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Report of the Office of Internal Audit

Note by the Secretariat

The Secretariat of the Assembly of States Parties has received the following report from the Office of Internal Audit and has been requested to submit it to the Assembly, through the Committee on Budget and Finance.

Letter of Transmittal

18 July 2006

Pursuant to the decision of the Assembly, adopted at its second session in September 2003, the Office of Internal Audit is honoured to submit its second annual report to the Assembly, through the Committee on Budget and Finance.

(Signed) Joe Martire
Director
Office of Internal Audit

Contents

	<i>Page</i>	<i>Paragraphs</i>
Summary	4	
I. Introduction	5	1-10
II. Staffing/budget of the Office of Internal Audit	6	11-12
III. Results of performance audits		
A. Recruitment, selection and appointment of staff and non-staff personnel	7	13-21
B. Implementation of the SAP enterprise resource planning system	8	22-30
C. Acquisition of a digital radio communication system	9	31-35
IV. Progress in implementing recommendations	10	36-39
V. Other matters		
A. Coordination with the External Auditor	11	40
B. Internal Oversight Committee	11	41 - 43

Summary

The activities of the Office of Internal Audit during the past year focused on carrying out the Office's risk-based audit plan. The Office also responded to an increasing number of ad hoc requests by senior management, providing them with advice and assistance on a range of administrative and financial matters.

The Office issued detailed performance audit reports on the recruitment, selection and appointment of staff and non-staff personnel; on the implementation of the SAP enterprise resource planning system (SAP-ERP), and on the acquisition of a digital radio communication system. Summary information about the objectives, scope and conclusions of the performance audits and management's responses to them is presented in Part III of this report. In accordance with the reporting expectations of the Committee on Budget and Finance (the Committee), the Office of Internal Audit will provide additional detail to the Committee at its seventh session.

Management has responded to the performance audit reports and has informed the Office that the audit recommendations are being carefully analysed and that many of them have already been implemented. Paragraphs 36 to 39 of this report summarize the work carried out by the Office to assist management in monitoring progress in implementing audit recommendations. The Office believes that an effective system of tracking and monitoring audit recommendations has been put in place, which management has agreed to maintain in the future.

The planning phase of a performance audit of the field offices was well advanced but was postponed to allow management to complete the implementation of field offices, which is expected to be finalized in 2007. The Office had also completed examination work relating to the performance audit of asset management and was in the process of drafting its report. With the assistance of the Information Security Officer, work was also well advanced in response to a request from management to assess the control measures in place in the Division of Victims and Counsel to safeguard the confidentiality of victims and witnesses. The results of these audits will be reported in the 2007 report.

The Office's work is aimed at assisting management in putting in place more formal policies and governance structures to better ensure that financial and administrative flexibility is exercised in a practical and controlled manner, with clear accountability for results.

The Office continued to have access to all persons, including the heads of organ of the Court, as well as to books, records and other documents which were, in the Office's opinion, necessary for the performance of its work. However, supporting documentation does not always exist and formal management responses to reports, including recommendations, could be provided in a timelier manner. The office is working with management to develop a process aimed at finalizing audit reports on a more timely basis.

The Office is grateful for the assistance and cooperation received during the year and looks forward to continuing to provide the heads of organ with objective and timely information, assurance and advice about whether the Court's internal controls, management systems and practices are suitably designed and effectively operated. The Office trusts that its work is also useful to the Committee and the Assembly in discharging their oversight role.

I. Introduction

1. This second report of the Office of Internal Audit (“the Office”) of the International Criminal Court (“the Court”) is submitted to the Assembly of States Parties (“the Assembly”) pursuant to the decision of the Assembly, adopted at its second session in September 2003, wherein it endorsed the recommendation of the Committee on Budget and Finance (“the Committee”) that “the internal auditor should be able to decide his or her annual work programme independently, including any issues raised by the Committee, and that the internal auditor should submit an annual report about the activities of the Office to the Assembly, through the Committee.”¹

2. The Office acts in accordance with the provisions of the Rome Statute, the Financial Regulations and Rules, as well as relevant resolutions of the Assembly. The work of the Office is conducted in accordance with generally accepted common auditing standards.

3. The activities of the Office during the past year focused on carrying out the Office’s risk-based audit plan, which was endorsed by the Court’s Internal Oversight Committee comprising the three heads of organ of the Court. The plan was also circulated to the Committee at its fifth session. The Office also responded to an increasing number of ad hoc requests from senior management, providing them with advice and assistance on a range of administrative and financial matters. For example, the Office assisted the Security and Safety Section in analysing and reporting the costs and benefits of outsourcing certain security personnel services (cf. document ICC-ASP/5/CBF.1/3).

4. In accordance with the Charter for Internal Audit,² the Office submitted to the Oversight Committee detailed performance audit reports on the recruitment, selection and appointment of staff and non-staff personnel and on the implementation of the SAP enterprise resource planning system (SAP-ERP). A separate report, arising from the audit of asset management, was also submitted to the Committee concerning the acquisition of a digital radio communication system. In accordance with the Committee’s reporting expectations of the Office, as discussed with the Committee during its sixth session, Part III of this report presents concise information about the objectives, scope and conclusions of the above-mentioned performance audits and management’s responses. An informal report containing additional information about the audit observations, findings and recommendations will be submitted to the Committee at its seventh session.

5. The planning phase of a performance audit of the field offices was well advanced but was postponed at the suggestion of the heads of organ of the Court. Management has identified a number of open issues affecting completion of the implementation of field offices. They are expected to have been addressed by 2007. The audit planning work corroborated much of management’s assessment of the progress achieved to date and the work remaining to be completed. To assist the process, the Office provided the heads of organ with a summary of additional observations that had been made during the planning phase of the audit and that were not sufficiently addressed in the list compiled by management. Management has informed the Office that these observations will be taken into account in formulating the Court’s strategic and operational plans concerning its continued and planned presence in the field.

¹ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Second session, New York, 8-12 September 2003* (United Nations publication, Sales. No. E.03.V.13) part II, A.1, para. 1 and part II, A.6, para. 29.

² ICC-ASP/4/4, annex I.

6. Paragraphs 36 to 39 of the present report summarize the work carried out by the Office to assist management in monitoring progress in implementing audit recommendations. The Office believes that an effective system of tracking and monitoring audit recommendations has been put in place, which management has agreed to maintain in the future.

7. As at the reporting date, the Office had also completed examination work relating to the performance audit of asset management and was in the process of drafting its report. With the assistance of the Information Security Officer, work was well advanced in response to a request from management to assess the control measures in place in the Division of Victims and Counsel to safeguard the confidentiality of victims and witnesses. The results of these audits will be reported in the 2007 report.

8. The Office supports management's position that at this stage in the Court's development, financial and administrative flexibility is required to carry out its approved work programme. The Office's work is aimed at assisting management in putting in place more formal policies and governance structures to better ensure that financial and administrative flexibility is exercised in a practical and controlled manner, with clear accountability for results.

9. The Office continued to have access to all persons, including the heads of organ, as well as to books, records and other documents which were, in the Office's opinion, necessary for the performance of its work. However, supporting documentation does not always exist, and formal management responses to reports, including recommendations, were slow. The Office is working with management to develop a process aimed at finalizing audit reports on a timelier basis.

10. The Office is grateful for the assistance and cooperation received during the year and looks forward to continuing to provide the heads of organ of the Court with objective and timely information, assurance and advice about whether the Court's internal controls, management systems and practices are suitably designed and effectively operated. The Office trusts that its work is useful to the Committee and the Assembly in discharging their oversight role.

II. Staffing / budget of the Office

11. The Office is a relatively small organizational unit, comprising the Director, one staff member in the Professional category and one in the General Service category. The Office's approved budget for 2006 of €341,000 represents less than half of one per cent of the Court's total budget for 2006 of €82,417,200. A rule of thumb used by many publicly funded organizations is that the audit budget should represent about 0.5 to 1.0 per cent of total annual planned expenditures.

12. For 2007, the Office is requesting a new Senior Auditor position. The additional post will enable the Office to continue to provide a sufficient, appropriate level of audit coverage commensurate with the growth and complexity of the Court's activities. It will also enable the Office to continue to respond to an increasing number of complex requests for its services by management. The total 2007 budget proposed for the Office remains at the lower end of the above-mentioned range, well below comparable costs in other organizations.

III. Results of performance audits

A. Recruitment, selection and appointment of staff and non-staff personnel

Introduction

13. In a venture as new and unprecedented as the International Criminal Court, which is complicated by the independence of the Court's organs, the design and implementation of processes to recruit, select and appoint staff and non-staff personnel effectively is an inherently complex management challenge; yet it is critical to achieving the objectives of the Organization.

14. The challenge is to provide sufficient flexibility to meet the Court's requirements in a cost-effective manner while respecting the overarching principles of human resources management approved by the Assembly of States Parties. According to those principles, Court staff members should be highly qualified; they should normally be selected on a competitive basis having due regard to the need for the representation of the principal legal systems of the world, equitable geographical representation and a fair representation of women and men; and their emoluments should be in conformity with the United Nations Common System.

Focus of the audit and scope limitation

15. The audit focused on an examination of the Court's key practices and systems relating to the recruitment, selection and appointment of staff and non-staff personnel from the Court's inception to December 2004. The objectives of the audit were to determine whether the above processes:

- enabled the Court to secure people with the highest standards of efficiency, competence and integrity;
- had due regard to economy, efficiency and effectiveness; and
- complied with the Statute and the Staff Regulations of the Court.

16. A further objective was to identify good practices and recommend areas for improvement.

17. Because the Human Resource Section (HRS) kept records of all applications received for only one year and because little documentation existed to support the selection of candidates to be interviewed from the list of qualified applicants, the audit could not provide assurance concerning the accuracy and fairness of the initial screening processes.

Conclusion

18. Overall, the audit concluded that the systems and practices in place during the early set-up phase of the Court provided a low level of assurance that the above-mentioned objectives would be met. At the time of the conclusion of the audit, those systems and practices had improved to provide a low to medium level of assurance, and more improvement initiatives were being planned.

19. The audit identified a number of good practices and improvement opportunities in the areas of planning; roles and responsibilities; implementing the principles of geographical representation, gender balance and representation of the principal legal systems of the world; and reporting on results.

Management's response

20. In response, management stated that it was grateful for the effort put into the report, which provided a solid basis for future improvements. The report provided helpful input into the areas of recruitment, selection and appointment of staff and non-staff personnel and would aid in developing and improving those key areas within the Court.

21. Management also stated that the recommendations would be carefully analysed, indeed some of them had already been implemented.

B. Implementation of the SAP enterprise resource planning system

Introduction

22. The implementation of the SAP enterprise resource planning (ERP) system is central to the Court's stated objective of establishing a fully integrated electronic Court. It is a complex and challenging project for a new organization the size of the Court. Initiated in early 2003, total committed project expenditures as at 31 December 2005 stood at approximately €4.7 million.

23. When fully implemented the system should provide opportunities for synergies in business work flows; strengthen internal controls; enhance compliance with the Financial Regulations and Rules and the Staff Regulations of the Court; and produce better management information.

Focus of the audit and scope limitation

24. The audit focused on an examination of the Court's key practices and control systems relating to the implementation of the SAP-ERP project up to 31 December 2005. The objectives of the audit were to determine whether:

- project implementation had been managed in accordance with appropriate strategic and project objectives;
- project implementation had paid due regard to efficiency and economy;
- procedures were in place for reporting on effectiveness; and
- project implementation had allowed the implementation of control environments that were in compliance with the Statute and with the Financial Regulations and Rules and the Staff Regulations of the Court.

25. A further objective was to assist the Court in the management of continuing and future implementation projects by identifying good practices and by recommending areas for improvement.

26. Because the SAP Audit Information System (AIS) has not been implemented, the Office was not able to effectively carry out computerized tests of the application's internal security and access monitoring controls. Moreover, the fact that the data transfer process was not due to be completed until February 2006 also meant that the Office could not, as at 31 December 2005, provide substantive audit assurance concerning the accuracy and completeness of the transfer process.

Conclusion

27. Overall, the audit concluded that project administration was good and that considerable progress had been made in the implementation of what is undoubtedly a complex task. The audit noted however that implementation dates for many phases of the project were delayed as a result of operational constraints. Total project costs had increased significantly compared to initial budgets and the overall project objective of improving the administrative efficiency and effectiveness of the Court remained a significant challenge.

28. Several important business processes remained outside the system, including the full use of the SAP-ERP finance and budget-preparation modules, e-recruitment, travel and asset management. Moreover, because all administrative functions and processes were not yet fully integrated into the system, the ability to take full advantage of the system's capability was still limited, in particular in relation to the provision of management information.

29. The audit identified a number of good practices that should be continued in future projects, for example the appointment of a dedicated project manager and the setting of defined and agreed objectives, roles and responsibilities in a project charter. The audit also identified a number of areas where the management of future projects could be improved. These include ensuring that the project sponsor and project executive are more accountable to senior management for the achievement of objectives in a cost-effective manner. Specific recommendations were also made concerning the data and system security environment.

Management's response

30. Management has responded to the audit report and has indicated that the audit recommendations are being considered and will be acted upon, as appropriate.

C. Acquisition of a digital radio communication system

Introduction and focus of the audit

31. In December 2003, the Court purchased a radio communication system (RCS) comprising twenty-five radio handsets and supporting equipment at a cost of about €186,000. An additional €54,000 was obligated in December 2004 with the same vendor for a further thirty handsets. The project was rolled out throughout 2004 and has experienced some implementation difficulties.

32. The objective of the audit was to assess whether adequate controls were in place to ensure effective financial administration and the exercise of economy in respect of this purchase. The audit did not perform independent tests to verify the system's technical capacities and functions; it relied on the representations of the users.

Conclusion

33. The audit concluded that appropriate action was being taken by the users to make use of the system's current capabilities and that the radios were subject to appropriate inventory control arrangements. It also concluded that the procurement process generally complied with relevant Financial Regulations and Rules of the Court. However, the process did not allow for an explicit comparison of an analogue and a digital solution, especially with regard to their associated costs and risks.

34. Users report that the system does not yet provide the planned nationwide coverage because the necessary licence has not been obtained. The report made several recommendations aimed at strengthening general contracting controls and better protecting the interests of the Court.

Management's response

35. In response, management stated that it had taken note of the audit report and that most of the problems raised in it had been taken into consideration. The Information, Communication and Technology section was taking action to obtain the necessary licence and was confident that the system selected was in the best long-term interest of the Court and was the most cost-effective solution.

IV. Progress in implementing recommendations

36. Management is ultimately responsible for taking corrective action and improving financial and administrative practices and internal control. The Office assisted management by developing and implementing a process to track the status of progress in implementing audit recommendations.

37. The Office provided the Registry with a summary of external and internal audit recommendations, together with a summary of the commitments management made in response to the Office's 2004 risk assessment report, which was presented to members of the Coordination Council.

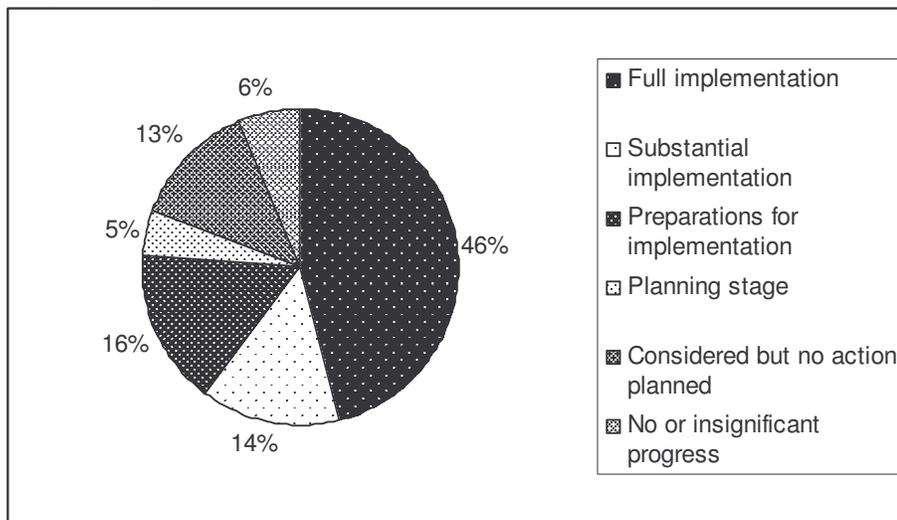
38. Table 1 and graph 1 below summarize the implementation status of audit recommendations and commitments. Officials report that thirty-eight of the sixty-three recommendations have either been completely or substantially implemented, and that action is either planned or underway against a further thirteen. All recommendations have been considered, with either no, or deferred, action planned against the remaining twelve recommendations.

Table 1. Implementation status of recommendations and commitments

<u>Implementation status</u>	<u>Internal audit</u>	<u>External audit</u>	<u>Total</u>	<u>%</u>
Full implementation	14	15	29	46
Substantial implementation	7	2	9	14
Preparations for implementation	2	8	10	16
Planning stage	2	1	3	5
Considered but no action planned	4	4	8	13
No or insignificant progress	0	4	4	6
Total	<u>29</u>	<u>34</u>	<u>63</u>	<u>100</u>

Source: Management's responses (unaudited)

Graph 1. Implementation status of recommendations and commitments



Source: Management's responses (unaudited)

39. The Office believes that an effective system of tracking and monitoring audit recommendations has been put in place, which management has agreed to maintain in the future.

V. Other matters

A. Coordination with the External Auditor

40. A good working relationship continued between the two offices. Information has been exchanged, including work plans and reports.

B. Internal Oversight Committee

41. The Internal Oversight Committee comprises the three heads of organ of the Court. It has the possibility of inviting external expertise and is a good first step in establishing an effective oversight function in the Court. The Committee has held four formal meetings since its establishment in late 2004 and the Office has provided secretarial support.

42. The heads of organ recognize that the Internal Oversight Committee needs to be strengthened and is exploring options, including inviting outside members. The review will take into account the recommendation of the External Auditor to establish an audit committee and the Assembly decision inviting the Court, in consultation with the Bureau, to submit proposals for an independent oversight mechanism.³

43. The Office supports the establishment of an effective independent oversight committee for the Court and has provided the heads of organ with its initial thoughts about the committee's composition and terms of reference.

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³ *Official Records of the Assembly of States Parties to the Rome Statute of the International Criminal Court, Fourth session, The Hague, 28 November to 3 December 2005* (International Criminal Court publication ICC-ASP/4/32) part III, resolution ICC-ASP/4/Res.4, para. 24.