

Board of the Centre

75th Session, Turin, 17 - 18 October 2013

CC 75/5/3

FOR DISCUSSION AND GUIDANCE

FIFTH ITEM ON THE AGENDA

**Report of the Chief Internal Auditor for the year ended 31
December, 2012**

Introduction

1. The Office of Internal Audit and Oversight (the IAO) of the Centre fulfils an independent internal audit function. Chapter VII, article 18(d) of the Financial Regulations stipulates that the Director of the Centre shall maintain an internal financial control and internal audit. IAO's mandate is established under Chapter 14 of the Centre's Financial Rules, which specifies that "the Internal Auditor shall carry out such independent examinations and make such reports to the Director or persons designated by the Director..... in order to ensure an effective internal audit in accordance with Chapter VII of the Financial Regulations."
2. The IAO's mission is to provide the Director and the Board with an independent, objective assurance activity designed to add value and improve the Centre's operations. In its work, the IAO adopts a proactive approach to facilitating the assessment of risks and internal controls, and promotes a cohesive approach to risk management in support of management's processes to enhance efficiency, effectiveness and value for money in the activities of the Centre.
3. The IAO does not develop or install procedures or engage in any activity that it would normally review or appraise or which could be construed as compromising either its independence or objectivity. The IAO has full and free access to all records, personnel, operations, functions and other material relevant to the subject matter under review.
4. The IAO's audit activities conform to the International Standards for the Professional Practices of Internal Auditing.

Summary of audit results

5. The results of the IAO's 2012 activities have not indicated any material weakness in the Centre's system of internal control in those areas that were subject to an internal audit.
6. In 2012, IAO completed an investigation and reported on a number of substantial outstanding debts concerning a number of training activities, and undertook two audits. The first audit reviewed the cost accounting arrangements of the Centre's training activities; and the second reviewed the cost-sharing arrangements with the two UN entities hosted on the campus i.e. the United Nations Interregional Crime and Justice Research Institute (UNICRI) and the United Nations System Staff College (UNSSC). These two audits commenced in late 2012 and at the time of writing were in the process of being concluded.

Outstanding debts

7. Following a request by the Centre's management, IAO conducted an investigation into three long outstanding debts concerning a number of training activities, totalling some Euros 930,476 which were accumulated during the period 2001-07. The main objectives of the investigation were to:
 - establish the facts behind each of the three cases that led to the accumulation of long outstanding large debts; and
 - identify the weaknesses in internal controls that failed to prevent the debts from accumulating and assess if they have subsequently been addressed by the Centre.

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8. IAO's review found that at the time that the activities were undertaken, there was poor segregation of duties with one person being responsible for technical as well as certain financial actions such as instigating the raising of invoices and following up on debts. Moreover, there was poor communication between the technical units concerned and the Financial Services department, especially with respect to changes in operational responsibilities of programme managers within the Training Department, which led to requests from Financial Services concerning debt follow-up being sent to the wrong programme manager.
 9. More specifically, in one case, complex contractual agreements were entered into without seeking advice from the Office of the Legal Advisor, and in another case, high-level pledges were relied on that did not cascade down into detailed agreements and budgets. In two other cases, a programme manager had not brought material information to the attention of supervisors, senior managers, or Financial Services concerning the prospect of continued funding of activities.
 10. All of the factors referred to above led to a situation whereby debts of Euros 930,476 accumulated over a long period and has reached the point that it is unlikely that the Centre will be able to collect them.
 11. IAO's investigation found that many of the internal control weaknesses which allowed the situation to arise have been addressed, with greater control being exercised by the Financial Services department over debt management. In addition, the creation of a Finance Committee in 2011, which has oversight responsibilities on financial matters, will further enhance internal control.
 12. The investigation did identify a number of areas where improvements could be made to further reduce the risk of such large debts accumulating again. In IAO's view:
 - roles and responsibilities between Financial Services and programme managers should be clearly established and any financial responsibilities devolved to programme managers should be formally established together with a clearly defined decision-making process in cases where activities continue under an agreement with a sponsor without income having been received in accordance with the terms of the agreement;
 - the terms of reference of the Finance Committee could be expanded to ensure more scrutiny over debtors in order to identify any adverse trends, and that appropriate remedial action is taken in a timely manner; and
 - a system should be put in place to ensure that Financial Services is promptly notified of any changes in operational responsibilities of the Training Department's programme managers.

Costing of training activities, and cost-sharing of the campus

13. The respective objectives of the two reviews were as follows:
 - review the costing of training activities to assess appropriateness and identify any gaps with best practice, making recommendations for improvement as necessary; and

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- analyse adequacy of current cost-sharing methodology applied to the UNSSC and UNICRI, and make recommendations for improvements as necessary.

14. The two audits were undertaken by a firm of independent consultants contracted by IAO. At the time of writing this report, the reports were in the process of being concluded. The Chief Internal Auditor shall provide an oral update at the Board meeting.

Audits underway during 2013

15. At the time of writing this report, IAO is undertaking a review of ORACLE application controls designed to ensure the availability, integrity and confidentiality of business information and financial transactions processed by the Centre. The review also covers controls over the Centre's electronic banking application, which was implemented in May 2013. IAO is also planning to undertake a review of internal governance later in the year. The results of these audits will be reported to the Board at its 2014 session.

External Quality Review

16. In 2012, IAO commissioned an independent external quality review of its internal audit activities. The Institute of Internal Auditors (IIA) requires that internal audit functions organize such a review at least once every five years. The main purpose of the review was to assess if IAO generally conforms to the International Standards for the Professional Practice of Internal Auditing, as promulgated by the IIA, as well as identify areas for improvement.

17. The review concluded that IAO does generally conform to the standards, and identified a number of areas for improvement. "Generally conforms" permits IAO to state that its activities conform with the IIA standards, which indicates that IAO meets the professional requirements expected of an internal audit function.

This report is submitted to the Board for discussion and guidance.

Turin, 1st July, 2013