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**Status report on implementation of Executive Board
decision 2007/3 on the recommendations of the Board
of Auditors***Summary*

As requested by the Executive Board in its decision 2007/3 (E/ICEF/2007/7, (Part I)), this report describes the further progress achieved by UNICEF towards implementing the recommendations of the Board of Auditors and provides an update on the implementation of the main recommendations, including an overview of the strategic implications of the recommendations for the management and strategy of UNICEF. The report also contains information about the total year-end unexpended funds, the rising levels of other resources contributions and the development of common services.

* E/ICEF/2007/13.

I. Introduction

1. At its first regular session of 2007, the Executive Board considered the report of the Board of Auditors on the UNICEF financial report and financial statements for the biennium ended 31 December 2005 (A/61/5/Add.2), together with the report of the Secretary-General on the implementation of recommendations of the Board of Auditors (A/61/214/Add.1) and the report of the Advisory Committee on Administrative and Budgetary Questions (A/61/350).

2. As requested by the Executive Board in its decision 2007/3, the present report describes further progress achieved by UNICEF towards implementing the recommendations of the Board of Auditors and provides an update on the implementation of the main recommendations, including an overview of the strategic implications of the recommendations for the management and strategy of UNICEF.

II. Update on the implementation of the main recommendations

3. UNICEF pursues the implementation of audit recommendations – made by both the Office of Internal Audit and the Board of Auditors – rigorously. In this respect, UNICEF appreciates that the Board of Auditors classifies its recommendations into “main” and “other” recommendations, as this serves to identify how to prioritize activities and resources. Nevertheless, once discussed and accepted by the senior management, UNICEF is committed to implement to completion all recommendations made by the Board of Auditors.

4. Reporting on implementation of the audit recommendations contained in the report of the Board of Auditors is submitted to the General Assembly by the Secretary-General (in even years) and by the Board of Auditors (in odd years). UNICEF provided its most recent update on the status of implementation of recommendations to the Board of Auditors at 31 March 2007.

5. Responsibility for the implementation of the audit recommendations made by the Board of Auditors in Management Letters addressed to the UNICEF Executive Director (and on which the recommendations in the report of the Board of Auditors are based) rests with the Representative or Head of Office. Implementation is monitored by the Comptroller, using a web-based system, for the purposes of reporting to the Board of Auditors.

6. The report of the Board of Auditors (A/61/5/Add.2) contained 96 recommendations, of which 18 were classified as “main”. Information about the status of implementation of these main recommendations at 31 March 2007 is provided in table 1 below.

Table 1
Status of implementation of main recommendations

	Recommendations			
	Total	Fully implemented	Under implementation	
Ongoing			Target date set	
<i>At 31 March 2007</i>				
Division of Financial and Administrative Management (DFAM)	1		1	
Division of Human Resources (DHR)	1			1
Regional Office for Europe (Geneva) (GRO)	1	1		
Information Technology Division (ITD)	1		1	
Office of the Executive Director (OED)	2	1		1
Office of Internal Audit (OIA)	2	1		1
Programme Division (PD)	3	2		1
Private Sector Division (PSD)	1		1	
Supply Division (SD)	4	1	2	1
Programme Funding Office (PFO)	1		1	
Regional Offices	1		1	
Total	18	6	7	5
<i>At 31 July 2006</i>				
Total	18	3	7	8

7. At 31 March 2007, 6 of the 18 main recommendations had been fully implemented and 12 were under implementation. For 5 of these 12 recommendations under implementation, a target date has been set by which UNICEF anticipates full implementation will have been achieved. The remaining seven recommendations are reported as “ongoing” as they contain no independently verifiable measure of achievement or finalization. UNICEF is working with the Board of Auditors to establish how and when implementation of these recommendations might be determined to have been achieved and therefore full implementation reported.

8. At 31 March 2007, 46 of the 96 total recommendations had been fully implemented and 50 were under implementation. Of these 50 recommendations under implementation, 26 have target dates by which UNICEF anticipates full implementation will have been achieved and 24 are considered “ongoing”.

9. All reporting by UNICEF on the status of audit recommendations is subject to verification by the Board of Auditors at a subsequent audit.

10. Details of the 18 main recommendations and the actions taken to achieve implementation are provided in the annex.

III. Strategic implications of the recommendations for the management and strategy of UNICEF

A. Unexpended year-end funds

11. In paragraphs 22-23 of its report, the Board of Auditors described the rates of growth in UNICEF total income and expenditure and made reference to “a significant increase in total year-end unexpended funds” in the period 2001-2005. An analysis of the year-end funds for 2005 and 2006 is provided in table 2 below.

Table 2
Analysis of year-end funds

	2006	2005
	(In millions of United States dollars)	
Cash, 31 December	2,448	2,195
Other resources	1,408	1,403
Trust funds	342	337
Funded reserves	119	73
Regular resources	579	382
Less: Target cash balance	250	240
Available for allocation	329	142

12. Funds on hand, which are held in respect of the various activities of and administered by UNICEF, totalled \$2,448 million (2005: \$2,195 million).

13. To protect UNICEF regular resources, other resources contributions must be provided in advance of the implementation of programme activities. As a result and reflecting the significant growth in the portfolio of programme activities funded by other resources, the year-end cash balance has increased over time. At 31 December 2006, the cash balance held in respect of activities to be funded by other resources totalled \$1,408 million (2005: \$1,403 million). In equivalent months' planned programme activity, the cash balance decreased from 11 months at 31 December 2005 to 9 months at 31 December 2006.

14. Similarly, resources administered under trust funds must be received in advance of the implementation of activities. The cash balance held in respect of trust funds totalled \$342 million (2005: \$337 million), equivalent to five months' (2005: six months') planned activity.

15. Transfers of \$40 million, approved by the Executive Board, and increases to the reserves established for after-service health insurance and separation costs brought the total of funded reserves at 31 December 2006 to \$119 million (2005: \$73 million). Based on the most recent actuarial valuation carried out, the UNICEF liability to staff members in respect of after-service health insurance benefits is estimated to be \$292 million and the unfunded portion of this liability, at 31 December 2006, \$202 million.

16. The remaining cash balance available for activities to be funded by regular resources totalled \$579 million (2005: \$382 million). UNICEF seeks to maintain the cash balance held in respect of regular resources within three months' activity. The excess held at 31 December 2006 has been attributed to, variously, a surge in year-end private sector income, foreign exchange gains arising on activities managed and income received in currencies other than the United States dollar, higher than anticipated support cost recoveries resulting from increased activities, and a lower than anticipated programme implementation rate.

17. A strategy to address the regular resources fund, and specifically cash, balance has been formulated by senior management. Resources proposed for programme activities and made available through the resource allocation model have been increased significantly, by \$151 million in 2007 compared with 2006 and with a similar increase proposed for 2008. Based on the findings and recommendations of the internal review of implementation capacity, action has been taken to improve upon the forecasts used in the medium-term financial planning process and to ensure rigorous management and monitoring of programme and operations activities in country and regional offices and headquarters.

B. Contributions to other resources

18. In paragraphs 21 and 29 of its report, the Board of Auditors recommended that UNICEF identify ways of increasing the proportion of regular resources in relation to total income and review its capacity to sustain the increase in its portfolio of supplementary-funded projects.

19. UNICEF continues to emphasize to its government and private sector donors the strategic importance of regular resources. Regular resources are critical to core programmatic and operational activities. Other resources are used to supplement and scale up programmatic activities in the five focus areas identified in the medium-term strategic plan and therefore are also highly desirable. However, without regular resources, UNICEF would not be able to maintain its intellectual and institutional capacity, its global presence and its ability to respond to crisis and changes in the global environment in an urgent manner. Programme continuity is assured by more predictable and flexible funding.

20. The UNICEF fund-raising strategy seeks to increase the proportion of regular resources to total resources and to minimize the purpose and duration restrictions placed on other resources. This strategic priority has been incorporated into the management plans of all of its resource mobilization units for the next biennium. UNICEF continues to promote the significance of regular resources through dialogue and advocacy with its donors and through active participation in such United Nations system-wide initiatives as the triennial comprehensive policy review of operational activities for development.

21. It should be noted that while government contributions to regular resources have levelled off, private sector contributions to regular resources have increased and largely explain the 30-per-cent increase in total contributions to regular resources in 2006.

22. In August 2006, UNICEF completed a major review of its capacity to implement programme activities in the context of significantly increased

contributions to regular and other resources in recent years. The findings of this internal review have been considered in conjunction with the organizational review by senior management and have been used to inform the planning and budgeting process and to reinforce the UNICEF capacity to sustain further increases in other resources funding and related programme activities for the biennium 2008-2009.

C. Development of common services

23. In paragraph 237 of its report, the Board of Auditors recommended that UNICEF include the active involvement of the office in the development of common services in the criteria used to assess the performance of country representatives and liaise with the United Nations Development Group Office (UNDGO) to determine the options available to increase the proportion of common services in field offices.

24. UNICEF monitors involvement in inter-agency coordination by country through country offices' annual reports and regional analysis reports; in addition, performance evaluation and reporting for UNICEF Representatives include an assessment of the level of participation with the United Nations country team. The development of common services is supported by a network of common services experts, many of whom are UNICEF country or regional operations officers. UNICEF also co-sponsors a staff member in UNDGO to support the global common services agenda. At headquarters, UNICEF also participates actively in the UNDG working groups which have been formed, *inter alia*, to determine options available to increase the proportion of common services in field offices and prepare guidance in the ways of establishing such common services.

25. UNICEF remains determined to reduce costs wherever possible and common services offer one route to do so. While there is a special focus on accelerating the implementation of common services in the eight pilot countries for "delivering as one", those experiences are not isolated from the broader sweep of changes, but rather inform them. In many countries, the common services which are less complicated to implement have already been established and UNICEF, like other funds, programmes and agencies, now must balance the desire to reduce costs with the imperative of retaining clear lines of accountability within the organization. For example, UNICEF is exploring the option of having a common pool of finance staff shared between agencies, but first must determine how to maintain financial accountability to the Executive Board for funds entrusted to UNICEF.

Annex

Status of implementation of main recommendations

Fully implemented

	Recommendation (see A/61/5/Add.2)	Division/Office responsible	Status of implementation
157	UNICEF agreed with the Board's recommendation that it review its relationships with National Committees in light of the experience of the tsunami fund-raising.	GRO	Following on from the experience of the tsunami, UNICEF has conducted a review of fund-raising for emergencies with the National Committees.
207	UNICEF agreed with the Board's recommendation that it review the means necessary to fully discharge its sectoral lead responsibilities for the relevant cluster in the inter-agency standing committee framework.	PD	The UNICEF programme for building internal capacity for emergency response has been adapted to identify key headquarters and regional office capacities which need to be strengthened to support country-level implementation of the Inter-Agency Standing Committee clusters which UNICEF leads. Staff have been hired to develop training and other capacity-building programmes, measurement tools and for coordination and leadership.
247	UNICEF agreed with the Board's recommendation that it liaise with the Department of Peacekeeping Operations to clarify the respective mandates of UNICEF field offices and integrated peacekeeping missions in the area of child protection.	PD	UNICEF will continue as an active member of various UNDG/Executive Committee on Humanitarian Affairs working groups which have, <i>inter alia</i> , supported the Department of Peacekeeping Operations in the preparation of guidance for integrated missions and which provide opportunities for clarifying respective mandates and expertise.
270	UNICEF agreed with the Board's recommendation that it initiate negotiations at the appropriate level to conclude a framework agreement on pharmaceutical procurement services with other relevant United Nations organizations.	SD	UNICEF has established framework agreements with the World Health Organization and the United Nations Population Fund for the procurement of antiretroviral and anti-malarial products. UNICEF will continue to actively pursue collaboration with other relevant United Nations organizations in pharmaceutical procurement activities.
306	UNICEF agreed with the Board's recommendation that it support the rapid expansion of OIA's audit coverage of all headquarters areas, including information technology.	OIA	UNICEF has expanded internal audit coverage of headquarters divisions, including in the area of information technology based on the completed information technology risk assessment.
340	UNICEF agreed with the Board's recommendation that it review the management of talking points and reports prepared by the Office of United Nations Affairs and External Relations.	OED	The review of the management of talking points and reports prepared by the Office was completed and a monitoring procedure established in the context of preparing the annual work plan for 2007.

Under implementation — Target date set

	Recommendation (see A/61/5/Add.2)	Division/Office responsible	Time frame for implementation	Status of implementation
29	UNICEF agreed with the Board’s recommendation that it consider reviewing whether it has the capacity to sustain the increase in its portfolio of supplementary-funded projects.	OED	Fourth quarter 2007	UNICEF completed a review of the factors affecting implementation and the sustainability of further increase in the portfolio of supplementary-funded projects in August 2006. Recommendations will be taken into consideration during the budget process for 2008-2009
104	UNICEF agreed with the Board’s recommendation that it expedite the development of its emergency “talent pool”.	DHR	Third quarter 2007	The emergency talent pool will be a component of the talent pool under development in Phase 2 of the SAP-Human Resources Module.
118	UNICEF agreed with the Board’s recommendation that it set and enforce quality standards for the supply and logistics components of emergency preparedness and response plans.	SD	Fourth quarter 2007	Quality standards for the supply and logistics components of emergency preparedness and response plans will be established in conjunction with the review of the procurement strategy for emergencies.
176	UNICEF agreed with the Board’s recommendation that it produce comprehensive multi-year budgets and work plans for utilizing funds received in excess of initial requirements.	PD	Second quarter 2007	UNICEF is working towards the approval of country programme work plans with the Governments of the tsunami-affected countries. Once approved, these country programme work plans will be consolidated in the comprehensive multi-year work plans and budgets to utilize tsunami funds received in excess of initial requirements.
294	UNICEF agreed with the Board’s recommendation that it implement a comprehensive risk-management framework to enhance its governance and management control processes.	OIA	Second quarter 2007	The proposal to implement a comprehensive risk-management framework has been completed and will be considered in conjunction with the organizational review.

Under implementation — Ongoing

	Recommendation (see A/61/5/Add.2)	Division/Office responsible	Status of implementation
81	The Board recommends that UNICEF calculate, monitor and make available to National Committees the overall support costs of income and expenditure to ensure that they are appropriately explained and disclosed.	PSD	As a result of this recommendation, UNICEF is working with the National Committees to ensure appropriate disclosure and explanation of the total costs of raising funds and implementing programmes.
144	The Board recommends that UNICEF adopt and implement a policy that would require contracts involving significant financial commitments to be submitted to the Senior Adviser (legal) for clearance.	SD	UNICEF's practice is to submit contracts involving significant financial commitments to the Senior Adviser, OED for approval. However, as a result of this recommendation, additional guidance in this respect has been developed.
183	UNICEF agreed with the Board's recommendation that it systematically seek explicit donor approval to extend or modify the geographic or thematic reach of funds with which it is entrusted.	PFO	UNICEF now seeks explicit donor approval to extend or modify the geographic or thematic reach of funds it is entrusted with.
227	The Board recommends that UNICEF systematically advocate for joint premises to be considered by United Nations country teams when new or expanded premises are required in the context of a humanitarian crisis.	DFAM	UNICEF advocates for joint premises where these maintain or improve cost-effectiveness and security, and where their negotiation does not impede the UNICEF response to the humanitarian crisis.
237	UNICEF agreed with the Board's recommendation that it include the active involvement of the office in the development of common services in the criteria used to assess the performance of country representatives and liaise with UNDGO to determine the options available to increase the proportion of common services in field offices.	Regional offices PD/DFAM	UNICEF participates actively in the undg working groups which have been formed, <i>inter alia</i> , to determine options available to increase the proportion of common services in field offices. UNICEF monitors involvement in inter-agency coordination by country through country offices' annual reports and regional analysis reports. Performance evaluation and reporting for UNICEF Representatives includes an assessment of the level of participation with the United Nations country team.

	Recommendation (see A/61/5/Add.2)	Division/Office responsible	Status of implementation
282	UNICEF agreed with the Board's recommendation that it endeavour to jointly purchase items of common interest with the Office of the United Nations High Commissioner for Refugees (UNHCR), for example, tents, tarpaulins, blankets, collapsible jerry cans, mosquito bednets, whenever it would result in cost or efficiency gains for the United Nations as a whole.	SD	UNICEF purchases items of common interest jointly with other United Nations system organizations, including UNHCR, whenever this results in savings or efficiency gains.
379	UNICEF agreed with the Board's recommendation that it adopt and implement a methodology to determine the total costs, including staff costs, of its major information technology projects.	ITD	UNICEF has adopted and implemented a methodology to determine the total cost of major information technology projects for the preparation of the support budget for 2008-2009.