



Economic and Social Council

Distr.: Limited
14 April 2016

Original: English

For decision

United Nations Children's Fund

Executive Board

Annual session 2016

14-17 June 2016

Item 8 of the provisional agenda*

UNICEF Office of Internal Audit and Investigations 2015 annual report to the Executive Board

Summary

The present report provides information on the activities of the Office of Internal Audit and Investigations (OIAI) during the year ended 31 December 2015. It presents an overview of OIAI, describes the key issues highlighted by its internal audit and investigations work, and provides information on the disclosure of internal audit reports during 2015. It also responds to Executive Board decision 2015/11, which requested OIAI to provide an overall opinion, on the basis of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control.

The management response to the OIAI report is presented separately, as requested by the Executive Board in its decision 2006/18. The annual report of the UNICEF Audit Advisory Committee (AAC) for 2015 may be found on the Executive Board website.

* E/ICEF/2016/5.



Contents

	<i>Page</i>
I. Executive summary	3
II. Mandate and operations	4
III. Independence and external oversight	4
IV. Professional standards	5
V. Resources	5
VI. Internal audit workplan	6
VII. Internal audit assurance summary and opinion	7
VIII. Disclosure of internal audit reports	8
IX. Internal audit results	9
X. Investigations results	14
 Annexes	
1. Audit and advisory reports issued in 2015	18
2. Key processes identified for priority action by management	20
3. Recommendations unresolved for more than 18 months	21

I. Executive summary

1. The Office of Internal Audit and Investigations (OIAI) provides UNICEF with independent and objective assurance and advisory services and investigations.

2. Internal audits performed by OIAI help UNICEF to improve its programmatic and other activities, to increase transparency and to strengthen accountability for the efficient and effective use of resources to achieve results for children. The office also undertakes investigations into alleged misconduct to help the organization to implement a zero-tolerance policy on fraud, corruption and other abuse. Its broad institutional coverage allows OIAI to focus management attention on trends in the effectiveness of governance, risk management and controls, while providing reasonable assurance to stakeholders. The OIAI quality assurance and improvement programme confirmed that during 2015 the office continued to operate in accordance with relevant professional standards.

3. In 2015, OIAI issued 38 internal audit reports, with an additional 19 reports in varying stages of completion at year end. The reports issued contained 577 actions (including 108 rated high priority) that management had agreed to implement to address identified risks and issues. The office also completed five advisory engagements.

4. As a routine part of its work, OIAI reviews the status of implementation of previously agreed actions to ensure that any residual risks are addressed by management in a timely and effective manner. The office was pleased to note a continuing improvement in implementation rates, with 18 actions outstanding for more than 18 months, compared with 20 such actions in 2014.

5. Responding to Executive Board decision 2015/11, the office also contributed to further strengthening the Executive Board's oversight of UNICEF by providing an overall assurance opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls. In summary, in the opinion of OIAI, this framework was generally satisfactory during 2015.

6. The office has continued to publicly disclose its internal audit reports, contributing to increased accountability and transparency to UNICEF stakeholders, in accordance with Executive Board decision 2012/13. Of the 38 internal audit reports issued in 2015, 26 had been publicly disclosed in full by the end of 2015. One report was redacted by the Director of OIAI, in accordance with Executive Board decision 2012/13, while the remaining reports were still under review.

7. The office managed 142 investigation cases in 2015, comprising 90 allegations received in 2015 and 52 carried over from previous periods, and closed 101 of these cases during the year. The majority of the investigations undertaken related to fraud involving misuse of programme funds by third parties and/or inappropriate staff conduct. The status of actions taken by management in response to each investigation report is followed up by OIAI, including whether funds at risk have been recovered, and the office is also looking to draw more effectively on the information generated from investigations to help to reduce the future risk of fraud, other misconduct and mismanagement.

8. During 2015, the Audit Advisory Committee (AAC) provided the Executive Director with independent advice on internal audit and investigations as well as on

other aspects of management, oversight and control. The office continued to engage effectively with the AAC throughout the year to help the Committee to fulfil its mandate.

9. The UNICEF Executive Director and senior management provided strong support to OIAI throughout 2015, and remain committed to developing and implementing appropriate responses to address the risks reported by OIAI.

II. Mandate and operations

10. The office provides UNICEF with an effective system of independent and objective internal oversight, which is designed to help the organization to fulfil its fiduciary responsibilities in achieving its programme goals for the protection and realization of the rights of children and women. Internal audits accomplish this by providing independent, objective assurance and advisory services designed to add value and to improve UNICEF operations. Investigations help the organization to implement a zero-tolerance policy towards misconduct, fraud and corruption by examining and determining the veracity of allegations of corrupt or fraudulent practices involving UNICEF and parties working for or with UNICEF, and allegations of other misconduct involving UNICEF staff, consultants, non-staff personnel and institutional contractors. The purpose, authority and responsibilities of OIAI are defined in the Charter approved by the Executive Director.

11. During 2015, OIAI received strong support and cooperation from UNICEF senior management. The OIAI Director had regular meetings with the Executive Director and senior management to discuss progress in implementing the OIAI workplan and the results from audit and investigations. The OIAI Director also participated in UNICEF senior management meetings to help to increase awareness of emerging key risks and issues. The office engaged in formal and informal discussions with other internal oversight functions within UNICEF, and participated in meetings with donors and their own auditors to strengthen cooperation with UNICEF. The office also participated in the activities of the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the Representatives of Investigations Services of the United Nations Organizations, and the Conference of International Investigators. Additionally, OIAI collaborated in three inter-agency audits to address common risks for multi-partner trust funds and for the Delivering as One (DaO) programme, and cooperated with the heads of investigation sections across the United Nations system to share information and good practices on fraud prevention and awareness.

12. The main elements contributing to effective and efficient discharge of the OIAI mandate and its usefulness to key stakeholders are its functional independence, access to people and records, inclusive risk-based planning, sufficiency of resources that allow appropriate internal audit and investigation coverage, and the quality and timeliness of audit and investigation results.

III. Independence and external oversight

13. The Office of Internal Audit and Investigations hereby confirms its organizational independence: in 2015, OIAI was free from management interference

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

14. The AAC continued to provide independent advice to the Executive Director to promote the effectiveness of UNICEF internal audit and investigation functions. During 2015, the AAC reviewed the OIAI 2014 annual report to the Executive Board as well as the 2015 workplan and quarterly progress reports on its implementation. The Committee also reviewed the status of actions taken by OIAI to address the recommendations of the 2013 external quality assurance review, all of which had been closed at the time this annual report was prepared. Either the Director or Deputy Director of OIAI attended all of the AAC meetings in 2015.

15. The United Nations Board of Auditors, the UNICEF external auditors, continued to rely on internal audit work done by OIAI in 2015.

IV. Professional standards

16. The work of OIAI follows relevant professional standards. Internal audit work is conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA), which RIAS adopted in June 2002. The office conducts 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.

17. The office maintains a quality assurance and improvement programme (QAIP), which includes internal quality assessments that involve ongoing performance monitoring and periodic reviews, and external quality assessments conducted at least every five years by a qualified independent external reviewer. The last external quality assessment was conducted in 2013, and the office's ongoing QAIP confirmed that **OIAI's internal audit activity continued to operate during 2015 in general conformity with international internal auditing standards as promulgated by the Institute of Internal Auditors.**

V. Resources

18. The office had a budget of \$7.14 million for 2015, of which 99.8 per cent was expended by year end. The largest expenditure categories were staff salaries, travel and consultants. The 2015 budget included an increased allotment to fund an additional P-4 Investigator position, and \$150,000 used to upgrade one P-3 Internal Auditor to P-4 level (\$35,721) and to provide travel funds (\$115,000) for the new P-2 and P-4 Investigator posts, which were filled in December 2014.

19. In 2015, the OIAI structure had 32 staff positions: Director, Deputy Director, 2 Chiefs of Audit, Chief of Investigations, Senior Auditor responsible for professional practices, Editor, 17 Auditors, 5 Investigators and 3 Administrative Assistants. Four positions were vacant as of 31 December 2015, including one Investigator (P-2), two Auditors (P-3 and P-4) and the Director. A new Director started with OIAI on 4 January 2016. The office received approval to recruit one additional P-4 Investigator in 2016; the recruitment process for that post is almost complete.

20. Support was received from 17 operations staff from UNICEF country offices, who assisted OIAI in audits of country offices other than their own, under the direct supervision of the OIAI audit team. The cost to OIAI for this support was \$87,994 in travel expenditure.

21. The office also engaged third-party consultants to support specific internal audit and investigation activities. These consultancies comprised: (a) investigation services support (\$18,300); (b) audit of the Indonesia Country Office (\$10,500); (c) audit of the information and communications technology (ICT) infrastructure in UNICEF (\$20,000); and (d) audit of UNICEF other resources accounting and reporting (\$25,137).

22. At the time of preparing this report, the office had addressed all the relevant issues raised in the UNICEF 2014 Global Staff Survey.

23. Based on the risks and activities identified in its 2015 annual workplan, set within its longer-term planning for assurance and investigation activities, and having reviewed the office's performance against that plan, **OIAI considers its available resources to be appropriate and sufficient.**

VI. Internal audit workplan

24. The OIAI annual workplan is designed to identify the most significant risk areas to the achievement of UNICEF objectives, and to identify audit engagements and needed resources to help to address those risk areas. The office thus adds value to UNICEF operations and provides assurance to the Executive Board and other stakeholders on the adequacy of the UNICEF framework of governance, risk management and control.

25. The OIAI annual workplan uses a combined top-down and bottom-up approach to ensure identification of significant risks across all business units as well as strategic risks, and draws on contributions from UNICEF management. The workplan is designed to deliver a dynamic contribution to achieving better governance, robust risk management and more reliable controls. It includes internal audits of country offices, regional offices, headquarters units, organizational processes, country programmes and inter-agency activities. Reports issued from audit and advisory assignments in 2015 are summarized in annex 1.

26. As in previous years, the largest component of the 2015 audit workplan was at the country-office level, reflecting the organization's decentralized programming and management structure, where a substantial number of the risks identified in the OIAI risk assessment are managed by country offices with the support of the regional offices and headquarters divisions. Through its risk-based planning, the OIAI 2015 workplan ensured adequate coverage of the main risks to UNICEF, including audits of 38 per cent of UNICEF country offices.

27. Through maintaining its focus on the risks and issues of greatest importance to UNICEF, and through compliance over a multi-year cycle with the coverage of country operations set out in its Charter, **OIAI deployed its resources effectively throughout the year**, adjusting its plans as appropriate to reflect changes in the UNICEF risk profile, organizational priorities, operating environment and assurance needs.

28. As of 31 December 2015, OIAI had completed 38 audits and had 13 audit reports in draft form. Fieldwork was in progress for six more audits, while eight audits had been cancelled or postponed to the subsequent year due to security and safety or other concerns, with other assignments being promoted within the workplan to take their place. The office is satisfied that these adjustments had no material adverse impact on the ability of OIAI to provide the assurance required by its stakeholders. The majority of the deferred audits feature in the 2016 audit workplan and the most important ones are already under way.

VII. Internal audit assurance summary and opinion

29. Executive Board decision 2015/11 requested OIAI to provide in its future annual reports “(a) an opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization’s framework of governance, risk management and control; (b) a concise summary of work and the criteria that support the opinion; (c) a statement of conformance with the internal audit standards to which UNICEF adheres; and (d) a view on whether the resourcing of the function is appropriate, sufficient and effectively deployed to achieve the desired internal audit coverage.”

30. Internal audits provide assurance to the Executive Director and the Executive Board on the adequacy and effectiveness of UNICEF governance, risk management and control processes to ensure (a) efficient and effective use of UNICEF resources; (b) safeguarding of assets; (c) compliance with regulations, rules and policies; and (d) reliable reporting on financial and programme performance. UNICEF management is responsible for establishing and maintaining effective internal control, governance and risk-management processes to ensure organizational objectives are achieved. The responsibility of OIAI is to independently assess the adequacy and effectiveness of such a framework.

31. The OIAI opinion is based on the results of the internal audits and other assurance activities undertaken by the office during 2015. The overall opinion is intended to provide reasonable, not absolute, assurance for stakeholders, and, in compliance with Executive Board decision 2015/11, is based specifically on the work that has been performed.

32. The OIAI risk-based planning and multi-year cycle provide comfort that audit resources are directed towards the areas of greatest significance to the organization. In addition, work was carried out within each of the country/area office audits across three main areas — governance, programme and operations. These factors, together with the broad audit coverage obtained during the year, facilitate OIAI in drawing an overall conclusion.

33. The internal reports issued in 2015 comprised audits of 34 country/area offices (including one country-specific programme), two regional offices, one inter-agency activity, and one key process at headquarters. The majority of the audit reports issued in 2015 (see annex 1) included testing of the 2014 and 2015 operational and programmatic activities of UNICEF.

34. Based on the results of each audit, OIAI assigns an overall rating. Listed from positive to negative, these ratings are (a) unqualified, (b) moderately-qualified, (c) strongly-qualified and (d) adverse. This four-classification rating and their

associated criteria give management an overall picture of audit results of the organizational unit or function that was audited and help to focus their attention particularly on those that are rated “adverse” or “strongly-qualified”. Adverse or strongly-qualified (unsatisfactory) ratings mean that OIAI audit work suggested that controls and processes related to the entity audited required improvement in order to be regarded as adequately established and functioning. Conversely, unqualified or moderately-qualified (satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended.

35. Of the 38 internal audit reports issued in 2015, 27 (or 71 per cent) were rated satisfactory overall on the basis set out above, while 11 (29 per cent) were rated as unsatisfactory. Table 2 of this report provides a concise summary of the ratings across each of the audits.

36. The overall implementation rate of audit recommendations as at 31 December 2015 is 97.5 per cent for reports issued in 2012, 98 per cent for reports issued in 2013, and 90 per cent for reports issued in 2014. These rates provide additional comfort that appropriate and timely action is taken as and when improvements in governance, risk and controls are necessary.

37. The preponderance of satisfactory ratings from individual internal audit reports, together with the high implementation rates for agreed audit actions and the absence of any individual findings revealing fundamental flaws in the organization’s governance, risk management and control systems, allows OIAI to provide an overall opinion (as follows) on the adequacy and effectiveness of the UNICEF framework of governance, risk management and control.

Annual assurance opinion

38. In the opinion of OIAI, based on the scope of work undertaken, the adequacy and effectiveness of the UNICEF framework of governance, risk management and control were generally satisfactory. Although internal audits identified a number of areas where internal controls and governance and risk management practices required strengthening, OIAI was pleased to note that management had committed to address or was already addressing these areas.

39. The office also noted that management has recognized the need to accelerate the pace of change within key areas that will be crucial enablers for continued performance improvement and for helping the organization to adapt to an increasingly challenging external environment. These include human resources management, information technology modernization and accountability structures. Through its ongoing programme of audit and advisory assignments during 2016, OIAI will monitor and provide assurance on these and other corporate change initiatives.

VIII. Disclosure of internal audit reports

40. The office’s audit work directly contributed to UNICEF efforts to provide greater accountability and transparency to stakeholders. In accordance with Executive Board decision 2012/13, OIAI has publicly disclosed internal audit reports issued after 30 September 2012. Of the 38 internal audit reports issued in 2015, 23 country/area office and 3 non-country office audits had been publicly

disclosed in full by the end of 2015, while 11 reports were at the comment and review stage. In 2015, one report was redacted by the Director of OIAI prior to public disclosure, following comments received from the Executive Director and after a determination by the Director of OIAI that the reasons for the request to redact the report met the criteria outlined in Executive Board decision 2012/13. All reports disclosed to date may be viewed at www.unicef.org/auditandinvestigation.

41. Executive Board decisions 2009/8 and 2011/21 regarding limited disclosure relate only to those reports issued by OIAI from 2009 to the end of September 2012. In 2015, at the request of a Member State, OIAI made available three internal audit reports to be viewed through the legacy remote access system.

IX. Internal audit results

A. Actions agreed by management

42. The 38 internal audit reports issued by OIAI contained a total of 577 actions that management agreed to take in order to address the risks and weaknesses identified by the audits. Of these, 108 (19 per cent) were rated as high priority. In table 1, OIAI has categorized the actions agreed under the risk areas UNICEF has defined in its own risk assessment and reporting structure.

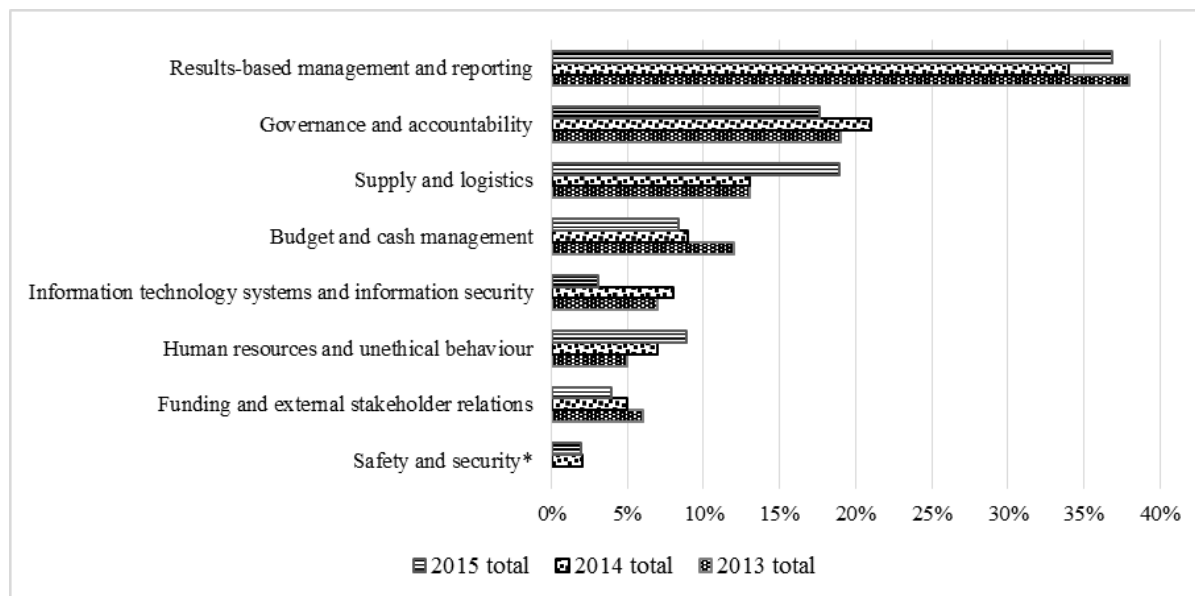
Table 1
Number of agreed actions by key risk area, 2015

<i>Risk area</i>	<i>Number of agreed actions</i>		<i>Percentage of total</i>	
	<i>Total</i>	<i>High priority</i>	<i>Total</i>	<i>High priority</i>
1. Results-based management and reporting	207	48	37	48
2. Governance and accountability	99	11	18	11
3. Supply and logistics	106	24	19	24
4. Information technology systems and information security	17	0	3	0
5. Budget and cash management	47	5	8	5
6. Funding and external stakeholder relations	22	2	4	2
7. Human resources and unethical behaviour	50	8	9	8
8. Safety and security	11	2	2	2
9. Natural disasters and epidemics	1	0	0	0
10. Organizational strategy and neutrality	1	0	0	0
Total	561*	100	100	100

* Table 1 excludes the 16 recommendations (8 high, 8 medium) issued in the Joint audit of Delivering as One in Malawi (2015/10), as this is not followed up by the Office of Internal Audit and Investigations but by the internal audit service of the United Nations Development Programme.

43. The distribution of agreed actions by UNICEF risk area in 2015 shows a similar pattern to prior years, with three areas presenting the highest levels of residual risk: results-based management and reporting, supply and logistics, and governance and accountability. These areas represent 74 per cent of all agreed actions (and 83 per cent of high-priority actions). A comparison of agreed actions for 2015 compared to 2013 and 2014 is shown in figure I below.

Figure I
Distribution of agreed actions by key risk area for 2013, 2014 and 2015



* There were no agreed actions relating to safety and security in 2013.

44. The key processes where risk management action should continue to be prioritized for results improvement are described in annex 2. UNICEF management has agreed and has taken, or is taking, action to address the issues identified in internal audits to further strengthen management for results.

B. Distribution of audit ratings

45. Based on the results of an audit, OIAI assigns an overall audit rating. Listed from positive to negative, these ratings are: (a) unqualified, (b) moderately-qualified, (c) strongly-qualified, or (d) adverse. Table 2 that follows presents the distribution of ratings by type of audit. As noted above, of 38 internal audit reports issued in 2015, 71 per cent were rated as satisfactory (either unqualified or moderately-qualified). This compares favourably with 2014, when 64 per cent were rated as satisfactory.

Table 2
Distribution of audit ratings

<i>Audit area</i>		<i>Number of audits</i>	<i>Number of unqualified ratings</i>	<i>Number of moderately qualified ratings</i>	<i>Number of strongly qualified ratings</i>	<i>Number of adverse ratings</i>
Country/area office audits	WCAR	6	0	3	3	0
	LACR	8	3	4	1	0
	SA	1	0	1	0	0
	MENA	4	0	3	1	0
	ESAR	9	1	4	4	0
	EAPR	4	0	3	1	0
	CEE/CIS	2	0	2	0	0
Inter-agency audits		1	0	1	0	0
Headquarters/thematic		1	0	0	1	0
Regional offices		2	1	1	0	0
Total		38	5	22	11	0

Key: WCAR: West and Central Africa; LACR: Latin America and Caribbean; SA: South Asia; MENA: Middle East and North Africa; ESAR: Eastern and Southern Africa; EAP: East Asia and the Pacific; CEE/CIS: Central and Eastern Europe and the Commonwealth of Independent States.

C. Significant results of country/area office audits

46. The 34 country/area office audits completed in 2015 were full-scope audits, including an audit of the Kenya Country Office water, sanitation and hygiene (WASH) programme. Table 3 below shows the distribution of the 499 agreed actions, by risk area and region. The proportion of agreed actions for each region is also influenced by the number of audits done for that region, and hence is not a comparative assessment among regions of the adequacy of their actions in governance, risk management and controls.

Table 3
Distribution of agreed actions by risk area and region

<i>Risk area</i>	<i>MENA 4 audits</i>	<i>LACR 8 audits</i>	<i>WCAR 6 audits</i>	<i>EAPR 4 audits</i>	<i>ESAR 9 audits</i>	<i>SA 1 audit</i>	<i>CEE/CIS 2 audits</i>	<i>Total 34 audits</i>	<i>Percentage of total</i>
Results-based management and reporting	22	32	34	23	73	7	6	197	39%
Governance and accountability	11	12	19	9	26	4	7	88	18%
Supply and logistics	10	10	19	11	26	2	3	81	16%
Budget and cash management	5	12	8	4	13	1	1	44	9%
Human resources and unethical behaviour	6	7	11	2	12	1	1	40	8%
Funding and external stakeholder relations	2	6	2	3	4	1	2	20	4%
Organizational strategy and neutrality	–	–	–	1	–	–	–	1	–
Natural disasters and epidemics	–	–	–	–	–	–	1	1	–

<i>Risk area</i>	<i>MENA 4 audits</i>	<i>LACR 8 audits</i>	<i>WCAR 6 audits</i>	<i>EAPR 4 audits</i>	<i>ESAR 9 audits</i>	<i>SA 1 audit</i>	<i>CEE/CIS 2 audits</i>	<i>Total 34 audits</i>	<i>Percentage of total</i>
Information and communications technology and information security	1	2	2	1	7	3	1	17	3%
Safety and security	1	–	4	–	5	–	–	10	2%
Grand total	58	81	99	54	166	19	22	499	
Percentage of the total	12%	16%	20%	11%	33%	4%	4%		100%

Note: The total may not add up to 100% due to rounding.

47. The three most significant risk areas identified for continuing management action are results-based management and reporting, governance and accountability, and supply and logistics. These areas accounted for 73 per cent of all agreed actions. This is comparable to 2014, where 72 per cent of all agreed actions were found in the same risk areas. From the OIAI viewpoint, the main cause for the weaknesses identified in these areas was the insufficient level of compliance with the relevant UNICEF policies and procedures, which OIAI considered to be generally appropriate to manage risk. The office identified gaps in results-based management in programme planning and in the support to programme implementation, including the area of the harmonized approach to cash transfers (HACT). In the area of governance and accountability, there were gaps in the application of risk management, and in office supervisory structures and the delegation of authority. In supply and logistics, there were issues of compliance with procurement and contracting internal controls.

D. Significant results of inter-agency audits

48. Joint Audit of Delivering as One in Malawi 2015/10 (UNDP No. 1312): The DaO programme aims to produce a more unified United Nations structure at country level. The joint audit covered the activities of DaO in Malawi and focused on its five pillars (One Leader, One Programme, One Fund, Operating as One, and Communicating as One). The audit was conducted by the internal audit services of four United Nations agencies — the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and UNICEF. The joint audit assessed DaO in Malawi as “partially satisfactory”, which means: “Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entities.” This rating is mainly due to the weaknesses observed in two of the pillars, One Programme and One Fund. Seven high-priority issues were identified by the audit, including: the absence of a robust quality review of the United Nations Development Assistance Framework (UNDAF) and joint annual workplans; weaknesses in the design of the UNDAF; gaps in the Integrated Monitoring and Evaluation Plan; gaps in reporting on results; an incomplete resource mobilization strategy for the One Fund; weakness in the Business Operating Strategy and its implementation mechanism; and inadequate follow-up on the HACT macro-assessment. None of the 16 recommendations included in the report were specifically addressed to UNICEF for action.

E. Significant results of headquarters and regional office audits

49. Internal Audit of the Management of Service Contracts in UNICEF's Headquarters Divisions (2015/14): The audit assessed governance, risk management and control processes over management of service contracts in UNICEF headquarters divisions. It identified eight high-priority issues, including the need for the Supply Division (SD) and the Division of Human Resources (DHR) to review current policies, procedures and practices on procurement of service contracts in headquarters in light of the audit findings. Other high-priority recommendations included: establishment of key performance indicators for procurement of service contracts; standard oversight processes for single-sourcing of service contracts; an action plan for review of vendor master data in VISION; and assessment of organizational risks relating to the human-resources allocation for headquarters divisions.

50. Internal Audit of the Latin America and Caribbean Regional Office (2015/08): The audit covered the regional office's governance, accountabilities related to country offices and operations support. The audit did not identify any high-priority issues. The audit noted controls functioning well in some areas, including established advisory and statutory structures that had appropriate membership and terms of reference (TOR), and the quality assurance processes for country programme development. The office had updated its risk profile and used implementation of actions to mitigate medium to high risks as a key performance indicator. In 2014, the regional office had organized a survey that sought feedback from country offices on its performance in its core functions.

51. Internal Audit of the Middle East and North Africa Regional Office (MENARO) (2015/34): The audit covered the regional office's governance and operations management and its oversight and support to country offices in the region. The audit identified one high-priority issue: gaps in the management of contracts for services. The office agreed to strengthen its oversight of the application of the UNICEF controls in this area, and to take a number of specific steps, including drawing up a plan for contracts for services, ensuring their signature before start dates, drafting TORs with specific deliverables and timelines, and strengthening of quality-assurance mechanisms over TORs. The audit noted controls functioning well in some areas, including a high rate of completion of staff performance evaluations, standard operating procedures (SOPs) to define expected controls over aspects of oversight and support to country offices, and effective systems for oversight and regular review of country office's performance indicators. The audit also noted that the office had been facing several severe protracted emergencies, with crises in five countries in the region during the period under audit.

F. Advisory services

52. Advisory reviews provide management with guidance on risks and controls and assist in adding value to the office's core assurance work. In 2015, OIAI issued four advisory engagement reports and completed one advisory review for which no report was issued, as follows:

(a) Support to strengthening governance and internal control capability of the Global Staff Association;

- (b) Quality assurance review of Moore Stephens special audits of cash transfers in Madagascar;
- (c) Conflict of Interest and Financial Disclosure Programme in UNICEF headquarters divisions;
- (d) Strengthening office management in the Haiti Country Office;
- (e) Support to donor verifications (no report).

G. Follow-up on audit recommendations

53. As part of its audit activity, OIAI continued to undertake regular desk reviews to follow up on the progress of implementation of all actions agreed by management. Actions that have not been implemented for more than 18 months from the date of issuance of the final audit report are included in OIAI quarterly reports for the attention of the Executive Director, senior management and the AAC.

54. As of 31 December 2015, 18 recommendations had not been implemented for more than 18 months, 7 of which were rated as high priority. All related to headquarters and thematic audits (see annex 3). This was a slight improvement over 2014, when there were 20 such outstanding recommendations. In both cases, the total number remains minimal, given that the 18 recommendations represent less than 4 per cent of the recommendations open at the end of 2015.

X. Investigations results

A. Case management

55. The office managed 142 investigation cases during 2015, as shown in table 4. This included 52 cases carried over from 2013 and 2014, and 90 allegations received in 2015 that were found to constitute serious suspicions of wrongdoing. At the end of 2015, 43 of the carried over cases and 58 of the new cases received in 2015 had been closed.

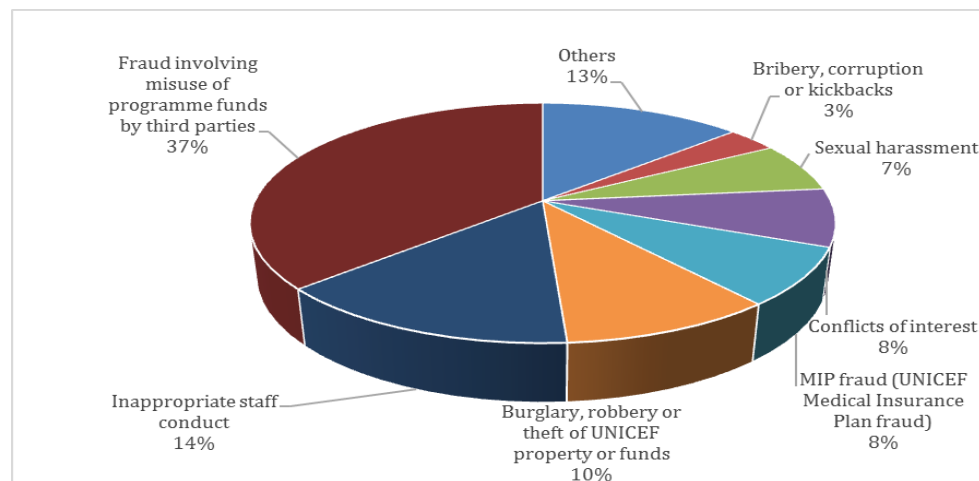
Table 4
Processing of investigation cases in 2015

<i>Status of cases</i>	<i>Number of cases</i>
Carry-over as of 1 January 2015	52
Intake during the year	90
Total cases	142
Closed (from cases carried over from 2013)	(43)
Closed (from intake)	(58)
Total cases closed	101
Cases ongoing as of 31 December 2015	41

B. Analysis of cases

56. The office analyses allegations and cases under 17 categories. In 2015, OIAI recorded cases within 14 of the 17 categories. Figure II presents the proportion of cases among the major categories. The three categories where no allegations were recorded were: forgery, personnel disputes and wilfully making false allegations.

Figure II
Investigation cases by category, 2015



57. The majority of cases in 2015 were classified under three categories: fraud involving misuse of programme funds by third parties (33 cases); inappropriate staff conduct (13 cases); and burglary, robbery or theft of UNICEF property or funds (9 cases). These three categories totalled 61 per cent of all investigation cases. Compared to 2014, there was an increase in the number of cases of fraud involving misuse of programme funds by third parties (from 19 per cent in 2014 to 37 per cent in 2015). The category “Others” in figure II above includes gross mismanagement resulting in either financial or reputational damage to UNICEF, procurement irregularities, retaliation, non-MIP entitlements fraud, forgery, harassment and abuse of authority, and other miscellaneous issues.

58. The majority of cases originated from the Eastern and Southern Africa region (38 per cent), followed by the West and Central Africa region (19 per cent) and the South Asia region (13 per cent).

59. The 41 cases ongoing as of 31 December 2015 mainly consisted of allegations of fraud involving misuse of programme funds by third parties (14 cases), burglary, robbery or theft of UNICEF property or funds (5 cases), and bribery, corruption or kick-backs (5 cases).

C. Disposition of completed cases

60. In 31 of the 101 completed cases, the case was closed because OIAI could not substantiate the allegation. Another 16 cases were closed due to the staff member resigning or retiring from the organization during the course of the investigation.

The majority of the investigated matters (71 per cent) were referred to country offices for recovery of funds either from implementing partners or former staff members. The disposition of all cases completed in 2015 is described in table 5.

Table 5
Disposition of investigation cases completed in 2015

<i>Type of closure</i>	<i>Number of cases</i>	<i>Percentage of total</i>
Closure memorandum	63	63%
1 (a) Allegation not substantiated	31	
1 (b) Allegation in which staff member left the organization	16	
1 (c) Allegation with action initiated by the office		
i. Recovery of funds	9	
ii. Written reprimand	7	
Investigation report submitted to	34	34%
2 (a) Division of Human Resources	8	
2 (b) Ethics Office	1	
2 (c) Country office for recovery	25	
Referral made to a UNICEF office, United Nations body or local authority	4	4%
Total cases closed in 2015	101	100%

Note: The total may not add up to 100% due to rounding.

61. Closure of 101 cases by OIAI in 2015 compares with 72 in 2014. The 2015 closed cases included 25 investigation reports related to two government implementing partners and their implementation of activities. In 2015, there was also an increase in the number of cases where the staff member left the organization during the investigation.

62. Of the 101 cases closed in 2015, 66 per cent were closed within nine months of receipt of the allegation.

63. The office identified potential losses in 16 cases, one of them consisting of 23 sub-cases for a total of \$790,095. As far as OIAI has been notified, \$23,900 had been recovered as of 31 December 2015. A breakdown is presented in table 6.

Table 6
Financial impact of investigation cases in 2015

<i>Category</i>	<i>Amount of potential loss*</i>	<i>Amount recovered</i>
Fraud involving misuse of programme funds by third parties	\$341 145	\$22 900
Burglary, robbery or theft of UNICEF property or funds	\$369 224	\$1 000
Medical insurance plan fraud	\$79 726	\$0
Total	\$790 095	\$23 900

* These amounts refer to the financial impact of the loss assessed by the investigations.

D. Disciplinary measures and other actions taken

64. The office submitted eight investigation reports to the Policy and Administrative Law section of DHR. One report related to a case of whistle-blower retaliation was also submitted to the Principal Adviser, Ethics Office, for appropriate action in accordance with CF/EXD/2007-005. By the end of 2015, the following actions had been taken by DHR:

- (a) three summary dismissals;
- (b) two separations from the organization with compensation;
- (c) one demotion with deferment of eligibility of promotion for two years;
- (d) one written censure for five years;
- (e) one report resulted in no further action due to resignation after submission of the investigative report;
- (f) one report resulted in no further action.

Annex 1

Audit and advisory reports issued in 2015¹

No.	Reference number	UNICEF audits	Number of agreed actions ²		Report conclusion ³
			Total	High priority	
Country/area offices					
1.	2015/02	El Salvador Country Office (<i>Remote</i>) ⁴	6	1	Q-M
2.	2015/03	WASH programme of the Kenya Country Office	19	4	Q-S
3.	2015/04	Guatemala Country Office	5	0	U
4.	2015/05	Azerbaijan Country Office (<i>Remote</i>)	12	1	Q-M
5.	2015/06	Somalia Country Office	22	5	Q-S
6.	2015/07	Brazil Country Office	21	4	Q-S
7.	2015/09	Costa Rica Country Office (<i>Remote</i>)	8	1	Q-M
8.	2015/11	Comoros Country Office	14	1	Q-M
9.	2015/12	Democratic People's Republic of Korea Country Office (<i>Remote</i>)	6	0	Q-M
10.	2015/13	Algeria Country Office (<i>Remote</i>)	18	5	Q-S
11.	2015/17	Kenya Country Office	21	4	Q-S
12.	2015/18	Togo Country Office (<i>Remote</i>)	13	2	Q-M
13.	2015/19	Benin Country Office (<i>Remote</i>)	11	3	Q-M
14.	2015/20	Central African Republic Country Office	22	6	Q-S
15.	2015/21	Madagascar Country Office	18	4	Q-M
16.	2015/22	Namibia Country Office (<i>Remote</i>)	5	0	U
17.	2015/24	Democratic Republic of the Congo Country Office	19	6	Q-M
18.	2015/25	South Sudan Country Office	26	8	Q-S
19.	2015/26	Zimbabwe Country Office	21	1	Q-M
20.	2015/27	Panama Country Office (<i>Remote</i>)	8	0	U
21.	2015/28	India Country Office	19	2	Q-M
Country/area offices (continued)					
22.	2015/29	Oman Country Office (<i>Remote</i>)	10	2	Q-M
23.	2015/30	Zambia Country Office	20	2	Q-M
24.	2015/31	Cambodia Country Office	6	2	Q-M
25.	2015/32	Cuba Country Office (<i>Remote</i>)	11	2	Q-M
26.	2015/33	Nigeria Country Office	21	5	Q-S
27.	2015/35	Tunisia Country Office	12	2	Q-M

¹ Audit and advisory reports are listed by report reference number.

² Some medium- or high-risk agreed action plans were communicated to the Executive Director confidentially to prevent organizational exposure to the related risks.

³ Report conclusions may be: unqualified (U); qualified-moderate (Q-M); qualified-strong (Q-S); or adverse (A).

⁴ Remote audits were conducted for 13 country/area offices using a process that coupled information and communication technology with data analytics.

No.	Reference number	UNICEF audits	Number of agreed actions ²		Report conclusion ³
			Total	High priority	
28.	2015/36	State of Palestine Office	18	1	Q-M
29.	2015/37	Kosovo Office (<i>Remote</i>)	10	1	Q-M
30.	2015/38	Timor-Leste Country Office (<i>Remote</i>)	17	5	Q-M
31.	2015/39	Nicaragua Country Office	11	0	U
32.	2015/40	Philippines Country Office	25	6	Q-S
33.	2015/41	Dominican Republic Country Office	11	1	Q-M
34.	2015/42	Guinea-Bissau Country Office	13	4	Q-S
Total			499	91	
Regional office audits					
1.	2015/08	Regional Office for Latin America and Caribbean	10	0	U
2.	2015/34	Regional Office for Middle East and North Africa	20	1	Q-M
Total			30	1	
Headquarters and thematic area audits					
1.	2015/14	Management of Service Contracts in UNICEF's Headquarters Divisions	32	8	Q-S
Total			32	8	
Inter-agency audits					
1.	2015/10	Delivering as One in Malawi (Joint) ⁵	16	8	Q-M
Total			16	8	
Advisory services⁶					
1.	2015/01	Support to strengthening governance and internal control capability of the Global Staff Association	NA	NA	NA
2.	2015/15	Quality assurance review of Moore Stephens special audits of cash transfers in Madagascar	NA	NA	NA
3.	2015/16	Conflict of Interest and Financial Disclosure Programme in UNICEF headquarters divisions	NA	NA	NA
4.	2015/23	Strengthening office management in the Haiti Country Office	NA	NA	NA
Total			577	108	

NA = Not applicable.

⁵ This audit was conducted jointly by the internal audit services of UNDP (which led the audit), FAO, UNFPA and UNICEF. The report was issued to the Chair of the United Nations Development Group. The OIAI does not follow-up on the status of the implementation of the recommendations made in this report.

⁶ In addition to the four items listed, OIAI also provided ongoing advice to the Division of Financial and Administrative Management on European Commission verification missions. A report was not issued.

Annex 2

Key processes identified for priority action by management

<i>Risk area process</i>	<i>High-priority agreed actions</i>	
	<i>Number</i>	<i>Percentage of total</i>
I. Results-based management and reporting	48	48%
1. Support to programme implementation	21	21%
2. Monitoring of programme implementation	12	12%
3. Programme planning	7	7%
4. Reporting	6	6%
5. Evaluation	2	2%
II. Supply and logistics	24	24%
1. Procurement and contracting	19	19%
2. Inventory management	5	5%
III. Governance and accountability	11	11%
Supervisory structures	7	7%
1. Delegation of authorities	2	2%
2. Performance measurement	1	1%
3. Risk management	1	1%
IV. Budget and cash management	5	5%
1. Financial management	5	5%
V. Human resources and unethical behaviour	8	8%
1. Staffing structure	6	6%
2. Ethics	2	2%
VI. Funding and external stakeholder relations	2	2%
1. Resource mobilization and management	2	2%
VII. Safety and security	2	2%
Total	100⁷	100%

⁷ This excludes the eight high-priority recommendations included in the joint audit of Delivering as One in Malawi, which are being followed up by the lead agency, UNDP.

Annex 3

Recommendations unresolved for more than 18 months

I. Audit of the framework for managing policies and procedures, issued June 2012 (three recommendations; open 42 months)

1. Two recommendations pertain to a governance structure for managing organizational policies, procedures and guidance; and establishing minimum standards for policy development and management.

2. *Status: The Office of the Comptroller discussed the draft policy on the UNICEF regulatory framework with the Deputy Executive Director (DED) Management in October 2015, wherein it was agreed that the draft policy would be presented to the Executive Director after making revisions based on consultations with the UNICEF Office of the Legal Adviser and the DED Management.*

3. The third recommendation pertains to defining a common organizational platform for storing all policies and procedures.

4. *Status: The Office of the Comptroller and the Director of Information Technology Solutions and Services met in October 2015 and agreed to collaborate on the identification of a policy management software within a broader governance, risk and compliance system and a broader enterprise content management strategy. Funds have already been allocated for this platform. The draft policy on the regulatory framework will reference the functionalities of the future policy management software.*

II. Audit of user access controls and segregation of duties, issued April 2013 (one recommendation; open 32 months)

5. One recommendation pertains to drawing up a policy formalizing the governance structure concerning user roles, documenting the processes relative to the oversight bodies and supporting teams, and seeing that governance and oversight over the enterprise resource planning system user access security becomes fully operational.

6. *Status: There was progress in the documentation of processes and in the endorsement of the User Roles Governance Group terms of reference by the VISION Owners Group.*

III. Audit of UNICEF Treasury Management, issued July 2013 (five recommendations; open 29 months)

7. One recommendation pertains to exploring alternative treasury technology software to provide the automation required to meet treasury management requirements efficiently and accurately. A cost-benefit analysis will be conducted to evaluate the efficacy of an integrated treasury management system within SAP compared with stand-alone software solutions interfaced with SAP.

8. *Status: The Division of Financial and Administrative Management (DFAM) advised that a cost-benefit analysis was conducted and an integrated solution agreed. The Heat Map has been implemented and will address historical spending patterns, cash spent, reasonableness of replenishments requested and period cash balances. The outstanding deliverable is the Portfolio Analyzer.*

9. One recommendation pertains to ensuring that, for all banking relationships with global providers, there are written agreements with financial partners consistent with United Nations terms and conditions, and to establish, to the extent possible, depository accounts with global and regional financial institutions rather than local banks for country office operational and private sector donor accounts.

10. *Status: The United Nations Office of Legal Affairs is continuing to negotiate the global agreements with the six core United Nations banks. UNICEF has agreements in place for key banking providers and is systematically reviewing local arrangements as part of the Bank Rationalization Project to build an optimized "banking infrastructure" globally. A SWIFT survey was also conducted on the capability of banks to receive electronic payments and to provide electronic bank statements.*

11. One recommendation pertains to implementing the SAP cash forecasting and cash management modules.

12. *Status: Advised by DFAM that the cash forecasting tool has been deferred until funds can be secured, as late as the plan for the next biennium.*

13. One recommendation pertains to DFAM securing sufficient technological and staffing resources to monitor established risk control policies and guidelines; the prioritization of SAP configuration and reporting requirements for treasury management; and assessment of SAP technology expertise requirements.

14. *Status: Advised by DFAM that most of the critical areas have been addressed, with the Portfolio Analyzer an outstanding deliverable. The Heat Map has been implemented and will address historical spending patterns, cash spent, reasonableness of replenishment requests and period cash balances. A decision by senior management on staffing recommendations is still to be finalized.*

15. One recommendation pertains to DFAM implementing the SAP Portfolio Analyzer to produce robust investment portfolio performance metrics.

16. *Status: DFAM advised that the SAP Portfolio Analyzer remains an outstanding deliverable.*

IV. Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two recommendations; open 24 months)

17. Two recommendations pertain to the Office of the Executive Director (OED) agreeing to issue an Executive Directive stating the strategic vision and implementation framework for the UNICEF resource mobilization function, outlining the roles and responsibilities assigned to PARMO (now the Public Partnerships Division, PPD) and other UNICEF organizational units; and establishing a strategy and requirements to improve the quality and timeliness of

donor reports at the global level; clarifying the responsibilities of PPD and regional offices regarding oversight and support on donor reporting.

18. *Status: In June 2015, the DED Partnerships informed OIAI that the terms of reference (TOR) for UNICEF resource mobilization roles and responsibilities had been finalized and would be advertised in order to embark on the work of the issuance of the revised Executive Directive. In January 2016, the DED Partnerships informed OIAI that a consultant was being hired to review the accountability framework for resource mobilization.*

V. Audit of the Office of Research (OoR), issued December 2013 (four recommendations; open 24 months)

19. One recommendation pertains to OED establishing a policy on research that outlines the mandate, objectives, responsibilities, authorities and accountabilities of OoR as well as other research-producing entities in UNICEF; sets standards for UNICEF research; clarifies reporting requirements to the Executive Board; and establishes mechanisms to monitor and report on compliance with the policy.

20. *Status: The Standing Committee on Research and Data discussed the first draft of the research policy in June 2015. Following revisions and a final consultation with country and regional offices, the revised draft is with OED for review.*

21. One recommendation pertains to OED reviewing the funding mechanisms of OoR.

22. *Status: The Office of the Executive Director supports successful efforts by OoR to secure long-term funding from external sources. Subsequently closed (February 2016).*

23. One recommendation pertains to OED reinforcing in its new policy on research the independent status of OoR and the mechanisms to promote and protect such independence.

24. *Status: The decision memo issued by the Executive Director in 2014 stated that OoR will maintain the independence of its research function and its resource mobilization efforts vis-à-vis external partners. The policy on research is expected to cover the issue of the independence of OoR. The revised draft policy is with OED for review.*

25. One recommendation pertains to the Division of Data, Research and Policy developing procedures and guidance for carrying out and reporting on research and related activities at all levels in UNICEF; ensuring that the new classification is reflected in the new policy on research; and establishing mechanisms to monitor and report on such research expenditure annually.

26. *Status: The Office of Research reported that it was developing a research expenditure report and procedures on quality assurance and research. Subsequently closed (February 2016).*

**VI. Audit of the Programme Division (PD), issued December 2012
(three recommendations; open 36 months)**

27. One recommendation pertains to strengthening quality-assurance mechanisms to ensure that results-based budgeting is implemented effectively, linking expected achievements to resource requirements.

28. *Status: Programme Division is working on guidance on results-based budgeting and standard costing. In progress.*

29. One recommendation pertains to the formalization of arrangements that will ensure the timely involvement of PD in key country programme formulation and review processes.

30. *Status: Programme Division is working on an Executive Directive that formalizes its early involvement in key country programme formulation and review processes, and documentation that attests to formal establishment of country-engagement clusters and networks as technical advisory and support mechanisms for regional and country offices.*

31. One recommendation pertains to strengthening mechanisms for obtaining feedback on the quality and relevance of issued guidance, ensuring feedback informs the development of other guidance; and establishing processes for obtaining feedback on the performance of PD in providing technical support to country and regional offices.

32. *Status: Programme Division plans to address all aspects of issuing technical programme guidance through its Knowledge Management Working Group. The group presented the draft SOP on technical guidance development to the PD Director's Office in the first quarter of 2015, including a mechanism for obtaining feedback from regional and country offices. As PD provides technical assistance in different forms (field missions, webinars, email guidance, phone calls, etc.), the modality of communication and nature of requests are difficult to track and measure in terms of performance. A country office satisfaction survey on the technical assistance process will be undertaken.*