	9	11
5. Democratic People's Republic of Korea country office	-	12	12
6. Haiti country office	4	6	10
7. Indonesia country office	2	8	10
8. Iraq country office	2	11	13
9. Karachi zone office, Pakistan	3	5	8
10. Kyrgyzstan country office	1	8	9
11. Lahore zone office, Pakistan	-	5	5
12. Mali country office	3	16	19
13. Niger country office	-	6	6
14. Pakistan country office	4	8	12
15. South Sudan area programme	14	18	32
16. Sudan country office	9	11	20
17. Zambia country office	3	10	13
18. Zimbabwe country office	12	7	19
19. Follow-up of the 2010 audit of the Peshawar zone office, Pakistan ²	-	-	-
Headquarters, regional offices and thematic areas			
20. Management of zone offices	1	1	2
21. Common Humanitarian Fund (CHF) for Sudan	2	4	6
22. West and Central Africa Regional Office	7	27	34
23. Staff rotation	2	2	4
24. Efficiency and effectiveness of recruitment	3	9	12
25. Business continuity management	3	2	5
26. Readiness assessment of the VISION project	7	6	13
27. Advisory engagement related to inventory practice runs in Haiti, Ethiopia and Sudan	-	-	-
28. Joint audit of the harmonized approach to cash transfers (HACT) in Indonesia	3	5	8
29. Implementation of Enterprise Risk Management in UNICEF	3	5	8
30. Information security governance	4	2	6
Totals	108	222	330

² There were no recommendations made in this engagement whose purpose was to verify the implementation of recommendations made in the earlier 2010 audit.

Annex 2

Recommendations unresolved for more than 18 months

Guinea country office (audit report issued 2010)

1. The office should strengthen its management of expenditure on fuel provided to partners. This could be done by increasing the involvement of programme staff in assessing the appropriateness of requests for fuel. Instead of the programme assistant submitting the request for fuel directly to the operations section it would be advisable if the request were first certified or approved by the head of section.
2. The office should strengthen its procurement processes by ensuring that:
 - (a) Plans to strengthen its knowledge of the market of local supplies and its supplier profiles — by conducting a high-quality market survey — are promptly undertaken;
 - (b) A system whereby supplier data and profiles are continuously updated and checked is implemented;
 - (c) Plans already being implemented to introduce long-term arrangements for key expenditure areas are expedited in a timely manner.
3. The office should strengthen the effectiveness of the Property Survey Board (PSB) by ensuring that:
 - (a) PSB decisions are properly recorded and are implemented in a timely manner, and that a process is instituted to report action taken to the PSB;
 - (b) Where high-value items such as vehicles are sold, additional review steps should be taken to ensure a completely transparent and accountable process;
 - (c) Follow-up action is taken to obtain approval for action on the write-off of assets stolen from the warehouse in 2008.

Management of Procurement Services (audit report issued in 2009)

4. Given the relatively recent and dramatic rise in Procurement Services throughout, 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.
5. UNICEF should ensure that the planned revision to the executive directive on procurement services (CF/EXD/2007-004) is expedited. The revision should
 - (a) reflect clarification on strategic policy and exit strategies, including links to the MTSP and Millennium Development Goals and issues raised in the evaluation of the supply function, organizational review and business process review;
 - (b) include a clear explanation of the roles and responsibilities of Supply Division, Programme Division, regional offices, country offices and the Procurement Services Review Committee (PROSERVE);
 - (c) remove redundancies and ensure that 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.

UNICEF's guidance and support for efficient operation functions in Country Offices (audit report issued in 2009)

6. The Division of Policy and Planning (DPP) should introduce the three recommendations below in a phased manner. Although what is recommended will increase efficiency, it will initially be time-consuming and difficult for smaller country offices. It is therefore recommended that these recommendations be applied to the top 10 non-emergency countries (in terms of total budget for 2009) for two years and that a review and lessons-learned exercise be conducted after one year. The results of the lessons-learned review can then be shared with smaller offices to assist their application of the approach. This recommendation will be closed when the review is completed.

(a) DPP should add to the programme policy and procedures manual (PPPM) a requirement that:

(i) A country office (CO) annual management plan include efficiency objectives, indicators, targets (in term of expected efficiency gains or unit costs as appropriate), and assignment of responsibilities for measuring, monitoring and reporting on how well it uses resources allocated to operations functions;

(ii) COs develop annual work plans for the main operations functions that include information on activities, inputs (or resources), expected results (or outputs), relationships between input and outputs (efficiency indicators), assigned responsibilities and timelines;

(iii) COs disclose in their annual reports to the Executive Director any elements of current policies and procedures that result in unnecessary costs and/or add little value.

(b) DPP should include in the PPPM information on the different categories of management indicators such as indicators of volume, quality of services, effectiveness, efficiency (such as unit cost and/or efficiency savings or gains) and economy, so as to guide COs on how to measure and account for the efficient use of resources allocated to operations functions;

(c) DPP should review and amend the *Guidelines on the Preparation of the Office Management Plans* to explain the meaning of "maintenance functions" and "efficiency gains", and to include a methodology on how to measure efficiency gains.

7. The recommendation below should be introduced in a phased manner. Although what is recommended will increase efficiency it will initially be time-consuming and difficult for smaller country offices. It is therefore advised that (as in the recommendation above) these recommendations be applied to the top 10 non-emergency countries for two years and that a review and lessons-learned exercise then be conducted and its results submitted to OIA.

- (a) DPP should include in the PPPM a requirement that:
 - (i) An annual management review of a CO include a comparison of actual expenditures with budget; an analysis of efficiency indicators that measure the relationship between inputs and outputs; and an assessment of the risks and constraints to the efficient use of resources for the operation functions: finance, administration, human resources, information and communication technology, and supply management; and
 - (ii) COs review on a biennial basis (or more frequently as needed) the workflows of each support function to eliminate low-value activities and unnecessary controls, and that the results are discussed during annual management review.

Information Disclosure and Data Protection in UNICEF (audit report issued in June 2010)

- 8. OED, in conjunction with DHR, should ensure that staff members receive appropriate guidance and training on the transparency and confidentiality provisions contained in the accountability framework approved by the Executive Board, and on the Information Disclosure Policy, once adopted.
- 9. OED, in conjunction with the Division of Financial and Administrative Management, should continue to take all necessary steps to ensure that the organization is fully compliant with International Public Sector Accounting Standards (IPSAS) by 1 January 2012 [sic] and explore ways to make the presentation of budget and performance information more readily accessible and user-friendly to stakeholders and the public.

Annex 3

Charter of the UNICEF Office of Internal Audit

Introduction

1. This Charter sets out the purpose, authority and responsibility of the Office of Internal Audit (OIA), which is a key component of UNICEF's independent internal oversight system. The Office reports to the Executive Director, with the purpose of independently advising management, and also reports to the Executive Board independently on its findings and concerns.
2. The Charter has been approved by the Executive Director after review by the Audit Advisory Committee.

Mission

3. OIA provides independent and objective assurance and advisory services designed to add value and improve the operations of UNICEF. It helps UNICEF accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
4. OIA also conducts investigations to examine and determine the veracity of allegations of corrupt or fraudulent practices, and allegations of misconduct that involve UNICEF staff, consultants, non-staff personnel, and institutional contractors.

Scope of Work

5. OIA assesses whether UNICEF's governance, risk management and control processes provide reasonable assurance that:
 - resources are acquired economically and used efficiently;
 - assets are safeguarded;
 - activities comply with regulations, rules, policies, procedures, directives, administrative instructions and contracts;
 - financial, managerial, and operating information is accurate, reliable, and timely; and
 - programmes, plans, and business objectives are achieved.³
6. The nature and scope of OIA advisory services are agreed with management. Such services may involve advice and analyses to promote improvements in governance, risk management and control processes, with OIA taking care to ensure that its independence and objectivity are not compromised.

³ This excludes evaluation activities that fall clearly within the scope of the UNICEF Evaluation Office.

7. OIA's investigations cover various forms of misconduct including, but not limited to: fraud; corruption; workplace harassment; sexual harassment; abuse of authority; or failure to observe prescribed regulations, rules, relevant administrative issuances and standards of conduct.

Objectivity and Independence

8. To ensure appropriate organizational independence and objectivity of OIA, and to enable OIA to fulfil its responsibilities free from interference in determining the scope of work, performing its work and communicating results:

(a) The OIA Director reports and is accountable to the Executive Director for the provision of internal audit and investigation services in accordance with the provisions of this Charter and the Financial Rules and Regulations of UNICEF;

(b) The Executive Director ensures that OIA is provided with the necessary staffing and budgetary resources to achieve its mission and maintain its independence;

(c) OIA's Charter and annual work plans are approved by the Executive Director after review by the Audit Advisory Committee;

(d) OIA independently prepares and submits to the Executive Board an annual report on its activities, resources, significant risk and control issues highlighted by audits and investigations, actions taken or planned by management to implement OIA recommendations, and such other matters as may be requested by the Board;

(e) The Executive Director consults with the Audit Advisory Committee on the appointment or removal of the OIA Director.

Responsibility

9. The Director of OIA is responsible for:

(a) developing and submitting a risk-based annual work plan, that is flexible and adaptable to the emerging trends and issues in the organization, for review by the Audit Advisory Committee and approval by the Executive Director;

(b) ensuring that each work plan reflects OIA's aim of ensuring that: all UNICEF country offices are audited within a five year cycle; the "top ten" offices, with the highest value of annual programme expenditure, are audited every other year; and a number of other offices, rated by OIA as high risk, are audited each year;

(c) implementing the approved work plan and periodically informing the Executive Director and the Audit Advisory Committee of progress in carrying out the work plan and the impact of amendments thereto, including any scope limitations, if any, and reporting significant results on a timely basis;

(d) coordinating with UNICEF's External Auditors and Evaluation Office for the purpose of providing optimal assurance coverage at a reasonable overall cost;

(e) serving as primary focal point to the United Nations Office of Internal Oversight Services and the Joint Inspection Unit with regard to the work of those

offices, and as the organization's focal point (in consultation with the Public Sector Alliances and Resource Mobilization Office or the Division of Governance and Multilateral Affairs as appropriate) with Member State supreme auditing institutions and auditing services of multilateral and other bodies;

(f) interfacing (through the office of the UNICEF legal adviser in the Office of the Executive Director) with Member State law enforcement authorities, as necessary, for investigation purposes;

(g) maintaining a professional internal audit and investigation staff with sufficient qualifications, knowledge, skills, and experience to meet the requirements of this Charter;

(h) operating secure and confidential channels for receiving reports of alleged misconduct;

(i) conducting or supervising all investigations within UNICEF, in accordance with relevant Executive Directives and Administrative Instructions, and submitting investigations reports to the Human Resources, Supply, Programme and other relevant divisions for disciplinary and other appropriate follow up actions;

(j) establishing a quality assurance and improvement programme that covers all aspects of OIA activities, and continuously monitoring its effectiveness; and

(k) keeping UNICEF management and Audit Advisory Committee informed of emerging trends and practices affecting internal audit and investigation activities;

Authority

10. The Director of OIA has the authority to allocate OIA's resources, establish schedules, select subjects, determine scope of work, and apply techniques required to accomplish assurance, advisory and investigation objectives.

11. The Director and staff of OIA:

(a) have full unrestricted access to all functions, information (including digitally stored data), documents, records, personnel and assets that OIA deems relevant to its work; and

(b) may obtain all assistance, cooperation and explanations that OAI deems necessary for the discharge of its audit or investigation responsibilities, with any legal support being provided by or under the supervision of the office of the UNICEF legal adviser in the Office of the Executive Director.

12. The Director and staff of OIA are not authorized to:

(a) perform any non-OIA operational duty for UNICEF;

(b) initiate or approve accounting transactions external to OIA;

(c) direct the activities of UNICEF employees assigned outside OIA, except where such employees have been appropriately assigned to OIA teams or to otherwise assist OIA; and

(d) conduct any audit or investigation in which OIA staff may have a direct or indirect personal involvement or interest.

Professional Standards

13. OIA conducts internal audit work in accordance with the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors (IIA) as adopted by the Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

14. OIA carries out investigations in accordance with the Uniform Principles and Guidelines for Investigations endorsed by the 10th Conference of International Investigators in 2009, and in conformity with due process principles, as laid out in Chapter X of the United Nations Staff Regulations and Rules.

**Charter approved by the Executive Director
12 April 2011**
