

**UNICEF AUDIT ADVISORY COMMITTEE**  
**2009 annual report to the Executive Director**  
**(28 June 2010)**

---

## **INTRODUCTION**

The 2009 annual report of the UNICEF Audit Advisory Committee (AAC) provides a discussion of the discharge of the mandate of the Committee, key issues, and advice that emerged from the deliberations of the Committee during the period from January to December 2009.

### **Mandate**

The Charter of the AAC was approved by the UNICEF Executive Director in August 2009. The primary role of the AAC is to advise the Executive Director and to inform the Executive Board on the conduct of management responsibilities, taking into consideration the Financial Regulations and Rules of UNICEF and those of United Nations staff, as well as directives, policies and procedures applicable to UNICEF. The responsibilities of the AAC cover the independent review of the functioning of the UNICEF oversight system, the review of internal and external audit matters, and the review of financial management and reporting.

### **Membership and meetings**

During 2009, the AAC had the following membership:

Mr. Adnan Khan (Chair)

Mr. David Kanja (resigned from the membership of AAC as of 5 February 2010)

Ms. Angela Palacio

Mr. Daniel Nelson

Ms. Saraswathi Menon (member since April 2009)

The AAC met three times (9 March, 9 June and 2 November) during the year. The AAC kept the Executive Director informed of its deliberations through the minutes of each meeting, and also met with her once during the year. The AAC interacted frequently with Mr. Omar Abdi, Deputy Executive Director of UNICEF, and kept him informed of key issues arising from its work.

### **Key issues and advice**

Key issues and advice that emerged from the discussions of the Committee is summarized below.

### **Progress on issues from the 2008 annual report of the AAC**

A new charter of the AAC was approved by the UNICEF Executive Director in August 2009 and the Chair was invited to attend the Executive Board session of September 2009 when matters pertaining to audit and oversight were being deliberated. The AAC engaged in enhanced interaction

with the External Auditor. It also met with the Regional Directors to understand their perspectives on risk and control.

### **Matters arising from Executive Board deliberations**

The AAC reviewed the Executive Board deliberations pertaining to internal audit. It agreed to keep the issue of non-sustainability of audit recommendations at the county office level under regular review. The Committee requested development of standard operating procedures to implement policy on disclosure of internal audit reports to Member States. The AAC was informed that work is under way to develop the standard operating procedures for handling the requests for disclosure. It was further informed that only one Member State had submitted a request for viewing audit reports and was assured that all policy requirements were complied with in meeting that request.

### **Risk and control**

The AAC considered the draft Enterprise Risk Management (ERM) framework of UNICEF and provided input for consideration by management. The ERM framework was adopted in 2009. The AAC notes that implementation of ERM would enhance assurance of the ability of UNICEF to achieve its objectives in accordance with its policies and procedures.

The AAC discussed risk areas and emerging risks with senior managers and Regional Directors. Several key risk areas were cited: supply and procurement, partnerships and leveraging of resources, non-harmonization of IT systems in 'One United Nations' pilot countries, issues of corruption in some host countries, procedures for staff recruitment in emergencies, and staff security.

To understand the possible impact of the global financial crisis on the investments of UNICEF, the AAC held discussions with the Comptroller. The AAC was assured that UNICEF had not lost any resources in the troubled financial markets, having managed risk exposures well in 2008.

The Regional Directors welcomed the new ERM framework and hoped it would help them to better manage their risks. They suggested, however, that questions remained regarding its operationalization. The AAC reiterates its 2008 recommendation that UNICEF management take full ownership of the initiative and attach high priority to its implementation. In particular, the Committee observes that the early establishment of the Senior Staff Risk Committee or any similar forum will help move the process forward.

The AAC revisited the subject of implementing an internal control framework in UNICEF. The Committee agreed that implementation of a COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control-Integrated Framework at this time would involve much work at a time when many other corporate initiatives were still ongoing. The Committee noted that much of the framework would most likely be put in place as part of the implementation of ERM. The AAC agreed to keep the matter under review for further consideration in light of progress on other ongoing initiatives in general, and the ERM initiative in particular.

### **Financial reporting**

The AAC continued to follow the preparation of biennial financial statements and the plans of the External Auditor for auditing the financial statements. However, this was identified as an area where the Committee would be more active in the future, in order to contribute to the process by which the governing body gains assurance over the financial reporting of the organization.

The AAC received periodic updates on the adoption of the International Public Sector Accounting Standards (IPSAS) by UNICEF. The Committee notes that through the first half of 2009, UNICEF seemed on course to adopt IPSAS by 2010. However, the full adoption has been postponed until 2012, linking with the rollout and testing of the new VISION-One ERP system, now known as VISION (Virtual Integrated System of Information), and in line with deliberations at the inter-agency level. The first IPSAS-compliant statements would be issued thereafter. The AAC noted that the internal and external auditors had an important proactive role to play in implementation of IPSAS through periodic review, providing timely guidance. The AAC was concerned that an internal audit review of the implementation of IPSAS had not yet taken place because a planned audit had twice been postponed at the request of management. The AAC encourages the Office of Internal Audit to complete this review at the earliest possible time and encourages management to avail itself of the expertise in the Office of Internal Audit through such reviews to help in the timely and efficient implementation of IPSAS.

### **External audit**

The Committee held discussions with the UNICEF external auditors. The Committee was informed that some 20 country, regional and headquarters offices had been visited by the External Auditors in three interim audit stages. The final audit stage (comprising four audits in New York and three in Geneva) was planned for spring 2010, before the final report in June 2010. The main findings contained in 12 management letters issued in 2009 related to the following areas:

- (a) Implementation of IPSAS;
- (b) Supply management, especially supplies managed by implementing partners;
- (c) Non-Expendable Property management;
- (d) Fundraising;
- (e) Cash transfer to implementing partners.

The Committee agreed to request all management letters to be forwarded to the AAC as a matter of routine and decided to follow up on the significant issues emerging from these letters.

### **Internal audit and oversight**

The AAC reviewed, rendered guidance, and endorsed the internal audit strategy, approach and workplan for 2009. It also held discussions with the Director of the Office of Internal Audit on the basis of quarterly performance reports and specific audit reports issued by Internal Audit during the period. Follow-up discussions were also held with Mr. Omar Abdi, Deputy Executive Director, who oversees operations, as well as with individual managers responsible for acting on the recommendations made by Internal Audit. Similarly, progress reports were received on investigations. The AAC noted the good overall coverage of functions and offices by Internal Audit and found it to be a sound basis for gaining assurance. Looking forward, the AAC agreed to review in depth the internal audit coverage of Information Technology functions. The specific audits discussed include:

- (a) Management of institutional contracts;
- (b) Treasury management;

- (c) Management of non-thematic other resources contributions;
- (d) Processes for promoting ethics and UNICEF values in country offices.

The AAC also examined specific country office audits with unsatisfactory ratings for the three key areas (governance and risk management, programme management, and operations management) reviewed by the Office of Internal Audit under its new country office audit approach.

The AAC was assured that cases of country offices with unsatisfactory ratings were brought to the notice of the Executive Director, who normally sends a specific note to the country office concerned and involves the applicable regional office to provide additional support to the concerned office. The Office of Internal Audit follows up on a quarterly basis and schedules on-site follow-up audits as appropriate. The AAC continues to follow up on cases which, in its view, pose significant risks to the organization.

The AAC held discussions with the Director of the Office of Evaluation with regard to evaluations in general, and Programme Performance Assessments in particular. The Committee noted that these Assessments were at a pilot stage and agreed to keep these under review.

The AAC also interacted with the UNICEF Principal Advisor to the Ethics Office.

### **Audit Advisory Committee matters**

In 2009, the AAC commenced a process of self-assessment. The self-assessment will be completed in 2010. On the basis of the self-assessment, the Committee would be in a position to recommend, as appropriate, changes to its mandate, methods of work, and interaction with various stakeholders.

### **Acknowledgements**

The Committee acknowledges the contributions made by Ms. Jocelyn Davis, its outgoing member in 2009, and Ms. Catherine Zuzak, its Secretary, during this period. It also appreciates the members of management, particularly Mr. Omar Abdi, Deputy Executive Director, and Mr. Claus Andreasen, Director of Internal Audit, for their continued interaction with the AAC.

---